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THE URUGUAYAN IMPORT SURCHARGE

Basic Document for the Discussion¹

In June 1970, on the occasion of the last Article XVIII:12(6) consultation with Uruguay, an outline of the Government's economic policy was given and a report made on the progress of the stabilization plan presented at the consultation in April 1968 (see BOP/107). In carrying out this economic policy, Uruguay's international obligations deriving from the General Agreement have been strictly observed.

Since the June 1970 consultation, Uruguay has decided to continue its import surcharge and modified the rates of the surcharge. In accordance with the decision taken by the Council on 29 June 1971 (C/M/70), the present paper sets out information to serve as a basis for discussion when the Uruguayan request for an extension of the waiver of 8 May 1961 is considered.

I. Balance-of-payments situation and prospects

Throughout 1970, Uruguay's economy continued the recovery it had begun in 1969, reaching a rate of increase of approximately 4.8 per cent in real terms. At the same time, signs that the inflationary process was being held in check appeared in the smaller annual increases in the consumer price level than in 1969. The rise in the index fell from 20 per cent to 16.4 per cent on those two years.

The sectors displaying the most rapid growth in 1970 were manufacturing industry, and trade, transport and storage, with increases of 6 per cent and 6.9 per cent respectively. The agricultural breeding sector, which had recovered sharply in 1969, showed a more moderate improvement in 1970 (3.3 per cent).

¹Material supplied by the Uruguayan authorities.

The results of the fiscal year were encouraging for stabilization and public investment. The current deficit was reduced and that, combined with the surplus position of a number of public undertakings, meant that the public sector's net credit requirements from the Treasury were only slight. It is important to emphasize the notable increase in tax receipts in 1970, which rose by 12.3 per cent. Central Government investment increased by 14.2 per cent in real terms.

The average wage index did not increase noticeably in real terms over the 1969 average but higher levels of business activity led to a reduction in unemployment by 8.9 per cent in the second half of 1969 and 7.3 per cent in the same period of 1970.

In 1970 there was a marked increase in both exports and imports. Exports reached a value of 232,708,699 dollars as against 200,335,935 dollars in 1969, and imports 233,078,574 dollars as against 197,234,901 dollars in 1969.

In the first half of 1971, imports amounted to 103,743,000 dollars as against 121,186,000 dollars in the same period of 1970.

As a consequence, in 1970 there was a great increase in foreign trade, with exports rising by 16.1 per cent and imports by 19.2 per cent.

In 1970 the trade balance situation could be considered satisfactory but the 1971 position is not quite so healthy to judge from the figures for the first six months. Efforts will be made to reach a figure of 235 million dollars for exports, which means that in the second half of the year export earnings will have to increase by the necessary percentage.

In 1970 there was a sharp increase in currency outflows for tourism, and that meant a substantial loss of international reserves by the monetary authorities after three very good years.

The aims of the Uruguayan Government's policy in 1970, which it will continue to apply in 1971, can be summarized as follows:

- (a) An increase of 5 per cent in gross national product over 1970. This means specifically, from the point of view of the balance of payments, that imports of the input goods required by industry and agriculture, and of consumer goods, will have to reach at least 190 million dollars.
- (b) A 20 per cent maximum increase in prices. This implies the maintenance of the rate of exchange at 250 pesos to the dollar as an essential element, at the present juncture, of the price stabilization plan.
- (c) Equilibrium of the balance of payments. Efforts are being made to maintain the level of reserves at the 31 December 1970 figure and to secure a contribution of at least 40 million dollars from tourism.
- (d) To reduce the central Government's cash deficit to a minimum.

II. Other stabilization measures

As has already been mentioned, one of the fundamental elements of the Government's planning has been its stabilization policy, especially on prices and incomes.

The success of this policy was already clear at the 1970 consultation and is now again clear in 1971. The rise in the price index, which had been 20 per cent in 1969, was reduced to 16.4 per cent in 1970 and in the first quarter of 1971 stood at 4.1 per cent.

The rate of exchange of 250 pesos to the dollar has been maintained unchanged as a necessary element, at the present juncture, of the price stabilization plan.

III. System and techniques of restrictions

The legal basis for the restrictions on imports applied by Uruguay is Act No. 12670 of 17 December 1959, which has already been analyzed at recent balance-of-payments consultations, especially those of 1968 and 1970.

Article 2 of Act No. 12670 of 17 December 1959 provides for the free importation of all classes of merchandise, articles, products and goods.

In applying this principle, the Executive has at its disposal the following instruments for regulating imports:

- (i) Surcharges, as established by the above law;
- (ii) consignations, as required by Article 7 of the Decree of 18 October 1965;
- (iii) import prohibitions, under Act No. 12670, applied temporarily to given items to deal with specific balance-of-payments problems;
- (iv) prior deposits; these are required only for imports of fully equipped motor vehicles of foreign manufacture (lorry and trailer chassis weighing more than 2,500 kgs. are exempt from this requirement).

At the present moment the two forms of import regulation being applied are subsidies and consignations. These measures also serve to reduce pressure on the foreign exchange market.

Since the last balance-of-payments consultation some significant changes have been introduced in the surcharges and consignations which can be applied under the national legislation.

Under a decree dated 20 May 1971¹, the surcharges at the rate of 35 per cent, 65 per cent, 95 per cent, 155 per cent and 230 per cent have been replaced by surcharges at the rate of 50 per cent, 80 per cent, 110 per cent, 170 per cent and 250 per cent respectively (Article 1), and the 15 per cent surcharge on certain goods has been raised to 25 per cent (Article 2). These increases are not applicable to imported goods on which concessions have been granted under the Montevideo Treaty and goods classified as capital goods. The decree is not applicable to imports registered before 15 April 1971. Some amendments were made to the decree by another dated 24 August 1971.

Under a decree dated 4 June 1971, new surcharges were fixed for imports of certain products because of the fact that imports of products on which concessions had been granted under the Montevideo Treaty were subject to surcharges at differing rates; in many cases the surcharges had been established and/or increased after the LAFTA Conference at which the concession had been granted; as a result, an additional preferential margin was being granted by unilateral decision in respect of imports originating in LAFTA member countries. It was therefore necessary to adjust the surcharges concerned to the levels existing at the date of the negotiation.

By a decree dated 4 June 1971, consignations were fixed for certain imports in order to keep foreign exchange expenditure to a minimum and to contribute to the process of stabilizing domestic prices. The consignations are at the rate of 105 per cent for imports originating in LAFTA member countries, and 150 per cent for imports originating in other countries.

By Decree No. 246/971 of 7 May 1971, a ninety-day suspension was ordered on imports of goods classified as capital goods, in accordance with the list annexed to the Decree of 18 October 1965 (Article 1), with certain exceptions (Article 2), in order to allow a new system to be drawn up for these imports. Under the Decree of 21 September 1971, the suspension has been extended until 31 December 1971.

These measures were adopted because of the emergence of elements that were disrupting balance-of-payments equilibrium, and in order to ensure the success of the stabilization policy which had been adopted.

The upward trend in imports which can easily be seen from the following table, shows that the surcharges have had a regulating effect on the liberalized import régime provided by law, and have not been a negative instrument:

<u>Imports</u>		
(Annual totals in thousands of dollars)		
1970	233,078
1969	197,324
1968	159,343
1967	171,410

¹Copies of the relevant decrees have been deposited with the secretariat, where they are available for consultation.

Tax effect

Some of the adjustments in import surcharges which were made in 1971 were designed not to slow down the rate of imports (as may be seen from the above table) but were based on fiscal considerations.

Impossibility of eliminating surcharges

Because of the fact that Uruguay's exports are affected by the growing number of restrictions and limitations introduced and maintained in breach of the provisions of the General Agreement, there is no possibility at the present time of envisaging any sweeping elimination of some of the instruments used for regulating our imports. They will be eliminated progressively when circumstances permit.

Respect for the rules of Article XII

The surcharges applied by Uruguay, which in practice have shown themselves to have only a minimum incidence on import growth, are designed to ensure balance-of-payments equilibrium. The provisions of Article XII:3(c) of the General Agreement have been respected, because none of the mechanisms used to regulate imports:

- (i) causes unnecessary damage to commerce or economic interests of any other contracting party;
- (ii) prevents unreasonably the importation of any description of goods in minimum commercial quantities the exclusion of which would impair regular channels of trade;
- (iii) prevents the importation of commercial samples or prevents compliance with patent, trade mark, copyright or similar procedures.

In accordance with the foregoing, the Government considers that the application of the import surcharges is in strict conformity with the provisions of the General Agreement.

Taking into account the fact that there are no import prohibitions, no quota restrictions, no prior permits of any kind and no discrimination of any nature whatsoever, the policy pursued by Uruguay can be seen to be consistent with the country's obligations under the General Agreement.

Accordingly, an extension is requested, for a reasonable period, of the authorization to apply import surcharges, on the understanding that such authorization would be subject to the conditions established by the Decision of 8 May 1961 (authorization granted to the Uruguayan Government to apply import surcharges as a temporary measure taken as part of and in conjunction with its stabilization and development programme, in the form and within the limits established in such decision).