

GENERAL AGREEMENT ON  
TARIFFS AND TRADE

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AGREEMENT ON INTERPRETATION AND APPLICATION OF  
ARTICLES VI, XVI AND XXIII OF THE  
GENERAL AGREEMENT ON TARIFFS AND TRADE

Declaration by Uruguay

The following Declaration, dated 31 December 1979, was deposited by the representative of Uruguay on the occasion of the acceptance by Uruguay of the above-mentioned Agreement.

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Declaration made by Uruguay on the Occasion of Subscribing to  
the Agreement on Interpretation and Application of  
Articles VI, XVI and XXIII of the General  
Agreement on Tariffs and Trade

In the period following the Second World War, Uruguay implemented a growth strategy designed to relieve it of the problems that had beset it during the war years. To that end it defined an import replacement strategy based on:

- (a) high tariff protection to domestic industry
- (b) differential exchange rates, and
- (c) quota restriction of imports.

This programme rapidly yielded the expected results; gross industrial product grew at an annual rate of approximately 6 per cent and employment in the sub-sector at the rate of 5 per cent.

As was to be expected, however, given the small size of Uruguay's domestic market (2,800,000 consumers), this strategy became spent, and in 1958 there began a period of marked economic stagnation which continued, with slight variations, up to the end of 1973.

The second phase of the process began with the energy crisis of late 1973 which, as is well known, affected more severely the developing countries that are not petroleum producers.

In addition to the consequences of this energy crisis and the increase in petroleum prices which Uruguay has had to face, the international market price of its principal export product, bovine meat, fell from \$1,800 per ton in late 1973 to \$600 per ton of "compensated" quarters in 1974.

This crisis obliged Uruguay to adopt an economic policy entirely different from the one pursued to date and based on a gradual opening of the economy toward the rest of the world as a means of achieving self-sustaining economy growth.

Accordingly, in 1974 a number of obstacles were lifted which had been inhibiting the national economy; reform of the system was initially concentrated on the financial sector, as the foundation for the present development of our market, with a view to confirming the prestige that Uruguay had formerly enjoyed as a recognized international financial market.

In 1977, basic provisions were published regarding the real scope of the economy, and 1978 represented a major turning-point in respect of everything concerned with the producing sectors:

- (a) in August 1978, a market economy policy was approved for the agricultural and livestock sector which for some decades had seen substantial transfers of earnings toward the secondary sector and toward consumption; and
- (b) a tariff policy was announced that will gradually reduce the excessive tariff protection granted to domestic industry in the decades of excessive protectionism.

Effective tariff protection - "tariff" being taken to cover any kind of duty, tax or charge applied on the entry of goods into the country - varied between a minimum of 22 per cent and a maximum of 600 per cent, the average being not less than 60 per cent.

In order to deal with this situation and reallocate productive resources through the market mechanism, Uruguay has adopted unilaterally a strategy for gradually reducing tariff protection, without seeking any similar concessions from developed countries, since it recognizes the need to defend the consumer against monopolies and against the sometimes unlimited effects of tariff barriers.

Accordingly, in December 1978 the new tariff policy was adopted which provides over a six-year period for an across-the-board reduction of the basic tariff applicable to all imported products, whether raw materials, intermediate or finished goods, which is to be in all cases at the level of 35 per cent.

As from 1 January 1980, the first adjustment of tariff protection will be made, and the difference between the percentage indicated earlier and the nominal protection granted on each product will be reduced by 16.66 per cent.

As may be understood, in the context of an import replacement strategy the Uruguayan entrepreneur was in effect tied to the domestic market and because of the excessive tariff protection that he enjoyed, he tended to disregard new technologies, renovation of industrial equipment, and reinvestment.

Adoption of the outward-looking growth strategy has obliged the Uruguayan entrepreneur to develop toward the exterior, to improve his efficiency and productivity and therefore to set out to win markets - a new activity for which he was not prepared.

The Uruguayan Government realized this situation, and in order to avoid any major disruptions and exaggerated social costs and considering in particular a new flare-up of protectionism in the industrialized countries, it adopted an incentive policy for exports of non-traditional manufactured goods; in certain cases this led to reimbursement of internal taxes and for other sectors economic and financial incentives were introduced in the form of rebates, applied on the f.o.b. export price.

These rebates are not at a standard rate but on the contrary are paid at different nominal rates, in relation with the input product ratio.

Another of the advantages afforded to non-traditional exporter comprised credit lines at negative interest rates which undoubtedly allowed them to make substantial profits.

Similarly, export earnings were not subject to the income tax applicable to industry and trade, a clear differentiation being thus made between production intended for the domestic market and production for export.

In 1975, a process of reducing the above-mentioned incentives was initiated, starting with percentage reductions of a general character in respect of the rebates granted on non-traditional exports.

In this way, and without any break in continuity, on 1 July of each year a reduction of not less than 10 per cent is being made, and the rate has been 15 per cent in the last two years.

In the early months of 1979 all subsidies were eliminated on interest rates for export credits and the reform was completed in the same year by making export earnings taxable, so that all producing activities are now on an equal footing, whatever the market in which their goods or services are sold.

This effort, which has been made on an absolutely unilateral basis, represents for a small economy a tremendous sacrifice, the results of which will be reflected in an improvement in the level of activity and, ultimately, the level of employment.

The Uruguayan Government is resolved, and has so announced, to eliminate completely any remaining direct or indirect subsidies in respect of non-traditional exports, notwithstanding tremendous pressure caused by the protectionist policies to which industrialized countries are increasingly having recourse.

To all these considerations must be added another element that affects places in a proper perspective the advantages granted to the non-traditional exporter in Uruguay. Manufacturing output by Uruguay is on such a small scale that, considered in conjunction with the market diversification that has been achieved, it is practically impossible for any country importing our products to show any serious proof of injury.

Notwithstanding this and for reasons of neutral economic policy in the allocation of productive resources, the gradual elimination of all subsidies has been announced on numerous occasions, considering that as from 1982 non-traditional exports, which at present are the sole beneficiaries of a small percentage refund, will be left to their own devices, it being understood that if any residual refunds were still maintained they would be applicable generally for all export activities and would merely take the form of reimbursement of the internal taxes that an exporter has to pay within the country and which, in accordance with the accepted principles in this regard, cannot be the subject of any transfer abroad.

Broadly speaking, that is the situation in regard to Uruguay's producing activities and the commitments entered into by the Government in various international organizations and specialized bodies. It is relevant to underline once more that all these efforts have been made unilaterally in the context of a well-defined economic policy, and without any reciprocal concessions being sought from the industrialized countries.

Geneva, 31 December 1979