

IV. TRADE POLICIES BY SECTOR

(1) INTRODUCTION

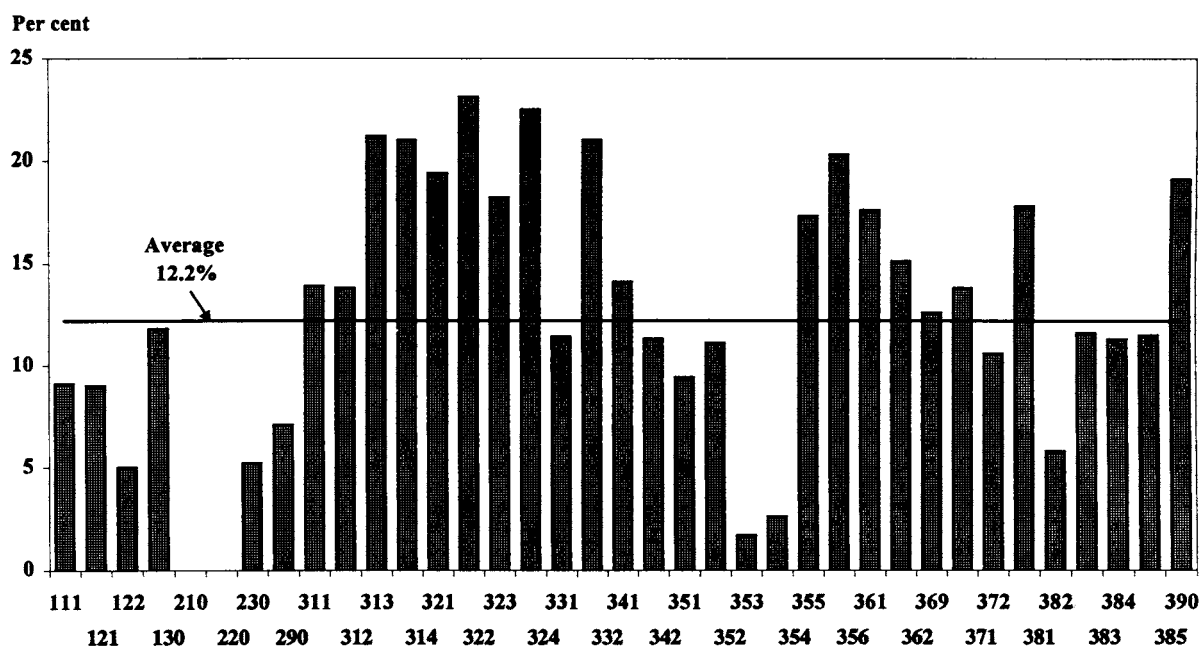
1. The pattern of protection inherited from the earlier period of import substitution still prevails in Uruguay, although it is less pronounced than in the past. On average, the tariff provides for low nominal protection for inputs, providing higher effective protection for final goods than is obvious from the nominal rates. For 1998, the average nominal tariff is 12.2%; however, some industries such as beverages, tobacco, clothing and footwear, operate behind average tariffs higher than 20% (Chart IV.1) with peaks rising to 24%, excluding minimum export prices. Tariff peaks and escalation will be maintained, albeit at lower levels, as Uruguay converges toward the CET. Tariff protection is complemented by duty and tax exemptions, some of which are sector specific. In addition, reimbursement of indirect taxes and a drawback regime apply to exports; these two schemes are, moreover, tied to national content.

2. Conditions for exports of agro-industrial products have been liberalized. Export restrictions on live cattle, sheep and horses, as well as on raw hides, have been abolished; minimum export prices for butter and wheat have been eliminated; currently, only exports of hides are subject to export taxes. These policies, together with an improvement in animal health conditions, have contributed to positive export performance in recent years. The forestry and fisheries sub-sectors continue to benefit from special incentive programmes, one of which has a notified subsidy element.

3. In the manufacturing sector, the automotive industry is subject to a specific preferential regime, linked to local content and export balancing requirements; this scheme is scheduled to be replaced by 1 January 2000, by the proposed Common Automotive Regime for MERCOSUR. Minimum export prices, which are still in force for textiles and clothing, two major export items, diminish the transparency of the trade regime and have helped isolate the sector from world prices, so that exports also appear to have become less competitive in recent years: export quotas maintained with Canada and the United States are not filled. Direct state intervention in the manufacturing sector is now limited to oil refining through the National Administration for Fuel, Alcohol and Portland Cement (ANCAP).

4. In the services sector, private participation has been introduced in recent years, either as a substitute for, or to compete with, state-owned firms, in order to promote efficiency. However, state intervention is still important in telecommunications, a sub-sector which has not undergone substantial reform. There are 20 private commercial banks, but publicly -owned banks hold the highest level of deposits and loans. Both public and private banking are inefficient: the public banking sector runs many small operations in the rural areas and provides credit at interest rates below the market rate, while private sector banks are fragmented and high-cost. These inefficiencies are reflected in high interest rates and wide spreads between borrowing and lending rates, imposing a constraint on the development of other sectors.

Chart IV.1
Average tariffs by ISIC classification, 1998



Source: Data provided by the authorities of Uruguay, and estimates by the WTO Secretariat.

(2) AGRICULTURE, LIVESTOCK, FISHERIES AND FORESTRY

(i) Agriculture, Livestock and Fisheries

5. Uruguay's fertile soils combined with its mild climate, make the country well suited for agriculture and raising livestock. However, agriculture, livestock, fisheries and forestry, as defined under ISIC Section 1, are not directly major components of GDP: their contribution in 1997 was 11.4%, while only 4.2% of the labour force was engaged in this activity in 1996.¹ However, the sector's overall significance to the economy is substantially greater than its contribution to GDP suggests, since it supplies most of the raw materials to Uruguay's export-oriented agro-industrial sector (section (3), below). The sector therefore, has a leading role in the national economy.

6. The agricultural sector has grown steadily during 1992-96, except for 1993 when a drought caused a contraction in agricultural and livestock production. A decline in activity also occurred in 1997, again for climatic reasons: intense rainfall ruined major crops such as wheat and barley, although livestock production remained stable. There was, however, an increase in meat and milk production and a decline in wool production.² The fishing industry is relatively small: in 1996, this industry's output accounted only for 1.1% of the combined output of the sector (equivalent to 0.1% of the Uruguayan GDP); however, as shown in Chart IV.2, growth in the sector has been erratic.

7. Livestock production (meat, milk, leather and wool) dominates the sector, accounting for approximately 50% of agricultural production. In 1995-96, this sector showed stronger growth largely because of increased investment and increased exports of beef to Europe, the United States and Asia, following the declaration that Uruguay was free of foot and mouth disease. Cereal production, predominantly wheat and rice, represented 41.3% of total agricultural output in 1996. Production of crops grew substantially between 1995 and 1996 as a result of higher international prices which motivated farmers to increase the area devoted to cultivation, especially of wheat (Table IV.1).³ Other agricultural products include oilseeds and fruits such as grapes and citrus. Production of sugar cane has almost disappeared given the tax incentives granted to encourage the conversion of sugar cane fields into vineyards to produce quality wines.⁴

8. In 1996, exports of agriculture, livestock, fishing and forestry products, falling within ISIC Section 1, represented 11.9% of total exports amounting to some US\$330 million, almost double the value of 1991.⁵ Within this group, fish and crustacea were the most important agricultural exports in 1991, but their relative importance has since declined (Chart IV.3). Most important, rice exports as a percentage of agricultural exports increased from 5.9-19.0% during 1991-96 reaching 2.7% of total merchandise exports in 1996. Direct export subsidies are available for this product; however, as notified to the WTO none were granted in 1995-97.⁶ Exports of live animals also increased after 1993 when this market was liberalized.

¹ *Banco Central del Uruguay* (1998a); and ABN AMRO Incorporated (1998), based on information from the National Statistics Institute.

² *Búsqueda*, 26 March 1998.

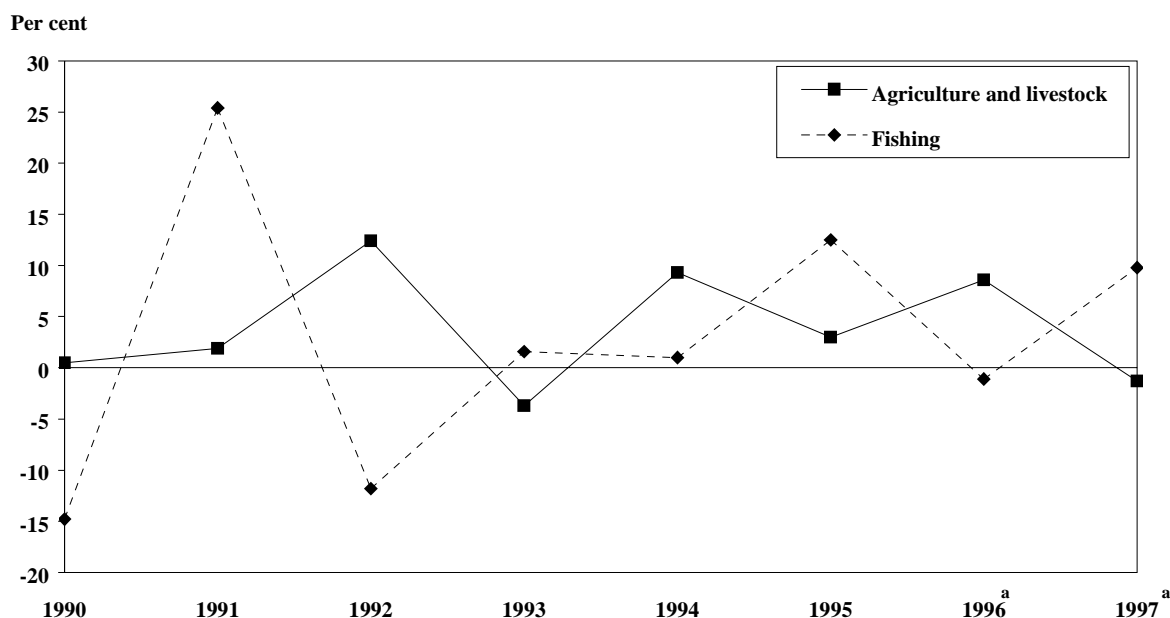
³ ABN AMRO Incorporated (1998).

⁴ World Bank (1996a).

⁵ UNSD, Comtrade database (SITC Rev.1).

⁶ WTO documents G/AG/N/URY/1, 13 March 1996 and G/AG/N/URY/8, 14 April 1997, and G/AG/N/URY/11, 17 March 1998.

Chart IV.2
Growth rates for agriculture, livestock and fishing sectors, 1990-97



^a Estimates.

Note: The percentages were computed using 1983 constant prices.

Source: Central Bank of Uruguay.

9. While trade in agricultural goods appears modest under the ISIC Section 1, in fact Uruguay is highly dependent upon primary exports which, including agro-industrial products (covered in section (3), below), accounted for 62.1% of total exports in 1996.⁷ Such goods include bovine and ovine meat, dairy products and wool, which are Uruguay's major exports.

10. Growth in the agricultural sector could be attributed to several factors. First, the opening economy, which accelerated since the beginning of 1990 both at the unilateral and regional level, has reduced the misallocation of resources under the earlier import-substitution industrialization policy and benefitted the more competitive sectors of the economy, including agriculture and agro-industry. Second, the improvement of sanitary conditions led to declaring Uruguay free of foot and mouth disease, stimulating the livestock sector. Third, a change in tax policy entailed both a reduction in the number of taxes levied on the agricultural sector and a redistribution of taxes levied on various sub-sectors, taxes levied on cattle ranching being reduced while those levied in other sub-sectors such as rice, milk and fruits being increased. Fourth, economic stability has resulted in an increase in investment in the sector. Fifth, competition from abroad resulted in a significant effort to raise productivity.

⁷ UNSTAT, Comtrade database (SITC Rev.1). Data provided by the authorities show that exports of "primary goods" (not defined) accounted for 76.7% of total exports in 1996 (US\$1.838 million).

Table IV.1

Output of selected primary products, for the agricultural season ended 31 December
(US\$ millions, except as otherwise indicated)

	1992	1993	1994	1995 ^a	1996 ^a	Share of GDP (1996)
	Value of output					%
Crops						
Cereals	272	186	253	365	520	2.7
Wheat	51	52	66	99	207	1.1
Rice	153	96	125	167	181	1.0
Oilseeds	14	20	33	27	35	0.2
Vegetables ^b	109	175	162	173	..	..
Fruit ^b	78	91	127	161	..	..
Other agricultural	259	232	240	280	700	3.7
Cattle	436	465	491	554	564	3.0
Wool	168	132	217	279	228	1.2
Milk	167	185	218	246	267	1.4
Other livestock	144	146	161	174	161	0.9
Fishing	43	36	44	43	43	0.2
Total	1,689	1,668	1,945	2,301	2,518	13.3
<u>Memo items:</u>						
Cattle (thousand head)	1,334	1,377	1,612	1,506	1,840	..
Milk (million litres)	1,078	1,120	1,190	1,257	1,313	..
Wool (tonnes)	87,845	89,901	81,649	75,917	81,847	..

.. Not available.

a Preliminary data.

b 1996 output of vegetables and fruit is included in "other agricultural".

Source: Central Bank of Uruguay.

11. Uruguayan authorities have also made an important effort to dismantle policies that have sheltered agricultural production from international competition. Exports of bovine, ovine and equine livestock were liberalized in 1993.⁸ This has improved producer prices but meat-packing plants now have to pay world prices for supplies. Similarly, agro-industries can now import or export raw hides, which cuts tanneries' profits but increases prices for primary producers.⁹ However, some import-substitution activities linked to agriculture and agro-industry (soybeans, sugar cane and sunflowers) will have time to adjust to a more competitive environment since they are covered by the exception lists in MERCOSUR (Chapter III). Minimum export prices for butter and wheat, were eliminated in 1991 and 1994, respectively. The only agricultural product still affected by this measure is sugar, both raw and refined (HS 170191, 170199, 170111, and 170112), which does not yet circulate freely within MERCOSUR. While Uruguay has decided to eliminate protection for sugar in the year 2001, the sector will fall under the common MERCOSUR regime which is yet to be determined. Uruguay still enforces a price support mechanism for milk producers through a differential pricing arrangement (see below).

12. Within MERCOSUR a number of agricultural items are on Uruguay's list of exceptions to free circulation during the convergence period. Apart from sugar, as mentioned, these include: vegetables and tubers (root vegetables), fruits, pepper, wheat, and vegetable oils (included in the Regime of Final Adjustment to the Customs Union). In addition, some export-oriented products such as dairy products were also included in Uruguay's lists of exceptions to the CET.

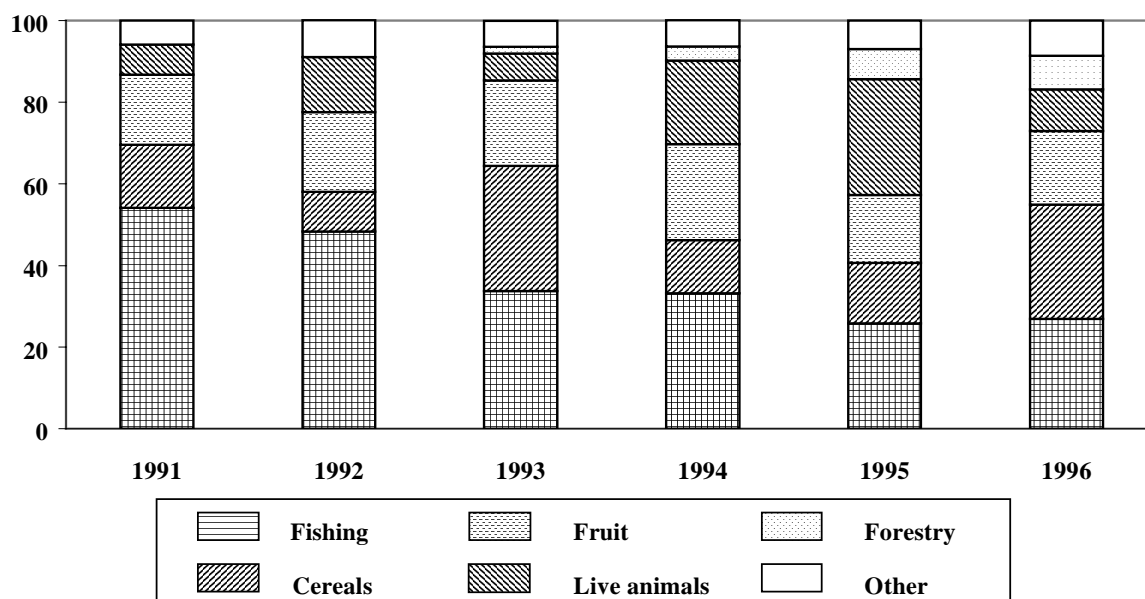
⁸ Decree No. 457/93, 30 September 1993.

⁹ World Bank (1996a).

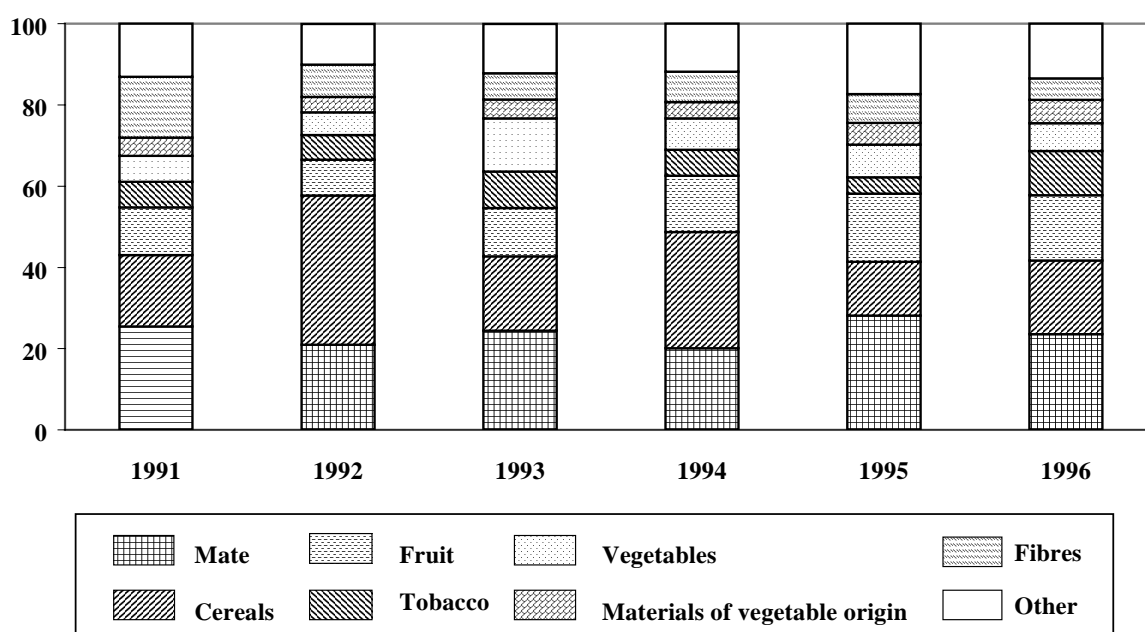
Chart IV.3
Agricultural exports and imports, 1991-96

Per cent

(a) Exports



(b) Imports



Source: UNSD, Comtrade database and WTO Secretariat calculations.

13. One of Uruguay's highest priorities over the years has been to protect the health of the agricultural and livestock sector. Under various animal health programmes, Uruguay has been able to eradicate diseases such as brucellosis, foot and mouth, tuberculosis, hog cholera and Newcastle. Hence, imports of animals and animal products may be prohibited if they represent a risk to the sanitary conditions of the country: thus, imports of bovine blood¹⁰ and exotic fish species¹¹ are prohibited.

14. As mentioned in Chapter III, Uruguay has bound all tariff lines as a result of the Uruguay Round negotiations. Bindings for agricultural goods vary from 6% to 55%, but many items were bound at 35% and the simple average rate is 30.6%. However, as shown in Chart IV.4, bound rates for agricultural goods are substantially higher than the applied rates and also higher than the average bound rate for all sectors.

15. Applied MFN tariffs for agricultural, forestry and fishing commodities (within ISIC Section 1) range from 0 to 19% with a simple average of 9.7%. (These results differ from those presented in Chapter III because this section is based on ISIC Rev.2 while Chapter III provides information on applied and bound rates according to ISIC and Uruguay Round definitions.) Within this group of products, the fishing sub-sector bears the highest protection. Average tariff protection will decline further as Uruguay's tariff converges towards the CET. The most important decline will take place in the forestry sector with the average rate declining from 7.8% to 4.8% (Chart IV.4).

16. Uruguay adopted the transitory 3 percentage points increase of the CET in force since 31 December 1997 and scheduled to be eliminated by 31 December 2000. However, exceptions apply to this increase, mainly to inputs; for instance, the tariff on vegetable extracts to be used in the leather industry was not increased.

17. Uruguay notified the WTO that a zero rate for imports of agricultural inputs from non-MERCOSUR countries was applied.¹² A zero rate is also levied on agricultural inputs including live animals for reproduction, fertilized eggs, bovine semen, live plants, vegetables and cereals for planting, and seeds. Tariff concessions also apply to the forestry sector (see below) and the fisheries sector. The fisheries law allows for the exemption of duties levied on machinery and equipment to be used in fisheries development.¹³ The additional 3 percentage point increase in the CET from 1998 to 2000 does not apply to products mentioned in this paragraph.

18. Even though domestic taxes on agriculture have been reduced, these are still significant. Taxes levied are: (i) agricultural income tax (IRA); (ii) tax on transactions involving agricultural goods (IMEBA) and two additional taxes on the transfer of goods; (iii) value added tax (VAT); (iv) patrimony tax; (v) sanitary inspection tax; and (vi) export taxes.

19. Tax payers can choose to pay either the IRA or the IMEBA. IMEBA ranges from 1.5-2.5% and varies according to product (Chapter III). There are two additional taxes on the transfer of goods; one of these taxes at a rate of 2‰ is levied on wool, ovine and bovine leather, ovine and bovine livestock, and cereals and oleaginous seeds to finance the Honorary Commission for the Eradication of Unhealthy Rural Households. The other additional tax of up to 4‰ is levied on wool, bovine and ovine leather, and bovine and ovine livestock, cereals and oleaginous seeds, milk, poultry and apiculture products, as well as on exports of unprocessed vegetables, fruits, flowers, and seeds, to

¹⁰ Resolution of the MGAP, 16 August 1993.

¹¹ Law No. 13.833, 29 December 1969.

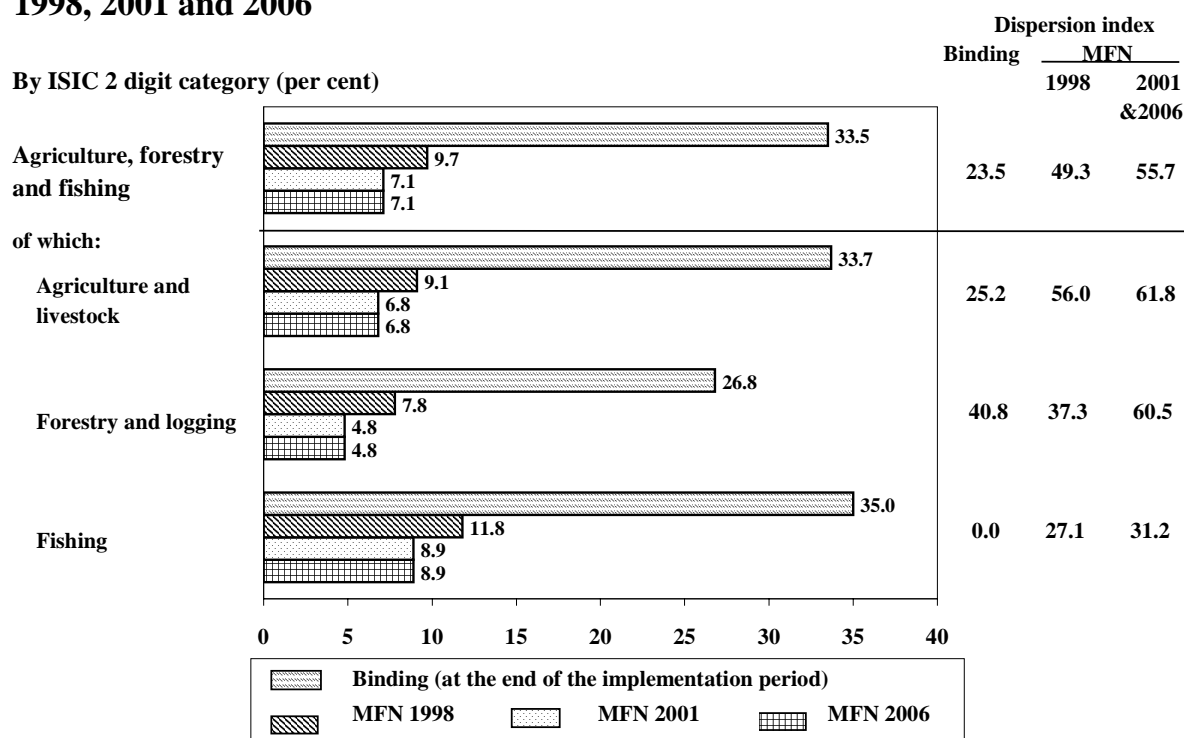
¹² WTO document G/AG/N/URY/3, 7 May 1996; G/AG/N/URY/9, 28 April 1997; and G/AG/N/URY/13, 12 June 1998.

¹³ Law No. 13.833, 29 December 1969.

finance the National Institute of Agricultural Research. Since 1996, in terms of tax revenue the IMEBA has become a more important tax than the IRA. As a percentage of total internal taxes the IMEBA increased from 0.25% to 1.34% during 1994-96, while the share of the IRA decreased from 0.17 to 0.01%.¹⁴

Chart IV.4

Average tariff levels and bindings in agriculture, forestry and fishing, 1998, 2001 and 2006



Note: The dispersion index (or coefficient of variation), expressed in percentage terms, is derived by dividing the standard deviation by the average. The index measures relative dispersion, and the higher the index, the more dispersed is the tariff structure.

Source: Government of Uruguay; and WTO Secretariat calculations.

20. The VAT is levied at a rate of 14% on fresh, frozen or chilled fish and meat, rice, sugar, and mate. Several agricultural goods and inputs are exempt from the VAT including: unprocessed vegetables, fruits, horticultural products, milk, and agricultural inputs and machinery (Article 19, Title 10 of the Tax Code). When the Executive deems it necessary, fish and ovine meat may also be exempted from VAT to promote domestic consumption. In addition, there is a reimbursement of the VAT paid on imported or domestically purchased goods and services to be used in the production of agricultural machinery or agricultural inputs.¹⁵

21. The sanitary inspection tax of 1% is levied on different types of meat for export, domestic consumption or industrial use. Exports of bovine, ovine, swine, and equine meat are subject to this

¹⁴ Banco Central del Uruguay (1998a).

¹⁵ Dirección General Impositiva (1996).

tax which is based on the declared f.o.b. value. Bovine and ovine meat for household consumption is also subject to this tax, based on the sales price.

22. Export taxes for live animals (bovine, ovine and equine), boned beef and greasy wool were eliminated in 1993-94¹⁶; only exports of dry, salted, and pickled hides are still subject to a 5% tax.¹⁷ The purpose of this tax is to ensure the supply of leather for the domestic leather industry, while promoting higher value-added activities.

23. Until recently, the export competitiveness of Uruguayan agricultural products were affected by macro-economic factors. For example, up to 1994 the devaluation of the Uruguayan peso *vis-à-vis* the dollar being slower than the inflation rate (Chapter I), Uruguayan goods became increasingly expensive on export markets. However, since 1994 there has been an attempt to correct this trend and, at present, periodic devaluations take some account of the difference between domestic and international inflation. As a consequence the exchange rate has depreciated in nominal terms; however, the real exchange rate has continued to appreciate, albeit at a much slower rate since 1994 (Table I.3, Chapter I).

24. Given the increase in competition from abroad due to the opening up of the economy, agricultural policy has focused on improving technology and management to increase productivity. These improvements include the use of better seed varieties, more intensive dairy feeding, the increased use of improved pastures for beef production, and irrigation. Results of these efforts have been favourable especially in the case of crops (Table IV.2). To a lesser extent, the productivity gains are also apparent in the production of beef meat which increased from 66 kg./ha. in 1974-92 to 79 kg./ha. in 1996-1997. Similarly, production of milk almost doubled in the period 1985-96 from 794 to 1409 lt./ha./year.

25. Incentives continue to be available to agricultural producers. Uruguay has notified the WTO of the provision of domestic support for research, pest and disease control, extension and advisory services, and inspection services which are considered "Green Box" measures. Investment subsidies are also available to support small producers who are under the poverty line. Other programmes focus on the promotion and diversification of non-traditional exports and on the reconversion and development of specific sectors such as vegetables, fruits, small animals and of small and medium-size livestock producers.¹⁸ In 1995-97, Uruguay's total aggregate measurement of support for the agricultural sector was below the "*de minimis*" level.¹⁹

26. Subsidized interest rates are available only for wheat, not for the rest of the agricultural sector.²⁰ However, the authorities noted that subsidized rates have not been available since 1986-88. Interest rates in Ur\$ are high: the BROU's annual average interest rate for the agricultural sector was 50.4%, while the preferential private bank rate was 39.2% in 1997.²¹ In addition, there are provisions for export subsidies for rice, butter and oil-cake (soya-bean pellets); however, Uruguay notified the

¹⁶ World Bank (1996a).

¹⁷ IMF (1997a).

¹⁸ These programmes include the National Programme to Support Small Producers (PRONAPA); the Natural Resource Management Programme (PRENADER); the Programme to Promote Non-traditional Agriculture Exports (PENTA); the Farm Conversion and Development Programme (PREDEG); and a programme to assist small and medium-size livestock producers (PRONADEGA).

¹⁹ WTO documents G/AG/N/URY/3, 7 May 1996; G/AG/N/URY/9, 28 April 1997; and G/AG/N/URY/13, 12 June 1998.

²⁰ WTO documents G/AG/N/URY/3, 7 May 1996; and G/AG/N/URY/9, 28 April 1997.

²¹ WTO document G/AG/N/URY/13, 12 June 1998.

WTO Committee on Agriculture that for the calendar years 1995-97 no such subsidies were applied to exports.²²

Table IV.2
Major crops area cultivated, production and productivity, 1992-1996
(⁰000 ha., ⁰000 mt and kg./ha.)

		1992	1993	1994	1995	1996	1997
Wheat	Area	116.3	148.0	213.8	189.0	168.2	250.3
	Production	188.3	342.3	343.9	486.9	392.9	649.7
	Productivity	1,614.0	2,303.3	1,602.0	2,566.0	2,336.0	2,596.0
Rice	Area	125.9	135.7	132.6	146.2	150.9	155.5
	Production	600.5	700.3	675.2	804.1	972.0	1,037.1
	Productivity	4,768.0	5,159.0	4,714.0	5,500.0	6,440.0	6,670.0
Barley	Area	82.5	124.4	88.1	73.0	130.9	146.1
	Production	138.4	307.8	129.0	177.0	329.0	340.6
	Productivity	1,680.0	2,467.0	1,465.0	2,424.0	2,513.0	2,331.0
Sugar cane	Area	9.5	6.6	3.8	3.7	3.7	3.4
	Production	545.3	303.6	205.0	181.2	188.4	194.5
	Productivity	57,457.0	45,847.0	53,947.0	48,974.0	49,720.0	57,975.0

Note: Figures at the end of the agricultural year.

Source: Central Bank of Uruguay.

27. Uruguay has made no use of the special safeguard provisions reserved in its schedule for other durum wheat (HS 1001.10.00.90) and for other non-durum wheat (HS 1001.90.10.90).²³

28. Favoured by its vast prairies and fertile soil, meat and milk production is Uruguay's major source of income and wealth. There has been an effort to improve the quality of its herds and pastures and to operate at lower costs. The country has around 6,000 producers and a dairy herd of 390,000 head. The average size dairy farm is 138 hectares, with 75 cows that produce 2,900 litres of milk per cow a year. Overall, in 1996, Uruguay produced 1.2 billion litres of milk. Given that the internal market is very small, most of national production is exported. Exports of milk and dairy products (HS 0404) in 1996 amounted to US\$153.8 million, the major market being Brazil which purchased 72% of total exports.²⁴

29. Uruguay still enforces a price support mechanism for milk producers through a differential pricing arrangement, as mentioned briefly in Chapter III. The Ministry of Livestock, Agriculture and Fisheries (MGAP) fixes the price of a quota of milk to produce fresh pasteurized milk for domestic consumption, the so-called "quota price". The quota price is a function of the average production cost structure of the sector as whole.²⁵ During 1992-96 period this price was adjusted every four months; since the beginning of 1998, as a result of the reduction in inflation (Chapter I), the adjustment has been made every six months. The quota price is higher than the out-of-quota price, which reflects world prices and is referred to as the industrial price of milk, but cannot be more than 1.5 times higher than the out-of-quota price. The quota level is determined according to the national consumption of

²² WTO documents G/AG/N/URY/1, 13 March 1996 and G/AG/N/URY/8, 14 April 1997, and G/AG/N/URY/11, 17 March 1998.

²³ WTO documents G/AG/N/URY/4, 3 May 1996; G/AG/N/URY/4, 14 April 1997; and G/AG/N/URY/12, 11 March 1998.

²⁴ UNSD, Comtrade database (SITC Rev.1).

²⁵ The cost structure is based on a basket of inputs used by an average farm. Thus producers that have costs below this average obtain a rent while those that have cost above the average do not receive it. In addition, these cost models usually do not take into account technological differences among farms, misrepresenting the costs of production of the sector.

pasteurized fresh milk and the amount of milk processed; at present the quota is 25% of the total milk production.

30. The price of fresh pasteurized milk for domestic consumption, fixed by the Ministry of Economy, is based on the quota price to the farmer, adding the costs of industrialization and a margin for distribution and marketing. In 1997, the quota price was 2.37 Ur\$/lt., while the consumer price of fresh milk was 4.50 Ur\$/lt (Table IV.3).

Table IV.3
Milk prices and quota, 1992-98

	1992	1993	1994	1995	1996	1997	1998
Quota price (Ur\$/lts.)	0.62	0.85	1.08	1.56	2.05	2.37	..
Industry price (Ur\$/lts.)	0.54	0.59	0.73	1.05	1.51	1.80	..
Consumer price (Ur\$/lts.)	1.08	1.46	2.10	2.90	3.77	4.50	..
Quota volume (mill/lt.)	238.5	239.7	245.2	255.0	255.4	255.3	255.0 ^a

.. Not available.

a Estimate.

Source: Government of Uruguay.

31. The price mechanism dates from 1935 when there was scarcity of fresh milk for domestic consumption, the aim being self-sufficiency. Today the domestic demand of fresh milk is met from 25% of the milk processed (the quota), the remaining 75% being used to produce other dairy products and for export. Over time, the pricing policy, which was aimed at benefiting consumers, has resulted in a transfer from consumers to producers, as Uruguayan consumers now pay a higher price for fresh milk. This policy has thus become a support policy for small producers whose high costs of production exceed the out-of-quota price. Thus, the policy allows small, poorer producers, who cannot afford new technology, to compete against larger, more profitable producers who are efficient and capture the main benefits of the support scheme.²⁶ However, according to the authorities, both the level of the quota (relative to total milk production) and the quota price (in constant prices) has been reduced in recent years, giving rise to complaints from those producers who find it difficult to continue producing at the market price.²⁷

32. Additional protection to the sector is provided through the tariff, set at 19.1%. Domestic raw materials are protected against imports by means of an average tariff of 15.9%, while processed goods are subject to tariffs ranging from 17% to 19.7%. The lower rate applies to natural milk products (HS 0404) and the highest to concentrated or sweetened milk and cream (HS 0401).²⁸

33. The private National Dairy Products Cooperative (CONAPROLE) has 14 processing plants, with 2,900 employees; it processes 53% of the milk produced nationally. Despite the entrance of new producers to the market, CONAPROLE continues to be the major producer and exporter of dairy products in Uruguay. There are 20 plants entitled to export in Uruguay, 14 of which are owned by CONAPROLE. CONAPROLE still plays a key role in this market, since by law it is obliged to buy 60 lt./day of milk at the quota price from its members irrespective of their production and CONAPROLE's requirements.²⁹ Before the entry of new companies to this market CONAPROLE focused only on processing enough milk to attain self-sufficiency³⁰; since the entry of competitors,

²⁶ Arbeletche P. (1994).

²⁷ *Búsqueda*, 28 May 1998.

²⁸ WTO Secretariat calculations with data provided by the Government.

²⁹ Law No. 10.707, 10 January 1946; and *Búsqueda*, 28 May 1998.

³⁰ CONAPROLE had a monopoly up to 1982 (*Búsqueda*, 2 April 1998).

the cooperative has increased efforts to develop and market new products both for the domestic market and for export.³¹

(ii) Forestry

34. The forestry sector has grown substantially since 1990, the area planted increasing from 7,545 to 47,550 hectares during 1990-96.³² The value of forestry exports has also increased from some US\$13 million to US\$57 million in the same period, mainly to the Nordic countries and Japan. One of the major export products is eucalyptus (*Egrandis* and *Eglobulus*) logs, the most common species planted in Uruguay.

35. The sector's performance can be attributed to three factors. First, a subsidy is provided under the Forestry Law of 1987 and its regulatory decrees.³³ Second, Uruguay has the required agro-ecological conditions, soil, topography and climate, to produce rapid-growth species. Third, the world demand for forestry products has increased, and the traditional suppliers have not been able to meet the full increase in demand.³⁴

36. The forestry sector is heavily regulated to shape the pattern of production: incentives provided by the Forestry Law of 1987 are restricted to the planting of specific species in predetermined areas of the country. The land devoted to plantations is marginal, deemed unsuitable for agriculture use, while only rapid-growth species that are substitutes for hard tropical woods may be planted.³⁵

37. The incentives, which have been notified to the WTO under Article XVI:1 of the GATT 1994 and Article 25 of the Agreement on Subsidies and Countervailing Measures, include partial reimbursement of the hypothetical costs of the plantation. These reimbursements can reach a maximum of 50% of hypothetical costs. The authorities estimated the average amount of the refund of plantation costs at about US\$180 per hectare in the case of a plantation; this is applied once only for each hectare planted. In addition, there is an exemption from the payment of taxes on rural property; such exemptions are applicable for a period of 12 years from the planting of the forest. The value of tax exemptions for protected forests (natural or artificial) and producing (planted) forests were estimated at about US\$9 per hectare per year.³⁶ Capital goods and inputs to be used, *inter alia*, for the production of plants, in plantations and for their management, and for the processing of national wood can also be imported duty free under Decree No. 457/89 of September 1989.³⁷ In addition, a Credit Fund for the Forestry Sector was established to finance the different stages of production, and nurseries. This fund is administered by the BROU, which offers credit at preferential rates, an important advantage to the sector given the prevailing high market interest rates (see section 4 of this Chapter). The availability of resources to finance production is crucial to this sector because of the long lead time before logging and the recuperation of expenses. None of these

³¹ COMISEC (1994).

³² Data on this sector's contribution to GDP is not available because of the accounting methodology used in Uruguay.

³³ Law No. 15.939 of 1987, Decree No. 457/89 of 1989; and WTO documents G/SCM/3/URY and G/SCM/N/16/URY, 20 December 1996.

³⁴ *Diario El País*, 8 December 1997.

³⁵ The species that can be planted are *Eucalyptus grandis*, *Eucalyptus saligna*, *Eucalyptus globulus* ssp *maidenii*, *Pinus elliottii*, *Pinus taeda*, *Pinus pinaster*, *Populus deltoides* and hybrids; and *Salix albavav corulea* and hybrids.

³⁶ WTO document G/SCM/N/3/URY - G/SCM/N/16/URY, 20 December 1996.

³⁷ *Instituto Nacional de Investigación Agropecuaria* (1996).

incentives is contingent on export and no new incentives are envisaged in the near future.³⁸ The total cost of the programme increased from some US\$875 thousand in 1992 to US\$5.1 million.

38. It is expected that under the incentive package, which is available both to nationals and foreigners, the area planted will progressively be extended to reach 500,000 hectares, with a production of 75 million cubic meters of wood in the period 1996-2025.³⁹ The MGAP estimated that some 35,000 hectares would be planted each year.⁴⁰ The ultimate goal is to have enough resources to meet domestic industrial needs, especially for the production of paper and paper products which are exported mainly to MERCOSUR. The paper industry can also benefit from the exemption granted through Decree No. 457/89 of September 1989; in 1994, 70% of the imports under this law were undertaken by this industry.⁴¹

39. Although no data are available on foreign direct investment (FDI), indications are that foreign capital has become important in this sector, especially regarding technology transfer, entrepreneurship and the use of existing distribution channels in the international market. For instance, in the last two years (1996-97) foreign investors increased pine (*P. elliotii* and *P. taeda*) plantations, mainly for exporting to their countries of origin.

40. The increase in production and export has highlighted transportation bottlenecks. Studies are currently underway for the rehabilitation of certain stretches of the railway network, as an efficient and reliable method to transport lumber from the interior of the country to the seaports is badly needed.⁴²

(3) MANUFACTURING

41. Since the previous Review in 1992, the contribution of the manufacturing sector to GDP has declined from 23.57% to reach 20% in 1997 (see also comments in Chapter I). There has also been a corresponding decline in the share of labour employed in this sector from 21% in 1992 to 17% in 1997 (Table IV.4). The authorities attribute the decline to sub-contracting by manufacturers of certain services, which were previously accounted for in manufacturing GDP. However, the sector made a partial recovery in 1997, growing at 5.8%, as a result of improved efficiency following new capital investments and a reorganization of the sector during 1993-95 in response to increased competition from imports (Chapter I).⁴³ According to the authorities, growth continued at a rate of 11% during the first trimester of 1998.

42. The manufacturing sector in Uruguay is characterized by two sub-sectors: an export-oriented sub-sector largely based on the processing of agricultural products (food products, textiles, leather), and an import-substituting sub-sector which includes light-industries such as beverages, tobacco, and chemicals. Since 1991, when MERCOSUR initiatives for regional integration led to a reduction in tariffs, manufacturing has been faced with strong competition, leading to the restructuring of the sector noted above and to the cessation of production in non-competitive areas. Growth in both export-oriented and inward-oriented industries has been erratic, with wide fluctuations and inter-sectorial variations (Chart IV.5).

³⁸ *Diario El País*, 14 December 1997.

³⁹ *Instituto Nacional de Investigación Agropecuaria* (1996).

⁴⁰ *Diario El País*, 8 December 1997.

⁴¹ *Instituto Nacional de Investigación Agropecuaria* (1996).

⁴² <http://tradeport.org/cgi-bin>, 16 October 1997, U.S. State Department.

⁴³ ABN AMRO Incorporated (1998).

Table IV.4
Industrial sector background, 1992-97
 (Ur\$'000 and per cent)

	1992	1993	1994	1995	1996 ^a	1997
Industrial GDP (constant Ur\$ ('000) of 1983)	55,296	50,328	52,361	50,877	52,918	56,011
Industrial GDP Growth rate (%)	1.53	-8.98	4.04	-2.83	4.01	5.84 ^b
Ind. GDP/GDP%	23.49	20.76	20.31	20.10	19.84	20.00
Manufactured exports as share of total exports (%)	87.2	86.8	87.4	83.5	85.8	..
Manufactured imports as share of total imports (%)	85.9	93.5	93.9	89.0	88.0	..
Employment as a share of total employment (%)	20.8	20.2	19.2	18.0	16.7	19.9

.. Not available.

a Preliminary.

b June 1997.

Source: Central Bank of Uruguay; UNSD, Comtrade database; and ING Barings (1997).

43. Despite mixed trends in production, exports and imports of manufactured goods have both increased in value terms since the last review, maintaining their share of total exports and imports at some 86% and 88%, respectively (Table IV.4). Uruguay's most important manufactured exports since 1991 have been food products (ISIC 311), textiles and clothing (ISIC 321 and 322), and leather and leather products (ISIC 323), which accounted for more than 70% of total manufactured exports (Chart IV.6). The major market for these products has been Brazil; China and the United States are important markets for textiles (wool) and leather products, respectively.⁴⁴

44. In the Uruguay Round, Uruguay bound all tariffs on manufactured goods at rates ranging from 10% to 35%, with an average bound rate of 30.4% (Chart IV.7).⁴⁵ Among the industries with rates above the average bound rate are the export-oriented food, beverages and tobacco and textiles, clothing and leather sectors.

45. In 1998 the applied MFN tariff provides an average level of protection of 12.4% for the manufacturing sector as a whole, with tariffs ranging from 0% to 24%. However, as for bound rates, some of the most important export industries – food, beverages and tobacco, and textiles, clothing and leather – benefit from above average levels of protection. Chart IV.7 shows that as Uruguay converges to the CET the average protection on manufactured goods will decline. Protection will decrease in all industries with the exception of fabricated metal products, machinery and equipment where average protection will increase from 9.9% to 13.1%.

46. Tariff escalation is quite pronounced, with an average protection of 13.2% for fully processed goods, 11.7% for semi-processed and 9.2% for primary goods (Table IV.5). Thus, the protection structure applied under the earlier import-substitution industrialization regime remains in place, albeit at lower levels. Even some key export-oriented activities, such as food products (ISIC 311), textiles (ISIC 321) and leather products (ISIC 323) show significant escalation (Table AIV.1). The escalating tariff structure will also prevail as Uruguay converges to the CET, but at lower rates.

47. Historically, the structure of protection appears to have discouraged production of intermediate goods, while promoting low-value-added assembly operations, relying mainly on intermediate imported inputs. However, the share of imported intermediate goods has declined since 1992, suggesting that a restructuring of production in patterns is starting to appear under the more liberal trade regime (Table IV.6).

⁴⁴ Banco Central del Uruguay (1997b).

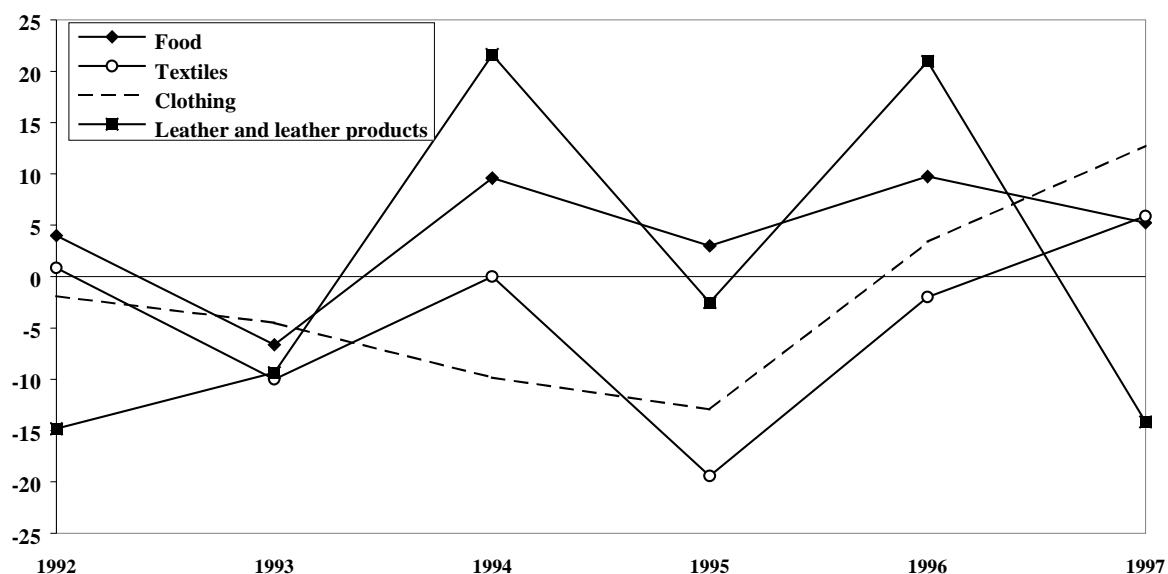
⁴⁵ These results differ from those presented in Chapter III because of the classification method used in this section which is according to ISIC.Rev.2.

Chart IV.5

Growth in selected industries, 1992-97.

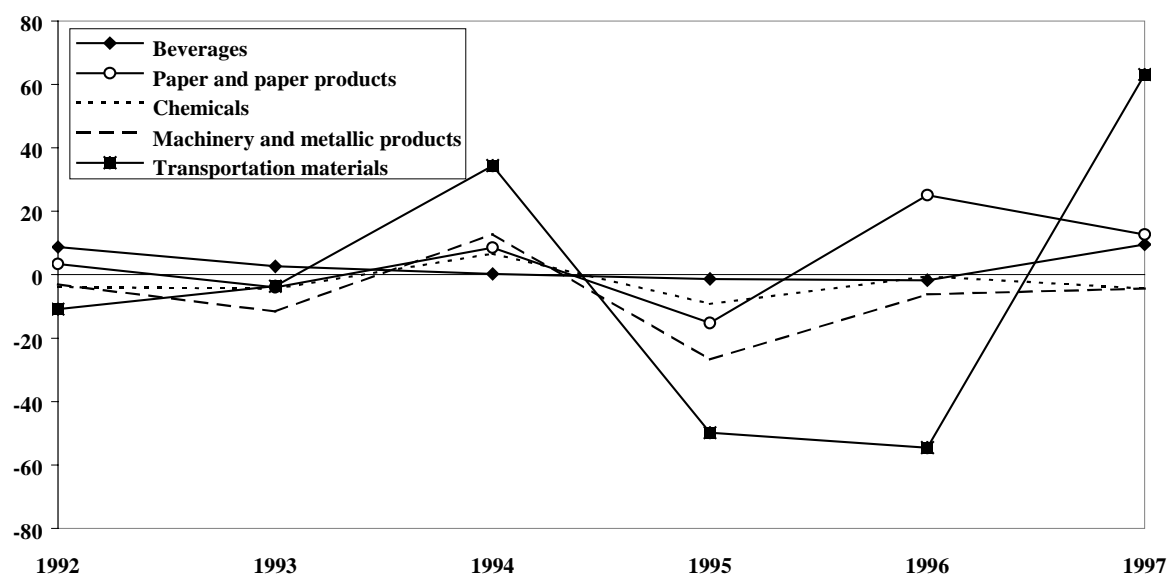
(a) Growth in selected export-oriented industries, 1992-97

Per cent, annual growth



(b) Growth in selected inward-oriented industries, 1992-97

Per cent, annual growth

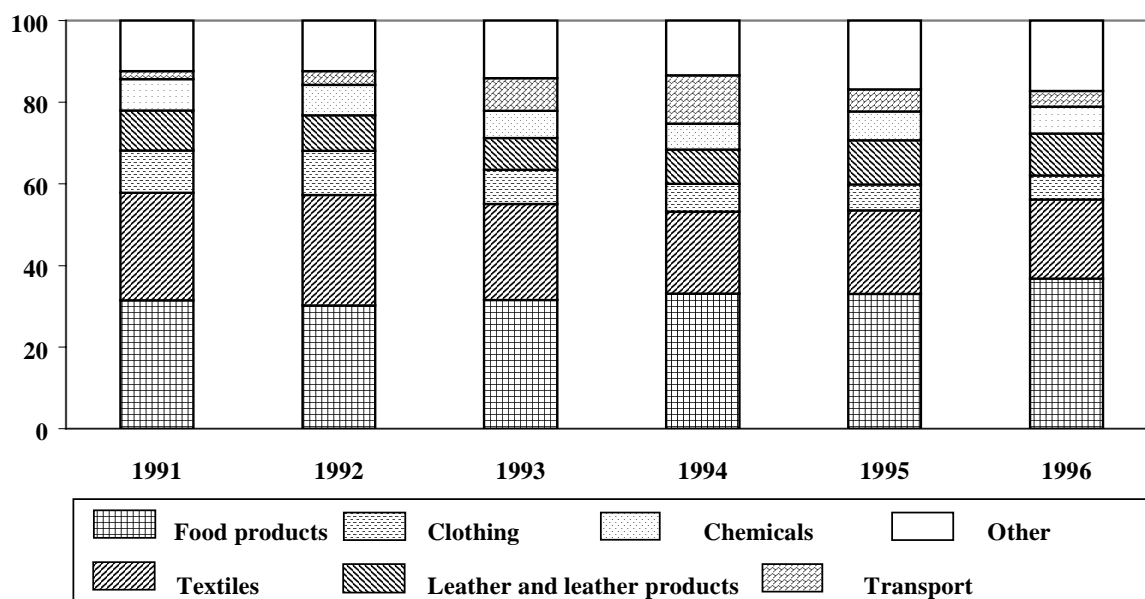


Source: Central Bank of Uruguay.

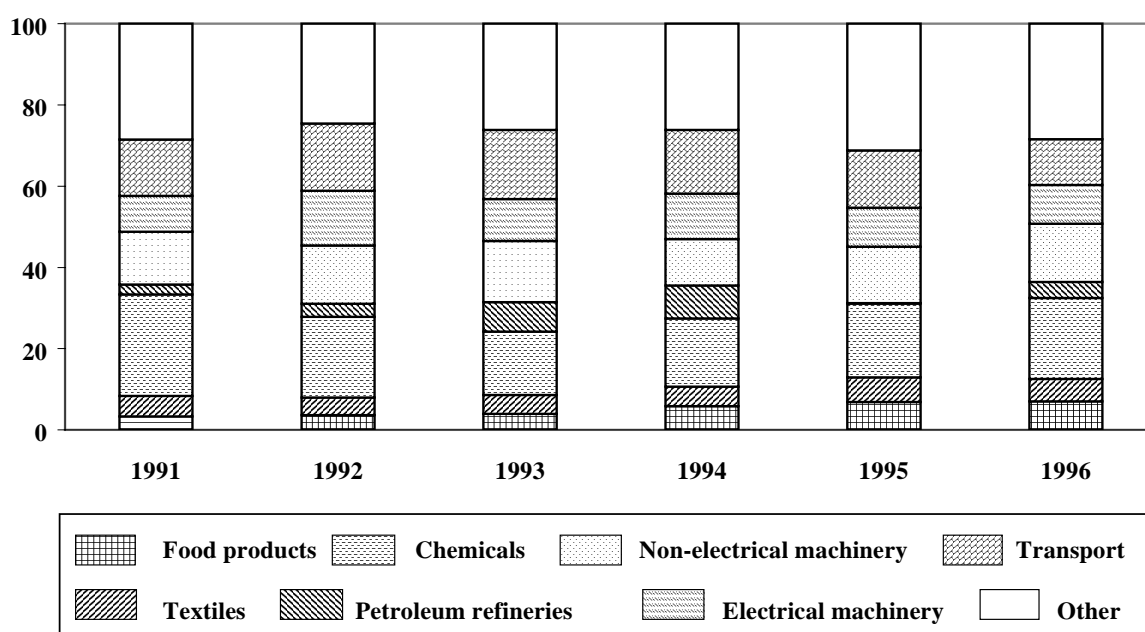
Chart IV.6
Manufactured exports and imports, 1991-96

Per cent

(a) Exports



(b) Imports

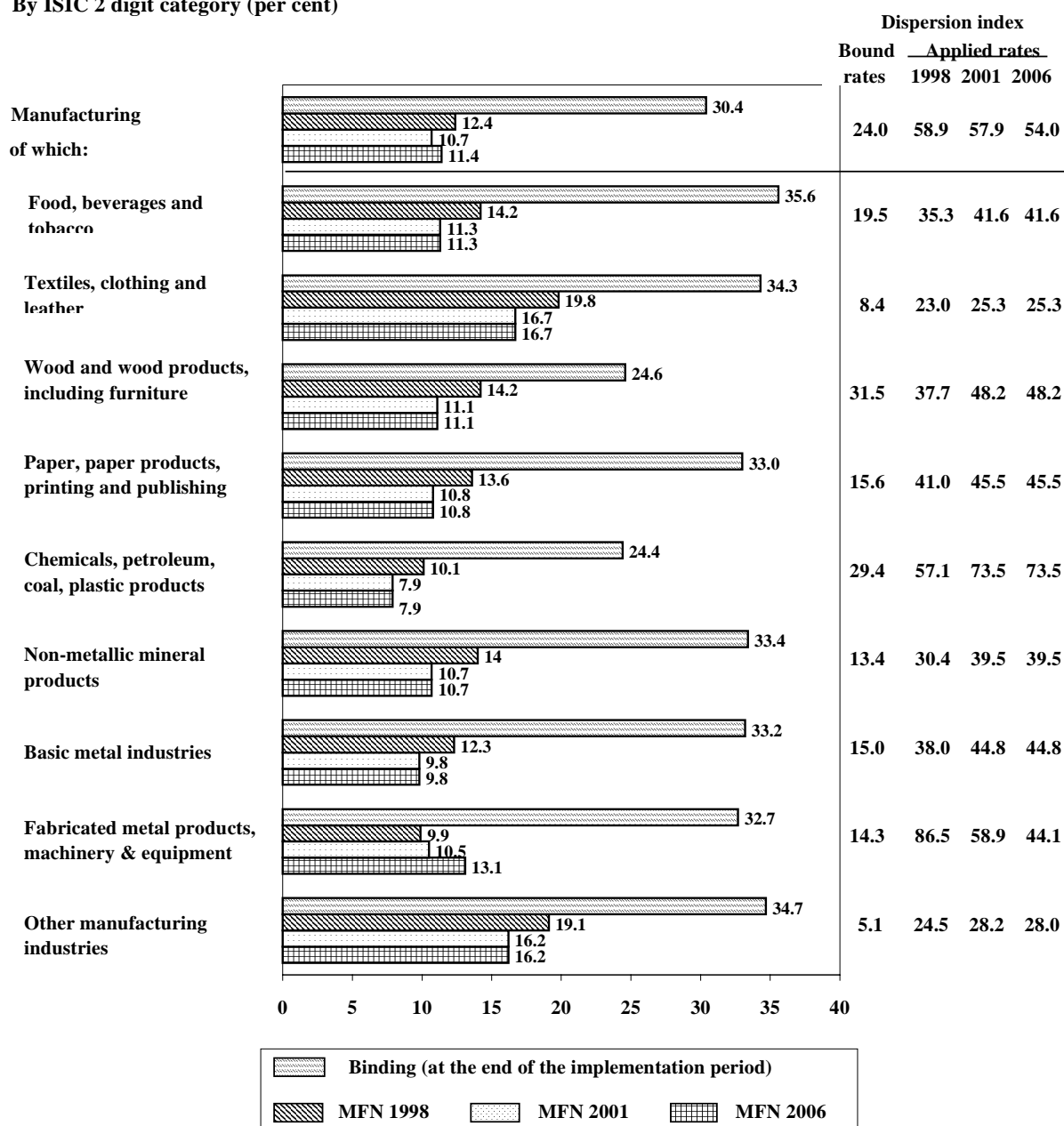


Source: UNSD, Comtrade database and WTO Secretariat calculations.

Chart IV.7

Average tariff levels and bindings in manufacturing, 1998, 2001 and 2006

By ISIC 2 digit category (per cent)



Note: The dispersion index (or coefficient of variation), expressed in percentage terms, is derived by dividing the standard deviation by the average. The index measures relative dispersion, and the higher the index, the more dispersed is the tariff structure.

Source: Government of Uruguay; and WTO calculations.

Table IV.5
Tariff escalation and tariff rates, 1998 and 2006
(Per cent and number)

Product and processing	Number of lines	Tariff 1998			Coefficient of variation	Tariff 2006 average
		Average	Range	Standard deviation		
Total						
- 1 st stage of processing	1,182	9.2	0-23	4.6	50.4	6.6
- semi-processed	3,742	11.7	0-24	6.0	51.1	9.2
- fully processed	5,566	13.2	0-24	8.2	62.0	13.3

Source: Government of Uruguay and WTO Secretariat estimates.

Table IV.6
Imports classified according to final use, 1992-1997
(Ur\$ '000 and per cent)

	1992	1993	1994	1995	1996	1997
Total	2,045,052	2,325,720	2,786,106	2,866,933	3,322,798	3,716,020
Consumption	22.1	27.6	27.4	28.3	26.0	28.0
Capital	16.6	17.2	15.5	17.0	18.1	18.4
Intermediate	61.3	55.2	57.1	54.7	55.9	53.6

Source: Central Bank of Uruguay.

48. Tariff protection is supplemented with additional instruments, such as duty and tax exemptions, applied on a horizontal basis, to promote industrial development and manufactured exports. Specific measures apply only to the textiles and clothing sectors and to the automotive sector (see later).

49. Provision is made for fiscal incentives under the Industrial Promotion Law of 1974 for industries considered of "national interest" by the Executive.⁴⁶ This law allows for: total or partial exemption of all taxes; exemption of up to 60% of the employers' social security contributions; exemption of taxes on income generated by the enterprise; exemption of port and other charges levied upon imported industrial material required to equip the enterprise; and exemption of taxes and surcharges, customs duties, and port charges on imported merchandise required for the initiation of a new activity or the enlargement of an existing one. However, the authorities noted that some of these benefits have never been granted.

50. Exports are exempt from the VAT and there is also a procedure that allows exporters to recover the tax levied on inputs.⁴⁷ In order to offset the incidence of indirect taxes, these are reimbursed on exports, but the regime only applies to exports for which the c.i.f. value of national inputs exceeds 80% of the f.o.b. value of the export itself. Thus, the benefit depends upon the national content of the product.⁴⁸ In addition, the Uruguayan drawback scheme allows for partial or total reimbursement of duties and charges paid for imported goods used in adding value, assembling or preparing merchandise to be exported.⁴⁹ The reimbursement given to exporters who benefit from the drawback regime is also tied to the national content of the exported item: the higher the domestic content, the higher the reimbursement (Chapter III(3)).

51. Other preferential regimes which are particularly important for the manufacturing sector, but which are also available to other activities, include the free zone and temporary entry regimes.

⁴⁶ Law No. 14.178, 28 March 1974.

⁴⁷ Uruguay XXI (1997), and Article 5, Title 10, Value-added Tax (*Dirección General Impositiva*, 1996).

⁴⁸ Article 3, Decree No. 487/997, 31 December 1997.

⁴⁹ Decree No. 431/97, 6 November 1997, *Official Journal* No. 24.922, 1 December 1997.

Benefits obtained through the free-trade zones include, *inter alia*, exemption from all domestic taxes and customs duties⁵⁰ (Chapter III). Industries whose output is exclusively destined for exporting are allowed to import inputs under the temporary admission regime that allows importation without payment of tariffs.⁵¹

52. In addition, the Ministry of Industry, Energy and Mining, through the National Directorate of Handcrafts, Small and Medium Enterprises (DINAPYME), created in 1990, provides technical assistance to small and medium-size enterprises as well as information about trade fairs and handcraft shows.⁵² Preferential lines of credit, financed with grants, are also available for these enterprises, through the BROU.⁵³ Other banks – the *Banco Pan de Azúcar* and the *Banco Caja Obrera* – also provide subsidized credit to these enterprises; the *Banco Pan de Azúcar* offers loans in U.S. dollars at a preferential interest rate of 9%.

(i) Textiles and clothing

53. The textile industry (ISIC 321) operates behind a nominal average tariff of 19.4%; however, the effective protection for this industry is even higher, since nominal average protection on inputs is 11.5% while the average nominal tariff on fully processed goods is 21.8%. The clothing industry (ISIC 322) is protected by tariffs averaging 23.1% (Table AIV.2). As Uruguay converges to the CET tariff protection on both textiles and clothing will decrease to 16.3% and 19.9%, respectively.

54. At present, additional protection for textiles and clothing is provided through the minimum export price (MEP) system (Chapter III). Thus, in 1998, MEPs apply to cotton, mixed, synthetic and knitted textiles, and clothing and apparel made of these materials, falling within HS Chapters 52, 54, 55, 60, 61, 62, and 63. MEPs do not apply to wool products since Uruguay appears to be competitive in the production of these items. MEPs do not apply to imports within MERCOSUR countries.

55. The MEP system provides for the application of a surcharge or a variable levy depending on the difference between the computed minimum export price and actual export price or declared c.i.f. price. If the c.i.f. price is greater than or equal to the MEP, the charges to be paid by the importer are equal to the c.i.f. price plus the duty. However, if the c.i.f. price is less than the MEP, the charges to be paid by the importer are equal to the MEP plus the duty, to which the difference between the MEP and the c.i.f. price is added.

56. Minimum export prices for clothing, "MEPc", are determined on the basis of the minimum export price of their major input, which is multiplied by a specific factor. If the calculated "MEPc" is higher than the listed minimum export price for the item, the "MEPc" is used as the basis for the calculation of the charges to be paid by the importer. This means that protection rises with the degree of processing, providing higher effective protection for the processing industry than is evident from the nominal rates.

57. The minimum export price system tends to magnify tariff protection against imports whose prices are lower than the corresponding MEP, so that the general liberalization measures have been partly eroded by the MEP system. Moreover, the system tends to distort the relative prices of cheap

⁵⁰ Law No. 15.921, 17 December 1987.

⁵¹ Uruguay XXI (1997).

⁵² Law No. 16.170, 28 December 1990.

⁵³ BROU's Circular No. 101/7.

and expensive imports of the same item by reducing the price differential between imports with prices lower and higher than the MEP.⁵⁴

58. The impact of the use of this mechanism on Uruguayan textiles and clothing cannot be fully evaluated since the authorities were unable to provide data on the frequency of its use, the items affected and their origin. However, despite the protection afforded by tariffs and the MEP system, during 1992-96 imports of both textiles and clothing as a share of total merchandise imports increased. As shown in Chart IV.5 production in both these industries has varied substantially during 1992-97, undergoing an important decline in 1995; however, both industries recuperated in 1997. The major suppliers of textiles and clothing are Argentina, Brazil, China and Hong Kong China.

59. Uruguay has retained the right to use the transitional safeguard mechanism under Article 6 of the WTO Agreement on Textiles and Clothing.⁵⁵

60. In 1992, exports of clothing accounted for 11% of total exports, by 1996 their contribution had decreased to 5.9% (Tables AI.1 and AI.2). Uruguay exports textiles (ISIC 321) mainly to China (wool products), Brazil, and Germany; while the major markets for exports of clothing (ISIC 322) are Brazil and Argentina; followed by the United States.

61. Uruguay has negotiated export quotas for textiles and clothing with Canada and the United States: a specific limit quota for combed wool fabric (categories 31.1) with Canada;⁵⁶ and nine additional specific limit quotas which apply to items exported to the United States, including cotton and wool products.⁵⁷ However, these quotas do not represent a restriction on Uruguayan exports: in 1997 Uruguay was only able to fill some 30% of quotas in categories 410-A and 410-B (woollen fabric and worsted fabric) in the United States and 0% of quotas in other categories⁵⁸; while less than 50% of the Canadian quota was filled in the same year. Moreover, both Canada and the United States have granted Uruguay small supplier status, entitling it to an accelerated growth rate for its quotas.⁵⁹

(ii) The automotive industry

62. Uruguay is a net importer of automotive products, which accounted in 1996 for 9.6% of total imports. Exports have been declining since 1994, when they represented 10.8% of total exports, to reach 2.9% in 1996. Uruguay's major markets for automotive products are Argentina and Brazil.

63. The automotive industry is subject to a specific preferential regime, which has been notified to the WTO Committee on Subsidies and Countervailing Measures as well as to the Committee on Trade-Related Investment Measures.⁶⁰ The objective of this policy is to help restructure the national

⁵⁴ Changanauquí, F. and P. Messerlin (1992).

⁵⁵ WTO document G/TMB/N/11, 2 March 1995.

⁵⁶ WTO document, G/TMB/N/62, 19 April 1995.

⁵⁷ Specific limit quotas apply to exports of: other men's and boy's cotton coats (Cat. 334), women's and girls cotton coats (Cat. 335), wool woven fabric (Cat. 410), woollen fabric (Cat. 410-A), worsted fabric (Cat. 410-B), men's and boy's suit-type wool coats (Cat. 433), other men's and boy's wool coats (Cat. 434), women's and girl's wool coats (Cat. 435), and wool skirts (Cat. 442) (WTO document, G/TMB/N/63, 19 April 1995).

⁵⁸ U.S. Customs Service Textile Status Report (<http://www.customs.ustreas.gov/quotas/1997>), 13 July 1998.

⁵⁹ WTO documents G/TMB/N/311, 18 December 1997; G/TMB/N/183, 2 August 1996; and G/TMB/N/312, 18 December 1997 (Article 2.18 of the WTO Agreement on Textiles and Clothing.)

⁶⁰ WTO documents G/TRIMS/N/URY/1, 10 April 1995; G/TRIMS/N/URY/1/Add.1, 21 September 1995; and G/SCM/N/3/URY - G/SCM/N/16/URY, 20 December 1996.

automotive industry from inward to an export orientation, while ensuring that exporting firms, through the incentive provided by this measure, are able to satisfy the domestic market with a range of imports.⁶¹

64. Enterprises which export vehicles completed or part-completed in the country, or motor parts of national origin, may benefit from a customs concession, applicable to the importation of motor vehicles assembled in the place of origin destined for the domestic market. For every U.S. dollar of exports (f.o.b. value), imports of new vehicles of an equivalent value (c.i.f.) may be made at a concessional rate. The concessional rate is 10 percentage points below the TGA (global tariff).⁶²

65. The measure is optional and there is no obligation to export in order to be able to import: any person or firm may import by paying the normal applied tariff. The 10 percentage point reduction in the tariff is a benefit that replaces normal tax drawbacks on exports.⁶³ The benefit is also transferable, meaning that exporters can transfer to another importer of vehicles their rights to import assembled vehicles with a reduction of 10 percentage points on the applied tariff.⁶⁴

66. This measure will remain in place until a common automotive regime is adopted within MERCOSUR, scheduled to come into force 1 January 2000. The basic guidelines of the Common Automotive Regime would be: free trade within the region, a common external tariff, and the harmonization of national incentives which distort competition in the region.⁶⁵ The MERCOSUR countries have already agreed on several issues regarding a common automotive regime, *inter alia*, that imports of automobiles and parts from third countries will be subject to a 35% tariff in accordance with the CET. However negotiations are continuing, *inter alia*, on: (i) the percentage of national content *vis-à-vis* regional content necessary for a vehicle to be considered made in MERCOSUR; (ii) the timetable to phase-out fiscal incentives to promote the industry available in the different MERCOSUR countries; (iii) the provision of preferential treatment for Paraguay's and Uruguay's incipient automotive industries.⁶⁶

(4) SERVICES

67. Since 1990 the contribution of services to GDP, measured in constant prices, has been stable at around 66%.⁶⁷ While financial services are the most important sub-sector, their share in services GDP decreased by 5 percentage points during the 1990-1997 to just over 31% (Chart IV.8). This sub-sector is followed in importance by personal services (22.5%) and commerce, restaurants and hotels (21.5%). The decline in the financial sub-sector's contribution may signal a decline in Uruguay's traditional role as a financial centre for the region: historically, many businesses and individuals from the region deposited their money in Uruguay, but the increase in political and financial stability in the region, especially in Argentina, has reduced this role. The increasing importance of the commerce, restaurants and hotels sub-sector reflects the increasing importance of the tourism sector.⁶⁸

⁶¹ WTO document G/TRIMS/N/URY/1/Add.1, 21 September 1995.

⁶² Uruguay's notification to the Committee on Subsidies and Countervailing Measures (WTO document G/SCM/N/3/URY – G/SCM/N/16/URY, 20 December 1996) notes that: "imports may be made with a concession of 10% of the TGA, applicable to the surcharge element, ...". TGA is the sum of three components: the minimum surcharge, additional surcharge and the single customs tax on imports (IMADUNI) (Chapter III).

⁶³ WTO document G/TRIMS/N/1/URY/1, 10 April 1995.

⁶⁴ Article 4, Decree No. 316, 7 July 1992.

⁶⁵ WTO document WT/COMTD/1/Add.4/Rev.1, 11 April 1997.

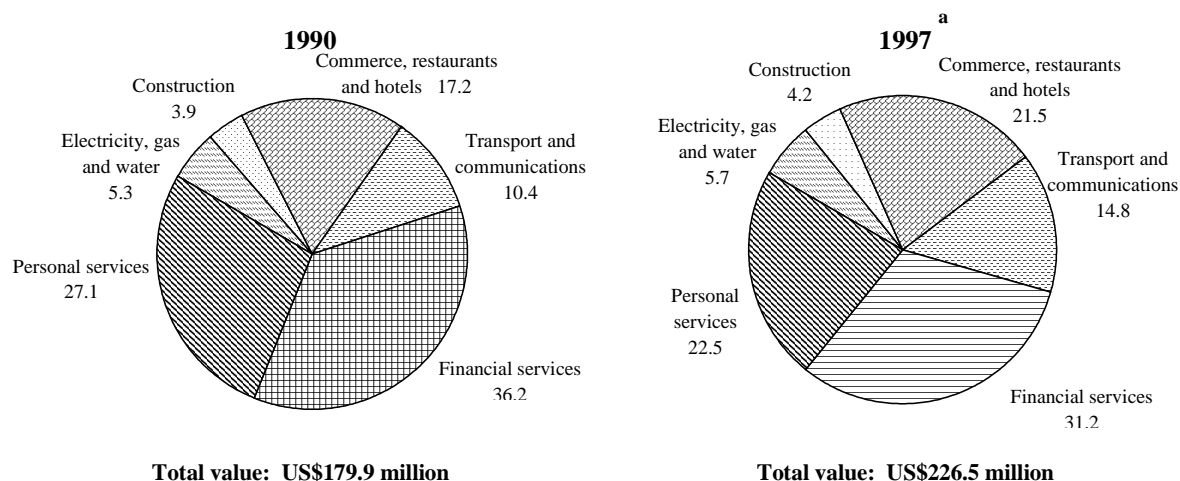
⁶⁶ *El País*, 15 July 1998.

⁶⁷ Current price data provided by the authorities show that the contribution of services to GDP increased from 68.20% in 1990 to 76.25% in 1997.

⁶⁸ Uruguayan statistics do not show explicitly the contribution of the tourism sub-sector to GDP.

Chart IV.8**Services GDP by sector, 1990 and 1997**

Per cent, constant prices of 1983

^a Preliminary.

Source: Central Bank of Uruguay.

68. The only sub-sector under a special incentive regime is tourism, but economic reform and privatization efforts have also had a beneficial effect on the services sector through the promotion of efficiency. For instance, the recent pension reform should build a pool of savings relatively quickly, helping to deepen capital markets. Improved efficiency in the ports has contributed to the facilitation of trade in goods. However, competition is still restricted in some sub-sectors, particularly basic telecommunications. Foreign direct investment (FDI) is especially important in the tourism and financial services sub-sectors (see below). The new foreign investment law, approved on January 1998, which put domestic and foreign investors on the same footing should further help promote FDI (Chapter II).

69. The Uruguayan Schedule of Specific Commitments negotiated in the Uruguay Round and in subsequent sectoral negotiations includes horizontal commitments affecting all sectors as well as sector-specific commitments. Horizontal commitments affecting both market access and national treatment cover the presence of natural persons who operate in Uruguay in the following categories: managers, executives, and specialists.⁶⁹

70. Sector-specific commitments cover business services, communication services, financial services, tourism and travel related services, recreational, cultural and sporting services and transport services.⁷⁰

⁶⁹ A manager is a person within an enterprise or organization who primarily directs the organization; an executive is a person within an organization who primarily directs the management of the organization; and a specialist is a person who possesses knowledge at an advanced level of expertise and who possesses proprietary knowledge of the organization's service, research equipment or management (WTO document GATS/SC/91, 15 April 1994).

⁷⁰ WTO document GATS/SC/91, 15 April 1994.

71. Uruguay has listed its exemptions to the principle of most-favoured-nation (MFN) treatment under the Annex on Article II, Exemptions to the GATS Agreement. These exemptions include horizontal measures regarding the freedom to transfer and invest capital and non-commercial risk guarantees contained in bilateral investment promotion and protection agreements, as well as specific measures which cover land transport (see below).⁷¹

72. As a member of MERCOSUR, Uruguay is participating in the ongoing services negotiations within the regional grouping, which originally envisaged free trade in services in 1995.⁷² The MERCOSUR Council approved the Montevideo Protocol on Trade in Services within MERCOSUR at the end of 1997. The members agreed to start the internal process of approving the Protocol once an agreement has been reached regarding its annexes; these contain specific sectorial dispositions. In addition, each country will have its list of specific commitments. The Protocol aims at liberalizing the circulation of services within MERCOSUR, recognizing the importance of services for the region's development and deepening of the integration process.

73. The Protocol affects all forms of supply in trade in services within member states: cross-border supply, consumption abroad, commercial presence and presence of natural persons as well as respect for the principle of MFN treatment. Members would not be allowed to maintain or adopt restrictions regarding: number of suppliers, value of services, number of operations supplied, production of services, number of physical persons that could be employed in a specific sector or that a supplier is allowed to employ, and the participation of foreign capital. However, members are allowed to introduce new regulations in their national territory to regulate national treatment and market access as long as this does not annul the commitments (obligations) made in the Protocol.

(i) Banking, finance and insurance

(a) Banks

74. Uruguay's financial system consists of 24 banks (2 state-owned and 22 private banks), seven financial intermediation cooperatives, 10 financial houses, and 11 off-shore financial institutions (Table IV.7).

75. The public banking sector includes the *Banco de la República Oriental del Uruguay* (BROU) and the *Banco Hipotecario del Uruguay* (BHU). The BROU, the country's major state-owned bank, serves as the Government's commercial bank and also operates as a commercial and development bank for industrial and farming activities; it holds the highest level of deposits and loans in the banking system.⁷³ Following the financial crisis of the early 1980s, the BROU enhanced its position as the predominant provider of long-term financing and of promotional medium-term credits for industrial and farming activities, as many private banks geared their business toward short-term credits.

⁷¹ WTO document GATS/EL/91, 15 April 1994.

⁷² Treaty of Asunción, Chapter I, Article 1.

⁷³ <http://www.embassy.org/uruguay/econ/eecon2.html> and <http://tradeport.org/cgi-bin>, 16 October 1997, U.S. State Department.

Table. IV.7
Financial Sector
 (Number and US\$'000)

Type of Institution	N° of banks		Deposits		Credits		Assets	
	1986	1998	1986	1997	1986	1997	1986	1997
State Banks	2	2	2,524,663 ^a	5,603,039 ^c	1,891,462 ^a	5,742,993	3,378,022 ^a	8,283,464
Private Domestic Banks	13	15	1,835,256	5,210,665	1,346,183	4,087,471	2,024,942	5,998,858
Foreign Banks	9	7	454,827	2,152,303	349,971	1,940,140	550,478	2,395,585
Financial Intermediation Cooperatives	7	7	43,860 ^b	503,928	36,881 ^b	482,899	50,614 ^b	582,146
Financial Houses	16	10	341,317 ^b	856,883	305,647	744,770	418,625	954,274
Off-shore institutions	0	11	0	1,806,554	0	1,837,636	0	2,411,054
Investment Banks	0	0	0	0	0	0	0	0

a Data corresponds to December 1991 and only to BROU.

b Data corresponds to December 1990.

Note: Domestic private banks include institutions established in Uruguay as *Sociedad Anónimas Uruguayas*. Regarding the ownership of the private domestic banks, 12 are owned by foreign banks.

Source: Government of Uruguay.

76. The *Banco Hipotecario del Uruguay* (BHU), the public sector mortgage bank, extends loans for the construction or purchase of dwellings. It used to have a monopoly over mortgage financing, but since 1996 commercial banks are also allowed to supply mortgages in competition with the BHU.⁷⁴

77. In the mid-1980s, the Government, acting through the BROU, intervened in the operations of three failing banks and liquidated one.⁷⁵ All but one of these banks, the *Banco de la Caja Obrera*, are now managed by the private sector.⁷⁶ The Central Bank is currently studying options to return this bank to private sector management.⁷⁷

78. Despite the important presence of the State in this sector, there are 22 private banks, of which 15 are Uruguayan corporations (mostly owned by foreign banks) and seven are branches of foreign banks which operate locally.⁷⁸ Commercial banks in Uruguay typically provide full banking services and, together with financial intermediation cooperatives, are the only institutions authorized: (i) to accept current account deposits and allow them to be drawn on against cheques; (ii) to accept demand deposits; (iii) to accept time deposits from Uruguayan residents. Financial houses, which are also mainly owned by foreign banks, may conduct any type of financial operation except those reserved exclusively to banks and cooperatives, such as accepting deposits from Uruguayan residents. Offshore financial institutions operate exclusively for non-residents.⁷⁹

⁷⁴ EIU (1998).

⁷⁵ *Búsqueda*, 4 June 1998.

⁷⁶ The National Development Corporation (CND) owns 80% of the shares, the BROU 19.83% and the rest is in private hands.

⁷⁷ *Búsqueda*, 26 March 1998.

⁷⁸ <http://www.embassy.org/uruguay/econ/eecon2.html>, 16 October 1997.

⁷⁹ Other financial institutions that could be established in Uruguay include: (i) consortium management firms which organize or manage groups, associations or consortiums whose members contribute funds to be applied, mutually or jointly, for the purchase of particular goods or services; and (ii) investment banks which may only accept deposits from and extend loans to non-residents for terms of more than one year; issue negotiable bonds or debentures; finance the issue of or place securities, bonds, debentures, stocks and shares on behalf of non-financial enterprises; acquire shares or capital interests in enterprises for the purpose of launching

79. Historically, Uruguay has had a liberal financial system in which transactions could be carried out in local or foreign currency and this situation remains unchanged; there is no restriction on capital movements and strict bank secrecy is observed. On the other hand, bank establishment and operation is strictly regulated since 1992 by the Financial Intermediation Law; with the Central Bank of Uruguay regulating the system and acting as monetary authority.⁸⁰

80. The Central Bank, established in 1967, is also responsible for issuing currency, managing international reserves, regulating the financial and insurance system, and advising the Executive regarding the approval or suspension of bank licenses. In the exercise of its supervisory role, the Central Bank through Superintendency of Financial Intermediary Institutions (SIIF) requires regular monthly filings of balance sheets, income statements and statements of stockholders' equity, as well as regular reports on foreign exchange exposure and other information from the banks in the Uruguayan financial system. The SIIF also imposes liquidity, reserve and related requirements. In addition, banks are required to perform a risk classification of their portfolio based on various criteria; while financial statements are subject to an external audit at the end of each fiscal year. Periodically, the SIIF conducts a full audit of each financial institution and rates them. The SIIF adopted the basic adequacy standards established by the Basle Committee of International Bank Supervisors, and it requires ratios of total capital to risk-weighted assets equivalent to 8%.⁸¹

81. As discussed earlier, foreign investment in the Uruguayan financial sector is important – the majority of commercial banks and financial houses being foreign-owned.⁸² Banks wishing to become established in Uruguay must be organized as Uruguayan public limited companies with registered shares or as branches of foreign banks. However, commercial presence for banks is subject to a quantitative limit: in any one year, the number of authorizations for new banks to operate may not exceed 10% of the number in the immediately preceding year. This provision applies exclusively to institutions defined by law as banks, and does not affect other financial intermediaries.⁸³ A prior authorization from the Executive, acting on the advice of the Central Bank, is required to supply financial services. The Central Bank and the Executive are directed by the Law of Financial Intermediation to base their decisions on considerations of the solvency, rectitude and aptitude of the applicant. The application may be rejected on precautionary grounds, including the current state of the financial market. In addition, under Uruguayan banking legislation, foreign banks are authorized to set up branches or agencies in Uruguay if their statutes do not prohibit Uruguayan citizens from being members of the management or board of directors or holding any other senior post, employment or position in the institution, within the territory of Uruguay.⁸⁴

82. Uruguay aims at strengthening its role as a regional financial centre. However, banking is facing a number of challenges.⁸⁵ For example, in September 1996, the Central Bank adopted measures to safeguard the liquidity of one of the private banks (the *Banco Pan de Azúcar*), which

investment projects or reorganization, development or conversion schemes; accept or place bills linked with those enterprises and carry out bank giro operations with them (except for accepting current account deposits); medium and long-term credits and loans; provide securities, bonds, guarantees and securities; do trust and commission business; and advise on investments and business management (WTO document GATS/SC/91/Suppl.1, 26 February 1998).

⁸⁰ The Financial Intermediation Law (No. 15.322) of 17 September 1982, was modified in 1992 by Law No. 16.327.

⁸¹ ING. Barings (1997).

⁸² IDB (1997).

⁸³ WTO document GATS/SC/91/Suppl.1, 26 February 1998.

⁸⁴ WTO document GATS/SC/91/Suppl.1, 26 February 1998.

⁸⁵ *Búsqueda*, 23 April 1998.

failed to comply with certain banking regulations (including capital adequacy guidelines).⁸⁶ This bank had been privatized in 1994 after a previous failure, but it continues to operate under the controller commission. Another private foreign-owned bank, *Eurobanco*, closed down during the first half of 1998, because of low profitability.⁸⁷ It has been reported that banks in Uruguay are faced with high operating costs, mainly related to the high cost of labour as well as a lack of technological innovation.⁸⁸ In fact, it has also been reported that the rigidity of the labour market in the banking sector has become an obstacle to modernization.⁸⁹ However, the authorities noted that the Central Bank had no empirical evidence to support these statements.

83. The high operating costs are also reflected in the wide spreads in the deposit and lending rates, which are especially notable in the domestic currency (Table IV.8). Spreads in the peso credit market are heavily influenced by rates charged on small-scale consumer loans (which have high administrative costs and relatively high risk of default) and the high cost of running public banking activities in the rural areas. The spreads are markedly narrower in the U.S. dollar segment of the credit market, reflecting greater competition, including from abroad. The authorities note that net financial margins have gradually improved, reflecting the gradual recuperation of credit quality, lower provisions and higher volumes of lending to individuals and corporations which have substituted fund placements with other financial institutions.

Table IV.8
Interest rates in Uruguay by sector
(Per cent)

	Lending rates ^a									
	Manufacturing		Commerce		Consumption		Agriculture		Deposit Rates ^b	
	Ur\$	US\$	Ur\$	US\$	Ur\$	US\$	Ur\$	US\$	Ur\$	US\$
1992	70.4	7.88	77.8	8.65	98.1	9.50	..	..	54.5	3.4
1993	71.1	7.39	82.9	8.17	100.1	12.12	..	..	39.4	3.1
1994	82.2	9.74	87.7	10.45	103.9	12.96	..	..	37.0	3.4
1995	57.5	9.75	67.5	10.62	102.4	13.74	..	..	38.2	4.6
1996	52.0	9.25	62.6	10.68	93.8	14.22	..	..	28.1	4.8
1997	37.0	9.34	42.4	10.78	75.6	14.97	..	..	19.6	4.8

.. Not available.

a Effective annual rates, weighted average of all private banks.

b Average rate of the five most important private banks.

Source: Central Bank of Uruguay, *Boletín Estadístico* No. 207, Feb.-March 1998; and Uruguayan authorities.

84. The effective nominal rate includes the 23% value-added tax. However, activities that are granted the benefits of the Industrial Promotion Law of 1974 are exempt from the payment of this tax.⁹⁰ This exemption effectively acts as a subsidy on credit, creating a distortion in the allocation of resources, because the Government perceives certain externalities (social benefits) associated with such activities.

⁸⁶ These measures included temporary removal of members of the Board of Directors and placing the bank under receivership through the designation by the Central Bank of a supervisory commission to supervise management (ING. Barings (1997)).

⁸⁷ *Búsqueda*, 14 and 28 May 1998.

⁸⁸ *Búsqueda*, 23 April 1998 and 28 May 1998.

⁸⁹ *Búsqueda*, 23 April 1998.

⁹⁰ Article 19, (2) (H), Title 10, Value-added Tax (*Dirección General Impositiva*, 1996).

(b) Insurance

85. The insurance market in Uruguay is regulated by several laws, including Law No. 16.426 of 1993 which terminated the public insurance monopoly that had been in place since 1911.⁹¹ The monopoly had been exercised through the State Insurance Bank (BSE), which still holds a monopoly in the provision of insurance for state-owned enterprises (Law No. 15.903), as well as for accidents and work-related sickness insurance (Law No. 16.704). Up to 1993, the BSE was an autonomous institution without technical or administrative supervision, there being no regulatory body. However, in 1994, a regulatory body was created and began operations. The Insurance and Re-insurance Superintendency falls within the general responsibility of the Central Bank, but has technical autonomy. The Superintendency is in charge, *inter alia*, of the monitoring of public and private insurance companies, and authorizing insurance companies to operate (Table IV.9).⁹² The Executive, with the advice of the Central Bank, establishes the overall regulatory framework of the insurance market.

Table IV.9
Functions of the Department of Insurance and Reinsurance

Qualification procedures for businesses authorized by the executive power.
Authorization of the opening of branches of already established private enterprises.
Prudential measures to preserve and maintain solvency.
Technical standards relating to minimum capital, solvency margin, technical reserves and investments.
Accounting standards, auditing procedures, reporting and periodical publication of information.
Standards relating to the merger, takeover and conversion of insurance entities.
Control of intermediation.
Penalty procedures.

Source: Government of Uruguay (1998), *Sector Asegurador Nacional*, unpublished manuscript.

86. As a result of the long-lasting insurance monopoly, this market is not fully developed and the supply of products is limited. However, since the termination of the monopoly, new private institutions have opened up and the increase in competition has lent some dynamism to the sector. The expectation is that the reform will increase supply of products and reduce prices, fostering private savings. The reform of the social security system, which began in 1995, already introduced the possibility of using private savings plans and previsional insurance and should also be an incentive to the development of the life insurance sector.⁹³

87. In 1997 there were 17 insurance companies, including the BSE, nine of which sold general insurance (all forms of insurance other than personal insurance), four specialized in life insurance, while the other four companies sold both types. The BSE holds 80% of the market. The BSE also sells re-insurance in competition with 34 foreign enterprises registered to supply re-insurance services in Uruguay and 14 re-insurance brokers.⁹⁴

88. As shown in Table IV.10, in 1995/96 the most important insurance sub-sector was car insurance; the sub-sector which has expanded the most since the termination of the monopoly. The sale of life insurance has also increased substantially due to the reform of the social security system

⁹¹ Other laws which regulate this market include: the Commerce Code; the tax laws which specifically affect insurance companies; the Aeronautic Code; the Horizontal Property Law; the Law on Accounting; the Law on Accidents and Sickness related to Work; Agreement on International Land Transport; the Law Reforming the Social Security System; and the Law declaring the regime applicable to transport and international trade insurance.

⁹² Law No. 16.426, 14 October 1993.

⁹³ Law No. 16.713, 3 September 1995.

⁹⁴ Government of Uruguay (1998), *Sector Asegurador Nacional*, unpublished manuscript.

and the exemption of such insurance premiums from VAT.⁹⁵ Further growth in the sector could also be triggered by the planned restructuring of the health insurance sector. Until now, the prepaid health system has prevented the development of this market. However, some private institutions, under the supervision of the Ministry of Health, are already supplying health insurance. Insurance agencies can offer general and personal insurance.

Table IV.10
Insurance by type and amount insured
(Ur\$ '000 and per cent)

Type	1995		1996	
Fire	206,679	7.4	219,930	7.4
Vehicles	1,193,931	42.6	1,145,840	38.8
Theft	29,631	1.1	34,621	1.2
Civil Responsibility	556		4,284	0.1
Theft and similar risks, civil and other technical risks	322,439	11.5	318,035	10.8
Transport	117,373	4.2	143,142	4.8
Others	19,855	0.7	15,740	0.5
Life	233,515	8.3	303,401	10.3
Previsional insurance			40,346	1.4
Accidents at work (BSE)	677,168	24.2	686,819	23.2
Re-insurance (BSE)	2,464		42,001	1.4
TOTAL	2,803,613	100	2,954,160	100

Source: Government of Uruguay (1998), *Sector Asegurador Nacional*, unpublished manuscript.

89. The insurance sector appears generally open to foreign investment, although the law stipulates that only institutions established as Uruguayan public limited companies can act as insurance companies. Nevertheless, in its schedule of specific commitments Uruguay stipulated that this restriction applied only to some insurance services: motor-vehicle, marine aviation and other transport insurance services, and freight insurance.⁹⁶ Suppliers of insurance services have to be authorized by the Executive and the regulatory body has to entitle them to operate.

90. Agencies have to meet a minimum capital requirement to be allowed to operate. The capital requirement varies according to the type of insurance offered by the company; a minimum of US\$2 million is required for companies offering all types of insurance and a minimum of US\$500,000 for those which offer only one type. Re-insurance companies are subject to the same liquidity requirements, but their basic capital has to amount to US\$ 5.5 million.

91. Re-insurance activities can be performed by companies established in Uruguay or abroad. If installed in Uruguay they must comply with the same regulations that apply to an insurance company.⁹⁷ However, according to the Uruguayan schedule, re-insurance companies are not subject to the same commercial presence limitations as insurance companies, that is re-insurance activities do not need to be organized as Uruguayan public limited companies.⁹⁸

⁹⁵ Article 12, Law No. 16.426, 14 October 1993.

⁹⁶ WTO document GATS/SC/91/Suppl.1, 26 February 1998.

⁹⁷ Government of Uruguay (1998), *Sector Asegurador Nacional*, unpublished manuscript.

⁹⁸ WTO document GATS/SC/91/Suppl.1, 26 February 1998.

(c) Telecommunications

92. Basic telecommunications services are still a State monopoly operated by the National Telecommunications Administration (ANTEL). However, competition exists in some sectors, such as cellular mobile telephony. ANTEL has leased the operation of band B to a private enterprise through a bidding procedure, while band A is operated by ANTEL.⁹⁹ Private enterprises are allowed to supply other services, including access to Internet and value-added services. Foreign companies can operate in any of the sectors open to private participation. No registry is kept of foreign companies operating in this sector, since these do not require registration. ANTEL is also allowed to sell its services abroad, either directly or through association with other national or foreign enterprises.¹⁰⁰

93. ANTEL was created in 1974 by Law No. 14.325, under which it was granted the monopoly on local, long-distance, and international telecommunications services. However, public ownership of basic telephone services dates from 1886.¹⁰¹ There is no external oversight of the firm, ANTEL being granted self-regulatory powers.¹⁰²

94. Rates and tariffs are set by the Executive acting on proposals by ANTEL; once approved they are published in the Official Journal. Law No. 14.235 in its Article 12 establishes that ANTEL's tariffs should be set on the basis of the cost of the services, taking into account depreciation of fixed assets, renewal fund and profit margins.¹⁰³

95. In 1991, Parliament approved a package allowing the Government to dismantle several public monopolies, including ANTEL (Resolution No. 1.122, 27 September 1991).¹⁰⁴ The law allowed public enterprises to give concessions for the operation of public services to the private sector, but the Government was to retain some control over the enterprises. In the case of ANTEL, the legislation allowed the Government to sell 51% of the shares (49% to foreign buyers and 2% to domestic buyers). It also established a new regulatory body for the telecommunications industry.¹⁰⁵ However, the privatization of ANTEL did not take place: following a publicity campaign by the public-sector union, along with a set of strikes, a referendum was held in 1992 and the electorate rejected the project.

96. One of the driving motivations to privatize the firm was to increase the level of investment, which had started to decline in 1986. Because of its small size, ANTEL was excluded from international and domestic capital markets, and most investment capital had to come from self-generated revenues and government loans.¹⁰⁶ However, investment in telecommunications has almost doubled since 1992, from US\$73.7 million to US\$142.5 million and the number of lines has increased from 15 to 21 per 100 inhabitants (Table IV.11).

⁹⁹ Competition also exists in paging services and in the radio transmission category (WTO document S/NGBT/W/3/Add.28/Rev.1, 16 September 1996).

¹⁰⁰ Law No. 16.828, 9 May 1997.

¹⁰¹ Molano (1997).

¹⁰² Law No. 14.235, 25 July 1974, and WTO document S/NGBT/W/3/Add.28/Rev.1, 16 September 1996.

¹⁰³ WTO document S/NGBT/W/3/Add.28/Rev.1, 16 September 1996.

¹⁰⁴ Law No. 16.211, 1 October 1991.

¹⁰⁵ Molano (1997).

¹⁰⁶ Molano (1997).

Table IV.11
Telecommunications in Uruguay
(Number, US\$ and per cent)

	1990	1991	1992	1993	1994	1995	1996
Main telephone lines in operation	415,403	451,421	492,108	530,370	582,149	621,996	669,032
Main lines per 100 inhabitants	13	15	16	17	18	20	21
Total telecom service revenue (US\$)	183.40	289.63	317.34	358.33	478.94	539.26	627.32
Telecom investment (US\$)	47.99	59.67	73.75	106.61	135.55	119.85	142.51
Telephone faults cleared by next working day (%)	20			25		68	67

Source: International Telecommunication Union (ITU).

(ii) Transport

97. The Ministry of Transport and Public Works oversees land and water transportation; the National Port Administration (ANP), the State Railroad Administration (AFE) and small ports fall within its responsibilities. The Ministry of National Defense through the National Directorate of Civil Aviation and Infrastructure regulates air transportation. The two ministries form the Policy Transport Commission which has responsibility for the design and implementation of national transport policy.

98. As shown in Table IV.12, the most important means of transportation in Uruguay is by water. However, international land transportation from Uruguay (through national and international companies) increased from some 428,000 metric tonnes in 1990 to some 2 million metric tonnes in 1997. This seems to be related to the rapid growth of trade in MERCOSUR as well as Uruguay's signing of the International Land Transport Convention with Argentina, Bolivia, Brazil, Chile, Paraguay and Peru. The Convention provides for national treatment for authorized suppliers of international transport of passengers and freight on the basis of reciprocal treatment for suppliers of these services, and has facilitated land transportation within the Southern Cone substantially.¹⁰⁷ Additional agreements to facilitate land transportation have been signed by Argentina, Brazil and Uruguay.

99. Rail transport is not much used in Uruguay since it is more expensive than other means of transport and the railways run parallel to the roads. However, studies are currently underway for the rehabilitation of certain stretches of the railway network as Uruguay will soon need an efficient and reliable method to transport lumber from the interior of the country to the seaports.¹⁰⁸

100. Uruguay has ten state-owned ports, and a private one. The major public ports of Montevideo, Colonia (tourism), Nueva Palmira (on the River Plate), Fray Bentos (on the Uruguay River) and Puerto Sauce (in the River Plate) are supervised by the ANP, while the smaller ports are administered directly by the Ministry of Transport and Public Works. The private port, located in a free trade zone, is under the supervision of the Ministry of Economy and Finance, which is in charge of the zones. In 1996 transportation of merchandise by water reached 5.9 million tonnes, of which 84% was transported through the public ports.

¹⁰⁷ WTO document GATS/EL/91, 15 April 1994.

¹⁰⁸ <http://tradeport.org/cgi-bin>, 16 October 1997, U.S. State Department.

Table IV.12
Transport
(Metric tonnes)

	1990	1991	1992	1993	1994	1995	1996	1997
Land Transport	427,787	515,492	659,034	1,505,877	1,791,436	1,659,004	1,198,403	2,267,709
Rail Transport	158,818	188,930	162,066	210,946	200,553	177,689	199,180	206,908
Water Transport ^a	1,630,000	1,628,000	1,827,000	3,025,000	4,194,000	3,792,000	3,971,000	4,228,000
Movement of containers	56,876	61,487	75,082	80,387	105,784	137,664	121,676	113,570

a Includes merchandise transported both by train and truck.

Source: Ministry of Transport and Public Works (1997), *Anuario Estadístico de Transporte 1996*, Montevideo, Uruguay.

101. In 1992 ports services, which had been a public monopoly since 1916, were privatized; however, the ports themselves remain public.¹⁰⁹ Private enterprises can obtain concessions and permits to undertake operations such as loading and unloading, moving merchandise within the port, other stevedoring services and the use of container parks. Enterprises of mixed capital are also allowed to provide these services. ANP's personnel were encouraged to resign through the use of financial incentives when the port services were privatized, and compensation packages were financed by levying an import tax of 0.25% based on c.i.f. value of imports.

102. The ANP, which until the reform was the sole supplier of port services, was transformed into a Port Authority – a regulatory body in charge of the administration, control, surveillance, maintenance and development of the ports, instead of a supplier of services.¹¹⁰ The ANP also provides the authorization to operate a port, but such authorizations have to be approved by the Executive.¹¹¹ The authorizations to provide services are awarded in a public bid procedure. If the services are required urgently, a concession may be granted directly for a limited non-renewable period of six months until the public bid takes place. Foreign suppliers are also allowed to operate in the Uruguayan ports, but they have to be established in country.

103. The Administration of Stevedoring Services (ANSE), a parastatal institution, monitors compliance with labour (industrial safety) norms in the Port of Montevideo.

104. Until the privatization of port services, the Uruguayan ports were inefficient, unreliable and costly. The time required to service a ship was twice what is considered normal by international standards. The strikes which took place about 20% of the time in 1986-90 and the lack of mechanical equipment available contributed to the uncertainty about the reliability of the service.¹¹²

105. Since the reform, some 48 enterprises started operating in the different ports. As a result, the supply of services has diversified, their quality improved, and productivity and efficiency have increased. A higher volume of merchandise can be transported and port tariffs have decreased, which has led to an increase in traffic in the Uruguayan ports.¹¹³ The Executive sets maximum ceilings for rates charged by port services operators and ANP, but within these ceilings rates are determined by

¹⁰⁹ Law No. 16.246, 8 April 1992.

¹¹⁰ ANP reports to the Ministry of Transport and Public Works and is regulated by the Ports Law.

¹¹¹ Law No. 16.246, 8 April 1992.

¹¹² Alvarez Mazza (1995).

¹¹³ Alvarez Mazza (1995).

the market. ANP charges some US\$22 per metric tonne, on average but the rate varies according to product.

106. The Uruguayan Ports have also become more reliable, operating 24 hours, 365 days per year. In addition to the institutional and legal reforms of the ports services, there has been substantial investment in port infrastructure, and the processing of documents has been computerized. Transport of merchandise increased during 1992-97 from 1.5 million tonnes to 3.5 million; while the movement of containers increased from 80,000 to 143,000 containers.

107. In general, Uruguayan international shipping rules are based upon the principle of freedom of maritime navigation. However, where foreign countries apply cargo preferences Uruguay may also apply a reciprocal measure for national vessels. Today, Uruguay is not applying any cargo preferences, and shipping restrictions dating from 1977 were repealed in 1994.¹¹⁴

(iii) Tourism

108. Tourism is one of the most important foreign exchange earners in Uruguay; between 1990 and 1997, annual tourism receipts increased from US\$261.8 million to US\$759.3 million. In 1996 gross tourism receipts exceeded earnings from wool and meat exports.¹¹⁵ According to the Ministry of Tourism, value added in the sector accounted for 2.85% GDP in 1990 and 3.78% in 1996. The number of tourists entering Uruguay also increased, reaching 2.4 million in 1997 (Table IV.13). However, in 1998 there was a slight decrease in tourism due to bad weather during the summer months.¹¹⁶

109. Tourism in Uruguay has been characterized by its seasonality and its lack of diversification both in terms of the supply of tourism services and in the origin of visitors. In 1997, some 66% of the tourists originated in Argentina and their destination was Punta del Este, the most important Uruguayan beach resort. The aggregate growth in tourism receipts between 1992 and 1996 reflected the improving economic condition of the region, particularly in Argentina and Brazil, as well as the diversification of Uruguay's tourism services. The authorities had been making efforts to diversify tourism through the development of new services in regions outside Punta del Este, in particular in the northern part of Uruguay where thermal baths and tourist ranches are aimed at attracting tourists from Europe and the United States during Uruguay's low winter season.

110. The tourism sector has gained importance also because of the spill-over effects and linkages to the rest of the economy. The commerce, restaurants and hotels sector as well as construction and real estate services sector depend significantly on tourism. A new international airport was inaugurated in Punta del Este and a new port in Piriápolis, which is close to Punta del Este.

111. The sector is eligible for incentives provided under the Industrial Promotion Law of 1974.¹¹⁷ The benefits, which include tax and duty exemptions, are granted through the Ministries of Tourism and of Economy with the approval of the Ministry of Industry, Energy and Mining.¹¹⁸ Incentives are provided mainly for investment in tourism resorts, equipment, renovation and amelioration of existing facilities (Chapter III(4)).

¹¹⁴ Decree No. 31/994, 25 January 1994.

¹¹⁵ ING. Barings (1997).

¹¹⁶ *Búsqueda*, 22 January 1998.

¹¹⁷ Law No. 14.178, 28 March 1974.

¹¹⁸ The Ministry of Tourism was created in 1986 to promote this industry (Law No. 15.851, 24 December 1986).

Table IV.13
Tourism in Uruguay
(Number, per cent, US\$ million)

	1990	1991	1992	1993	1994	1995	1996	1997
Tourist arrivals	1.16	1.50	1.80	2.00	2.17	2.17	2.25	2.41
Tourist arrivals (annual percentage change)	-5.92	29.38	19.32	11.15	8.63	0.07	3.75	..
Average length of stay (days)	11,5	8,9			7,2	8,4	7,8	..
Tourism receipts (US\$ millions)	261.8	332.5	381.3	446.8	632.2	611.0	716.8	759.3
Tourism receipts/Exports of goods receipts (%)	15.5	20.7	22.4	27.2	33.0	28.9	29.9	..

.. Not available.

Source: Ministry of Tourism (1997), *Anuario 1996*, Montevideo; and Ministry of Tourism.

112. As is the case for other sectors, tourism is open to foreign direct investment. The presence of natural persons in tourism and travel related services in regard to market access and national treatment are bound as stipulated in Uruguay's horizontal commitments in the WTO.¹¹⁹

¹¹⁹ WTO document GATS/SC/91/Suppl.1, 26 February 1998.

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