SUMMARY

1. Uruguay has an open trade and investment regime, with few border restrictions and limited use of non-tariff measures. Its trade strategy consists essentially of continuing to liberalize trade and investment both at the multilateral and regional levels. As a small and open economy, Uruguay depends on markets that are free of trade restrictions and distortions, particularly in the agricultural sector which accounts for the bulk of its exports. In the investment area, Uruguay is actively seeking to improve its business environment in order to continue attracting foreign direct investment as a means of supporting economic growth and employment and promoting technology transfer.

2. Uruguay is a member of MERCOSUR and applies the MERCOSUR Common External Tariff (CET), with a few exceptions generally involving rates below the CET rate. Having taken steps to streamline and computerize customs formalities and to facilitate international trade, Uruguay would do well to consolidate this process, for example by easing its registration requirements and eliminating the consular fee on imports. One of Uruguay's significant achievements during the period under review was the implementation of a tax reform involving a simplification of the tax structure and a reduction in the number of taxes. However, the tax component for the consumer remains high, both for imported products and domestic products.

Economic Environment

3. During most of the review period (2005-2011), Uruguay's economic growth has been robust. Real GDP grew at an average annual rate of 6.2 per cent between 2005 and 2010, and is expected to grow at a rate of 5 to 6 per cent in 2011. Thanks to this strong growth, GDP per capita doubled, reaching US$11,996 in 2010. At the same time, there was a marked decline in the poverty and unemployment rates. Uruguay's foreign trade (goods and services) grew sharply during the period under review, doubling in dollar value. On the export front, Uruguay benefitted from a favourable external environment, with high international prices for agricultural raw materials and strong growth among the countries of the region.

4. Since its last review in 2006, Uruguay has made significant progress with regard to fiscal consolidation, and has significantly reduced and restructured the public debt. In 2007, it embarked on an extensive tax reform involving the simplification and rationalization of the tax system as well as greater efficiency in tax administration.

5. Uruguay has a monetary policy regime whose ultimate objective is price stability. Since June 2011, the annual inflation target has been within a range of 4 to 6 per cent. Because of the increase in the world prices of food and energy products, it has been difficult to maintain these levels. Although inflation slowed down in 2009, it began to grow again in 2010 and 2011, and in October 2011 the annual increase in the consumer price index reached 7.9 per cent. The current account deficit of the balance of payments remained reasonable during most of the period under review (between 0.4 and 2 per cent of GDP) with the exception of 2009, when it reached 5.5 per cent of GDP owing to a sharp increase in imports. The ratio of the external public debt to GDP decreased considerably during the review period - from close to 69 per cent in 2005 to 45 per cent in 2010 - reflecting the sharp increase in GDP and the appreciation of the peso.

6. Uruguay is a major global exporter of food and agricultural raw materials (chiefly meat and soya), which account for 75 per cent of total goods exports, while imports consist essentially of capital goods and manufactures. Uruguay's main trading partners are the MERCOSUR countries, which account for a third of its foreign trade. Other major partners include the European Union, the

United States and Russia for exports, and China for imports. The healthy performance of the Uruguayan economy, the country's macroeconomic stability and a supportive legal framework all contributed to ensuring a strong growth in foreign investment flows to Uruguay during the period from 2005 to 2011.

Trade and Investment Regime

7. Uruguay is a founding Member of the WTO and an active participant in the multilateral trading system. During the Doha Development Agenda negotiations, Uruguay produced many proposals, both individually and with other Members. As a primarily agricultural country, Uruguay has proposed that agriculture be fully integrated into the multilateral trade rules and that domestic support and export subsidies be abolished. Since its last review in 2006, Uruguay has not had recourse to the WTO dispute settlement mechanism, nor has it participated in any new disputes as respondent or third party.

8. Uruguay's trade regime is open, with little in the way of non-tariff barriers to trade. As a small and open economy, Uruguay considers that the priority objective of its economic and trade policies is to continue opening up to the world even further through regional integration, in conformity with multilateral trade rules. Uruguay has repeatedly expressed its keen interest in strengthening the multilateral trading system. It considers that the growth and development of a small country is inevitably linked to the expansion, diversification and modernization of its external sector.

9. Uruguay's trade regime is, to a large extent, framed by its participation in the Southern Common Market (MERCOSUR). In the context of its participation in MERCOSUR, Uruguay has signed preferential trade agreements with the Plurinational State of Bolivia, Chile, the Andean Community (Colombia, Ecuador and the Bolivarian Republic of Venezuela) and Peru, which are associate members of the Common Market. Uruguay also has a number of bilateral preference agreements with other member countries of the LAIA. Since 2006, a partial scope agreement between MERCOSUR and India and a free trade agreement with Israel have come into force. Agreements between MERCOSUR and Egypt on the one hand, and the South African Customs Union (SACU) on the other, have been signed but have not yet entered into force.

10. Uruguay has an investment regime that is generally open to private investment, including foreign investment. The Investment Law guarantees equal treatment of foreign and domestic investment. The only restrictions on private investment are in the sectors deemed to be of national public interest such as fixed telecommunications, water and sanitation, and specific areas such as insurance and transport. No prior authorization is required for either domestic or foreign investment. Foreign companies may act through a branch, a subsidiary or a permanent agency, and may own 100 per cent of the share capital. There are no restrictions on capital inflows or outflows or on the transfer of profits, dividends or interest. Foreign investment benefits from the same incentives that are granted to local investors. Uruguay is a member of various international arbitration mechanisms for the settlement of investment-related disputes.

Trade Policies by Measure

11. Since its last review in 2006, Uruguay has pursued its efforts to streamline and computerize customs formalities and to facilitate international trade, and has achieved considerable progress in this respect. It would do well to consolidate the process, since there is room for improvement in certain areas: for example, it could expand its risk analysis system, or reduce or unify its different registration requirements. Similarly, the mandatory use of a customs broker for the different import

formalities could be pushing up import related costs. An additional step towards facilitating trade would be to eliminate the consular fee on imports, which Uruguay continues to apply at a rate of 2 per cent of the c.i.f. value of imports. During the period under review, Uruguay did eliminate some of the charges affecting imports, such as the commission of 2.5 per cent of the c.i.f. value charged by the *Banco de la República Oriental del Uruguay* and the Contribution to the Financing of Social Security (COFIS), which was applied both to imports and to domestic industrial products.

12. Uruguay applies the MERCOSUR Common External Tariff (CET), with certain exceptions representing approximately 13.5 per cent of tariff headings. All tariffs are *ad valorem*. Generally speaking, tariff levels remained relatively stable throughout the period under review, with a simple average MFN rate of 9.4 per cent in 2011, slightly higher than the 2005 rate of 9.3 per cent. This was largely thanks to the change in the tariff nomenclature involving an increase in the number of tariff lines, although there was also an increase in the average tariff for certain products such as dairy produce, footwear and transport equipment. The average applied MFN tariff was 9.6 per cent for agricultural products (WTO definition) and 9.3 per cent for non-agricultural products. The product groups with higher than average tariff rates in 2011 notably include footwear, textiles and clothing, and food preparations. Uruguay has bound all its tariff universe in the WTO at rates ranging from 6 to 55 per cent, with a total of 23 brackets. The average bound tariff is 30.7 per cent. Generally speaking, applied tariffs are considerably lower than bound tariffs, with the exception of 35 lines for which the applied rate was equal to the bound rate in 2011.

13. At the end of 2011, Uruguay granted tariff preferences for imports from Argentina, Brazil and Paraguay within the MERCOSUR framework; and from Bolivia, Chile, Colombia, Cuba, Ecuador, Mexico, Peru and Venezuela under the various Economic Complementarity Agreements (ECAs). For goods not covered by these agreements, the LAIA's general regional tariff preference mechanism (PAR) applies. Uruguay also grants preferences to countries with which MERCOSUR has concluded free trade agreements, such as Egypt and Israel. In addition, MERCOSUR signed a Fixed Preferences Agreement with India. The applied preferential tariff varies according to trading partner, and ranges from an average of close to zero for Bolivia and Chile to 9.3 per cent (just below the MFN average) for India.

14. A major tax reform was carried out during the period under review, involving a simplification of the tax structure and a reduction in the number of taxes. This led to the elimination of certain import charges and to the modification of the Specific Internal Tax (IMESI). However, the IMESI duties can be high, adding to import costs. The goods that are subject to the highest IMESI rates are alcoholic beverages, tobacco and petroleum products. Uruguay applies a value added tax of 22 per cent (general), and 10 per cent. Added to the IMESI, and for imports, to the tariff, this can significantly increase the price of certain products for the consumer.

15. Between 2006 and 2011, Uruguay made no active use of contingency measures. No countervailing or safeguard investigations were initiated. Although in 2010 an anti-dumping investigation was launched, as of December 2011 no measures had been applied. Uruguay has not had any anti-dumping measures in force since 2006, when the anti-dumping duties imposed for three years on imports of pure refined vegetable oil from Argentina expired. In 2010, Uruguay introduced measures to prevent circumvention of anti-dumping duties, creating a mechanism whereby anti-circumvention measures could be applied after the introduction of an anti-dumping measure based on the results of an investigation conducted at the request of an interested party or ex officio by the authorities.

16. Uruguay applies non-automatic import licensing to certain products, such as motor vehicles, sugar and acetic acid. Some products require prior authorization from a government authority for sanitary or phytosanitary, safety, or environmental protection reasons. In general, sanitary and phytosanitary certificates are required depending on the level of risk and are issued by the country of origin for animals, plants, and animal and plant products. As of December 2011, Uruguay had submitted only six notifications of draft technical regulations to the WTO and one notification concerning an already adopted measure. The technical regulations generally follow regional or international guidelines and apply equally to domestic and imported products. At the same date, Uruguay had submitted a total of 16 notifications to the WTO Committee on Sanitary and Phytosanitary Measures, seven since the last trade policy review in 2006.

17. Uruguay grants fiscal incentives for exports under a number of schemes, such as the refund of indirect taxes, the automotive regime, and the free zones. To be eligible for a refund of indirect taxes on exports, the exported product must contain a minimum of 20 per cent of domestic inputs. Refunds vary between 2 and 4 per cent of the f.o.b. value of the exported product, depending on the burden of indirect taxation of domestic inputs incorporated in the product. Uruguay notified its export promotion scheme for the automotive industry to the WTO as a measure involving subsidies and requested an extension of the transitional period for granting export subsidies pursuant to Article 27.4 of the SCM Agreement. Uruguay requested and obtained a further extension of this transitional period beyond 31 December 2009 until the end of 2013, with a final phase-out period of two years to end no later than 31 December 2015.

18. Since 1987, Uruguay has had a free zone regime that exempts companies operating in a free zone from all national taxes, but not from social security contributions. Any type of commercial, industrial or services activity is permitted in the free zones. Goods, services and raw materials may be imported free of import duty or taxes irrespective of their origin. Goods produced in the free zones may be sold in the customs territory of Uruguay without any restrictions, subject to payment of all customs duties and taxes.

19. Export taxes are prohibited by law, with the exception of a 5 per cent export tax on certain hides. Exports of rice and rice products were subject to a withholding tax of 5 per cent of the f.o.b. value between February 2004 and July 2008. Exports of bovine, sheep, pig, horse and poultry meats and small game are taxed at 1 per cent of the their f.o.b. value in order to finance the Sanitary Inspection Fund (FIS). This contribution also applies to the domestic market sale of beef and sheep meat for consumption, and bovine and pig meat for industry. Exports of some other agricultural products are subject to taxes or levies in order to finance agricultural organizations.

20. A major achievement since the last review in 2006 was the adoption of the Law on Trade Freedom and the Preservation of Free Competition (Law No. 18.159) in July 2007, and of its regulations (Decree No. 404/007). Law No. 18.159, which entered into force in August 2007, regulates mergers and acquisitions, prohibits anticompetitive practices and abuse of dominant position, creates a new competition authority, establishes procedures for investigating anticompetitive practices, increases penalties and improves transparency. A Commission for the Promotion and Defence of Competition was also created, and has been in operation since 2009. Its responsibilities include regulation, investigation, imposition of sanctions and prior control of mergers.

21. Law No. 16.906 on the Protection and Promotion of Investment of 7 January 1998, regulated by the Decree No. 455/007 of 26 November 2007, sets the general framework for investment incentives and promotion in Uruguay, mainly in the form of tax breaks. During the period under review, investment regulations were modified and a wider range of incentives was offered to

companies in the form of a new investment incentives scheme. Uruguayan law allows incentives to be granted for activities which, *inter alia*, facilitate the expansion and diversification of exports or promote the use of local labour and inputs.

22. State participation in the Uruguayan economy continues to be significant, particularly in the services sector. State-owned enterprises operate in key sectors such as electricity, fuel, drinking water and sanitation. They are also present in telecommunications, air and rail transport, sea ports and financial services. Some State enterprises perform activities considered to be public services, while others operate as legal monopolies or maintain a dominant position in their respective markets. Uruguay has notified the WTO that the only State trading enterprise in existence is the National Fuel, Alcohol and Portland Cement Authority, which has a monopoly of imports and refining of crude petroleum and petroleum products, with the exception of lubricants and asphalt, and also of the import and export of fuel.

23. Uruguay is not a party to the WTO Plurilateral Agreement on Government Procurement. Its government procurement and contracting regime is essentially governed by the Harmonized Text of the Law on Accounting and Financial Administration (TOCAF). It is essentially a decentralized regime, although the general regulations apply to all of the state procurement agencies governed by public law, with a few specific exceptions. For the past few years, procurement of food and medicines has been centralized. Over the past decade, Uruguay has taken steps to enhance the efficiency and transparency of government procurement procedures and to strengthen the system's institutional framework. At the same time, Uruguay has resorted to the government procurement system as a tool for promoting domestic industry by granting preference margins. In 2008, the preference margin was reduced from 10 per cent to 8 per cent, although its scope was expanded by the decision to apply it to the price and not only to the domestic component as had previously been the case. At the same time, the local content requirement for a product to be considered as a domestic product was reduced from 40 to 35 per cent. In 2010, specific government procurement preferences were introduced for micro, small and medium-sized enterprises.

24. Since its last review in 2006, Uruguay has not introduced any major amendments to its patent, trademark and copyright laws, most of the changes having been made before 2000. However, there have been a number of legal amendments with respect to the protection of plant varieties. Parallel imports of patented products are allowed, but not of copyright-protected goods.

Trade Policies by Sector

25. The share of agricultural activities (including forestry) in GDP fell from 11.3 per cent in 2004 to 8.2 per cent in 2010. Agriculture and the agro-industrial sector accounted, in 2010, for some 13 per cent of GDP. But in spite of this decline in its relative share, the agricultural sector continues to be of fundamental importance in that, fisheries included, it employs 11.5 per cent of the active population. The main agricultural products are: bovine cattle, oilseeds (soya), milk, forestry products, and cereals, chiefly wheat and rice. Averaging 9.6 per cent in 2010, tariff protection for agricultural products is slightly higher than for non-agricultural products. Certain headings, chiefly agro industrial products such as food preparations, beverages and tobacco, enjoy greater tariff protection. As part of its agricultural strategy for the period 2011-2015, Uruguay is seeking to strengthen agricultural and agro-industrial competitiveness to ensure that its development is sustainable from the standpoint of social integration and environmental conservation. Efforts are being made to create high-value market niches as distinct from the traditional commodities markets.

26. The manufacturing sector accounted for some 13 per cent of GDP in 2010. Its main components are: foods, beverages and tobacco; chemical industries; textiles, clothing and leather; paper and printing; and metal products, machinery and equipment. The policy objective of the manufacturing sector consists of increasing national value added in sustainable industrial production while steadily improving the efficiency of production systems and the quality of the goods produced.

27. The services sector is the economy's leading sector, accounting for 58 per cent of GDP and 67 per cent of employment. Although private participation in the sector has grown considerably, State-owned companies continue to play an important role in certain areas. Considerable progress was made in telecommunications markets during the review period, and Uruguay now has among the highest teledensity and Internet penetration rates in Latin America. While the State maintains a *de jure* monopoly on fixed telephony within its territory through a State company, there are several suppliers of long distance international telephony and data transmission services. Mobile telephony is open to competition. Operators may set their own rates for their services, with the exception of fixed-telephony national calls, which are subject to approval by the Executive.

28. The financial sector grew stronger during the period under review, achieving satisfactory levels of capitalization and liquidity which enabled it to weather the recent world financial crisis without too much trouble. The sector has undergone a series of reforms, including changes in the management of State banks and the restructuring of one of them, changes in the structure of the Central Bank, and improved prudential regulation and supervision of the banking system. In 2008, the provision limiting the number of authorizations to operate new banks was repealed. Although 40 per cent of assets in the banking sector are owned by a State bank, foreign investors are very much present.

29. Since 2006, domestic air services can be provided by foreign companies, subject to reciprocity. A concession or authorization is required to engage in any commercial air operations. There are no restrictions on national or foreign private participation in the supply of auxiliary services such as maintenance and repair of aircraft, which may be contracted abroad. Airports in Uruguay belong to the State, but the law allows the management of airports to be the subject of a concession. In the maritime transport sector, cabotage navigation and trade is confined to Uruguayan-registered vessels, although preferences may be given based on the principle of reciprocity. As of the middle of 2011, Uruguay applied cargo preferences only to bilateral passenger traffic with Argentina and cargo traffic with Brazil. Port services are provided by private operators under concessions given by the State, which owns the ports.

30. As can be seen from the National Plan for Sustainable Tourism 2009-2020 and the policy of support for the sector, tourism is treated as a priority. In addition to the incentives provided under the Industrial Promotion Law and the Investment Law, the sector is given special tax incentives. Foreign operators are given national treatment as far as the incentives are concerned.