

GENERAL AGREEMENT ON TARIFFS AND TRADE

RESTRICTED

L/2503
18 November 1965

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REPORT OF THE COMMITTEE ON BALANCE-OF-PAYMENTS RESTRICTIONS ON THE CONSULTATION UNDER ARTICLE XII:4(b) (UNREVISED) WITH URUGUAY

1. In accordance with its terms of reference the Committee conducted the consultation with Uruguay under paragraph 4(b) of Article XII (unrevised). The Committee had before it a background paper provided by the International Monetary Fund, dated 22 October 1965, together with a supplementary paper, dated 26 October 1965.
2. In conducting the consultation, the Committee followed the plan for such consultations recommended by the CONTRACTING PARTIES (BISD, Seventh Supplement, pages 97 and 98). The consultation was completed on 4 November 1965. This report summarizes the main points of the discussion.

Consultation with the International Monetary Fund

3. Pursuant to the provisions of Article XV of the General Agreement, the CONTRACTING PARTIES had invited the International Monetary Fund to consult with them in connexion with the consultation with Uruguay. In accordance with the agreed procedure, the representative of the Fund was invited to make a statement supplementing the Fund's documentation concerning the position of Uruguay. The statement was as follows:

"The International Monetary Fund has transmitted to the CONTRACTING PARTIES a background paper on Uruguay dated October 22, 1965, together with a supplementary paper dated October 26, 1965.

"During the past two years Uruguay has experienced severe balance of payments difficulties and has incurred very large short-term foreign liabilities as a result of which heavy repayment obligations will fall due in the near future. The trade and payments system had become more restrictive and complex, but on October 18, 1965 a substantial reform was introduced. The Fund is presently studying the significance of the reform, utilizing for this purpose the Article XIV consultations discussions presently in progress. The Fund will transmit to the CONTRACTING PARTIES the Executive Board decision relating to that consultation when it becomes available. In the meantime, however, the balance of payments situation remains difficult and the Fund has no basis for concluding that the general level of restrictions of Uruguay goes beyond the extent necessary at the present time to safeguard Uruguay's external financial position."

Opening statement by the representative of Uruguay

4. The representative of Uruguay said that he regretted not having been in a position to transmit to the Committee before the consultation the texts of the important new decrees containing the measures taken by the Government in relation to the foreign trade system which had entered into force on 18 October 1965 as well as supplementary bills. He would, however, be able to give the full texts shortly to the secretariat for distribution to contracting parties.

5. The representative of Uruguay recalled that at the preceding consultations he had stressed that Uruguay had been engaged in the task of giving a complete new structure to the domestic economy. Amongst the measures taken to that end, he particularly wanted to emphasize that a law instituting an exchange and currency reform had been approved with the result that the import system had been simplified and fully liberalized. Furthermore, all discrimination had been abolished. Thereby the Government of Uruguay had taken an important step towards eliminating its trade restrictions and directing its commercial policy along the lines advocated by the International Monetary Fund and GATT. Those measures had been supplemented by plans to speed up the rate of economic development in Uruguay. He pointed out, however, that such a radical change in policy, although leading to long-term advantages could easily entail some short-term difficulties, particularly in view of the fact that the programme had been implemented in an unfavourable balance-of-payments situation. It followed that, although the Law of 1959 was based on the principle of free importation, it had nonetheless to provide safeguards which would allow a smooth transition in the adaptation of the economy to the new foreign trade system.

6. The main negative factor which one should keep in mind when examining the foreign trade system of Uruguay was the continuing deterioration of its balance of payments. The trade deficits in the years 1959-64 amounted to 300 million dollars. The deficit partly resulted from the obstacles met by Uruguay's export products in several markets. Uruguay had had recourse to the procedures of Article XXIII of GATT in order to find a remedy to those difficulties. The pressure on its balance of payments had nevertheless continued, and the balance-of-payments situation had deteriorated to such extent that the Government had had to prohibit import registrations for limited periods twice in 1965, from January to March and during the first half of June. Import registrations were to be reopened on a gradual basis after the June import ban, but before that process had been accomplished, the Government had decided on 18 October 1965 to impose an import stop during 180 days for imports subject to a surcharge of 60 per cent or more and a thirty days stop for certain other items. He stressed that these measures also applied to imports from the LAFTA countries.

7. Amongst factors which had necessitated the severe measures in defence of the peso, the representative of Uruguay drew attention to the strong pressures to which Uruguay's currency had been subjected in the international market.
8. The decree of 18 October, which replaced the separate official and free exchange markets by a unified market in which the exchange rate was to fluctuate in response to market forces, reintroduced the exchange system which had been originally introduced in 1959 but which had been suspended in 1963, when two separate markets had been created.
9. The representative of Uruguay drew the attention of the Committee to the draft legislation introduced on 18 October, which aimed at absorbing part of the additional income accruing to agricultural producers under the new system through increased taxation and, indirectly, at increasing the productivity and stabilizing the economy in the agricultural sector; at increasing the minimum capital requirements of banks and thereby strengthening the confidence in the banking system; at limiting the possibilities of speculation by some producers and wool traders by withholding wool from the market; and at increasing meat exports by prohibiting sales of meat at the domestic market three days a week, which measure was expected to result in an export increase of 30 million dollars per year.
10. In conclusion the representative of Uruguay said that he had tried to show that his Government was taking active measures in order to remedy a situation which was very serious. It was the firm intention of his Government to hurt the interests of its trading partners as little as possible, and suggestions in that respect would always be studied with interest by the Government of Uruguay.

Balance-of-payments position and prospects

11. Members of the Committee expressed their sympathy for the difficulties faced by Uruguay and recognized the need for measures to safeguard the balance of payments. They welcomed the exchange rate adjustment of 18 October as an important forward step among the corrective measures which needed to be taken and hoped that it would lead to the results expected by the Government of Uruguay. A member underlined, however, that the provision that imports of certain capital goods would be permitted only if they were financed abroad for a period of at least three years might be useful in the present conditions but that it could involve certain long-term risks if they were not kept under close control.
12. It was pointed out that there had been a heavy efflux of capital funds of the order of 50 million dollars in 1964 and that the inflow of long-term funds to the private sector and State enterprises, which had already dwindled in the preceding year, had given way to a net outflow in 1964. In

reply to a question about measures taken to deal with that problem, the representative of Uruguay said that the outflow of capital certainly was a serious matter. The 18 October measures did not, however, include any specific stipulations relating to capital movements. It was mainly a question of confidence and it was expected that the exchange rate reform would have a strong beneficial influence.

13. In reply to a question about measures taken to promote exports of non-traditional items, i.e. products other than meat and wool, the representative of Uruguay said that a special commission had recently been created in order to promote such exports. Efforts in that direction were also being made within the framework of the Alliance for Progress.

System and methods of restrictions

14. A member of the Committee asked if any idea could be given of the anticipated effects of the 18 October reform. The representative of Uruguay replied that the receipts in the fourteen months up to the end of 1966 had been calculated by the Minister of Finance at 375 million dollars and the foreign commitments at 215.5 million, which left room for imports of 119 million during the same period. It was the aim of the measures of 18 October that they would contribute to create conditions which would avoid a situation such as that indicated by the Minister of Finance, when he outlined the prospects illustrated by the foregoing figures.

15. The members of the Committee, while pointing out that they sympathized with the difficulties facing the Government of Uruguay, expressed serious concern over the discriminatory element in the provision of the surcharge decree, which gave a rebate of one third of the 30 per cent surcharge for products imported in Uruguayan ships, and requested that it should be reconsidered by the Government of Uruguay. Members recalled that at the twenty-second session of the CONTRACTING PARTIES the representative of Uruguay had said that measures would be adopted which would take the legitimate interests of all the parties concerned into account, and asked when such legislation would come into operation. One member drew attention to the difficulties which the discrimination raised for its trade and which its exporters could not surmount because of the absence of calls at its ports by Uruguayan vessels. The representative of Uruguay said that the new legislation to which he had referred at the twenty-second session had not yet entered into force. It was part of a new Merchant Navy Law which was under preparation in a special commission. The draft was still secret, but he was confident that it would meet the wishes expressed by the Committee which, he stressed, would be brought to the attention of his Government.

16. Members of the Committee asked if, aside from the discriminatory element concerning the flag, the new surcharge system had eliminated the discriminatory elements which were found in the old system. The representative of Uruguay said that in the opinion of his Government there existed no element of discrimination of any kind. A member of the Committee, while recognizing that differences of opinion regarding the legal aspects of the problem exist, pointed out that certain imports from the LAFTA area were exempted from the surcharges, while those from other countries were not, and asked for the judgment of the Uruguayan delegation on the economic effects of these exemptions. The representative of Uruguay said that the question raised the whole economic integration idea. The creation of a free-trade area inevitably had both favourable and unfavourable results for the member countries. It was not possible to single out the results in a special sector.

17. The representative of Uruguay reaffirmed that his Government, although it had been obliged by the developments in the balance-of-payments situation to increase the rates of the surcharges, nevertheless maintained its intention to remove them as soon as circumstances permitted.

General

18. The Committee thanked the representative of Uruguay for the co-operative manner in which he had engaged in the consultation, and expressed understanding of the serious balance-of-payments problems with which Uruguay was confronted. It expressed the hope that the reform measures, which were brought into effect on 18 October 1965, would have beneficial effects on Uruguay's economy.

19. The representative of Uruguay thanked the Committee for the understanding and sympathetic manner with which the consultation had been conducted. He stressed that Uruguay intended to continue to follow - despite temporary difficulties - a liberal foreign trade policy and assured the Committee that he would bring the comments and suggestions made by members of the Committee during the consultation to the attention of his Government.

