

# GENERAL AGREEMENT ON TARIFFS AND TRADE

RESTRICTED

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## REPORT OF THE COMMITTEE ON BALANCE-OF-PAYMENTS RESTRICTIONS ON URUGUAYAN IMPORT SURCHARGES

1. By a Decision of 8 May 1961<sup>1</sup>, the CONTRACTING PARTIES waived, until 1 July 1963, subject to specific terms and conditions, the provisions of paragraph 1 of Article II of the General Agreement to the extent necessary to allow the Government of Uruguay to apply import surcharges on items specified in Schedule XXXI. On 12 June 1963, the Government of Uruguay requested that the aforesaid Decision be extended for a further period of three years. By a Decision of 20 July 1963<sup>2</sup>, the CONTRACTING PARTIES agreed:

- (a) that the examination of the Uruguayan request for a further extension of the time-limit in the Decision of 8 May 1961 be deferred until such time, which should not be later than 31 December 1963, as the Executive Secretary, in consultation with the Government of Uruguay and the International Monetary Fund, determines to be practicable for such an examination, and
- (b) that, should the CONTRACTING PARTIES not be in session at that time, the Council be authorized, after receiving the advice of the Committee on Balance-of-Payments Restrictions and of the International Monetary Fund, to deal with the Uruguayan request.

In accordance with the provisions of sub-paragraph (b) above, an arrangement was made for the matter to be considered in the first instance by the Committee on Balance-of-Payments Restrictions and the International Monetary Fund was invited to consult with the CONTRACTING PARTIES pursuant to Article XV:2 in this connexion.

2. On 11 December 1963, the Committee discussed with the representative of Uruguay the balance-of-payments aspects of the surcharges maintained. The Committee had before it background material provided by the Fund in a document dated 21 November 1963. The representative of the Fund was invited to make a statement supplementing the Fund's documentation concerning the position of Uruguay. The statement made was as follows:

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<sup>1</sup>BISD 10th Supplement, page 51.

<sup>2</sup>L/2041.

"The Fund invites the attention of the CONTRACTING PARTIES to the background paper which it has provided. Uruguay's need for devices such as the import surcharges, as a means of affecting directly the balance of payments, should have been considerably lessened by the exchange rate adjustment of May 1963. Balance of payments equilibrium, however, is still by no means assured, particularly as the fiscal position of the Uruguayan Government has greatly weakened during the past year. In these circumstances, the Fund recognizes the importance of the surcharges from a fiscal point of view and the fact that any further weakening of the fiscal position would have an adverse impact on the balance of payments. The revenue likely to be derived from the surcharges does not exceed Uruguay's present needs, although the new exchange rate, provided it is supported by appropriate domestic policies, should facilitate the removal of the surcharges as soon as fiscal requirements can be met by other means."

3. The Committee discussed with the representative of Uruguay his country's balance-of-payments position and policy in relation to the curbing of internal inflationary pressure. Members also commented on the complexity of the measures applied by Uruguay to imports.

4. The representative of Uruguay explained that the surcharges had been introduced as a temporary measure to overcome balance-of-payments problems which had continued after the exchange reform introduced in 1959. In the four years, 1959 to 1962, Uruguay had had an accumulated deficit on trade account of \$272.4 million. In 1962 itself this figure had amounted to \$77.1 million. This deficit was attributable to lower export prices, lower volume of exports and increased imports. In 1963, however, there were prospects for a slight trade surplus as a result of a substantial decline in imports evident during the first eight months and a slight increase in exports. The representative of Uruguay emphasized that notwithstanding this slight favourable trend, his Government still viewed Uruguay's balance-of-payments position as precarious. He confirmed that it was the intention of the Uruguayan Government to progressively relax the surcharge régime as soon as relaxations seemed justified. However, much would depend on the prospects for Uruguay's exports which were being hampered by trade restrictions in many foreign markets. Uruguay had had resort to Article XXIII with a view to resolving these problems.

5. On the question of the budgetary deficit of the Uruguayan Government, the representative of Uruguay stated that a number of problems had arisen in this regard. In the first place his Government considered it essential to continue with capital projects such as highways, which were regarded as vital in its programme of economic reconstruction. As a result of higher import costs following devaluation, services provided by the Government had become more costly. Moreover it had proved difficult to restrict increases in salaries of Government servants in the context of higher living costs. Revenue from direct taxation had declined as a result of the

fall off in production and exports. The Uruguayan Government was, however, making strenuous efforts to cover higher expenditure with increased receipts. In this connexion, he pointed out that the surcharges on imports were an important source of revenue.

6. The Committee noted that, in applying the surcharges, the Uruguayan authorities differentiated between different sources of supply in that certain imports from LAFTA countries bore a lower surcharge than those from other countries or were exempted from surcharges otherwise applied. It also noted that lower surcharges were applied to certain goods carried in Uruguayan ships. Certain members of the Committee expressed concern over these two points. Invited to comment on the Fund's position on these matters, the representative of the Fund said that the Fund's statement was concerned with overall impact of Uruguay's import surcharges, and was not meant to reflect any Fund judgment with respect to the exemption of LAFTA imports or the more favourable treatment of imports carried in Uruguayan ships. The Committee concluded that it would be beyond the terms of reference of the current discussion to consider and to comment on these matters.

7. The Committee noted from the background material provided by the Fund, from the statement of the representative of the Fund and from the discussion with the representative of Uruguay, that although there appeared to have been some improvement in Uruguay's balance of trade and balance-of-payments position in recent months, particularly since the exchange rate adjustment in May 1963, the overall balance-of-payments position of Uruguay remained precarious. It noted that it might be concluded from the statement by the representative of the Fund that the May exchange rate adjustment seemed to afford some opportunity for Uruguay to improve, on a more permanent basis, its balance-of-payments position. It considered that the essential element in any solution to the balance-of-payments problem of Uruguay would be the success of the Uruguayan Government in containing domestic credit expansion and in moderating its own budgetary deficit. If the Uruguayan Government were successful in this, there would appear to be prospects for an improvement in the balance-of-payments position sufficiently to enable the Uruguayan Government to remove surcharges, replacing them with a domestic source of revenue, and to simplify the complex system of measures currently maintained.

8. In the light of this discussion and taking account of the statement of the Fund representative, the Committee concluded that factors bearing directly or indirectly on the balance of payments and monetary reserves of Uruguay justified at present an extension of the waiver Decision of 8 May 1961.<sup>1</sup>

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<sup>1</sup>From paragraph 6 above it is clear that this finding relates only to the overall effects of the surcharge and involves no judgment on the exemption and differential treatment mentioned therein. - Note by the Chairman.