U.S. Department of State
FY 2001 Country Commercial Guide: Uruguay

The Country Commercial Guide for Uruguay was prepared by U.S. Embassy Montevideo and released by the Bureau of Economic and Business in July 2000 for Fiscal Year 2001.

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Chapter I. Executive Summary

This Country Commercial Guide (CCG) presents a comprehensive look at Uruguay's commercial environment, using economic, political, and market analysis. The CCGs were established by recommendation of the Trade Promotion Coordinating Committee (TPCC), a multi-agency task force, to consolidate various reporting documents prepared for the U.S. business community. Country Commercial Guides are prepared annually at U.S. Embassies through the combined efforts of several U.S. Government agencies.

Uruguay is a market of over three million people. It is the geographical center of MERCOSUR's (the Southern Cone Common Market created in 1991 and composed of Argentina, Brazil, Uruguay, and Paraguay, with Chile and Bolivia as associate members) most densely populated zone, which concentrates the largest block of purchasing power in the region. Uruguay's capital, Montevideo, is the administrative capital of MERCOSUR, and is fast becoming a business hub for firms looking to export to the MERCOSUR region.

Uruguay has traditionally been a market-oriented economy. The current administration, which took office in March 2000, has declared its intent to intensify the economic liberalization process that has been ongoing for a decade. Regional integration (MERCOSUR and FTAA), reduced deficit spending, downsized government and lower inflation are common goals of the two political parties in the ruling coalition.

Economic problems in its neighbors hurt Uruguay in 1999. GDP fell 3.2 percent, finishing the year at USD 21 billion. The government projects 2.0 percent GDP growth in 2000. 1999 exports fell roughly 20 percent to USD 2.2 billion, and imports (CIF) declined by 12 percent to USD 3.4 billion. A substantial percentage of Uruguay's trade is with neighboring Argentina and Brazil and this increased even more with integration into MERCOSUR. Economic problems in its neighbors hurt Uruguay. Trade with Brazil and Argentina now accounts for almost half of Uruguay's overall trade. The United States is the fourth largest exporter to Uruguay after Brazil, Argentina, and the European Union.

Uruguay's inflation rate decreased during the decade from 130 percent in 1990 to 4.2 percent in 1999. Inflation is projected at about five percent for 2000.

Uruguay was given investment grade status by major risk-rating agencies in 1997 and the ratings were maintained in 1998 and 1999. As of July 2000, Standard & Poor's outlook on Uruguay is "stable."

U.S. exporters should not overlook the excellent business and investment opportunities in the country. Proximity to Brazil and Argentina, combined with its manageable market size, make Uruguay a good entry point for companies considering MERCOSUR.

U.S. products and services are highly regarded. The U.S. is seen as a provider of high quality goods and services with a good reputation for product backing.

Best prospects for U.S. products are chemicals (including agricultural), manufactured goods and machinery, transport equipment, food processing machinery, computer hardware and software (pending passage of copyright legislation presently before the parliament), office machinery, telecommunications, and medical and laboratory equipment. Uruguay's growing elderly population is a good market for geriatric equipment and services. The growth of tourism, forestry, and agribusiness (especially off-season fruit growing) also provide excellent opportunities for expanding U.S. exports. Opportunities for sales of equipment or services and/or investment exist in several major projects including the Parana-Paraguay river transportation system, the Colonia-Buenos Aires bridge, construction and operation of power plants, airports, forestry related projects and suburban railway transportation systems.

Country Commercial Guides are available for U.S. exporters from the national trade data bank's CD-ROM or via the internet. Please contact stat-usa at 1-800-stat-usa for more information. Country Commercial Guides can be accessed via the world wide web at www.state.gov, and www.mac.doc.gov. Uruguay's CCG may be accessed on the Embassy's web page at www.embeeuu.gub.uy. They can also be ordered in hard copy or on diskette from the National Technical Information Service (NTIS) at 1-800-553-NTIS. U.S. exporters seeking general export information/assistance and country-specific commercial information should contact the U.S. Department of Commerce, Trade Information Center by phone at 1-800-usa-trade. End Executive Summary.

Chapter III. Economic Trends and Outlook

Major Trends and Outlook

President Batlle, who is committed to economic liberalization, took office in March 2000. The GOU has announced that domestic economic policies will be targeted at preserving Uruguay's macroeconomic stability and increasing its competitiveness. The Batlle administration plans to strengthen the economic liberalization and deregulation programs inherited from two previous governments. The government is exploring how to de-monopolize activities formerly reserved for the state. The previous Sanguinetti administration implemented public sector and social security reforms together with a long-term educational reform.

According to the UN's Economic Commission for Latin America and the Caribbean (ECLAC), between 1990 and 1998 poverty in Uruguay decreased from 12 percent to 6 percent. Uruguay also enjoys the most even income distribution in Latin America, similar to Denmark.

The economy has performed well in the last decade. In 1999, however, Uruguay went through its worst recession in fifteen years. GDP plunged 3.2 percent in face of the Brazilian devaluation, diminished activity in Argentina and Brazil, higher international interest rates and historically-low commodity prices. Harsh weather, electoral year uncertainty, and restrictive credit policies contributed to the bad economic performance. Foreign trade declined and the budget deficit increased fourfold to 3.9 percent of GDP. The current account deficit grew to 2.9 percent of GDP (from 2.1 percent in 1998.) Unemployment reached a fifteen-year peak. But inflation continued its downward trend, and debt service remained manageable.

Uruguay's economic performance in the first quarter of 2000 suggests that the worst part of the 1999 recession may be over, but growth in CY2000 is likely to be mild. Economic performance in CY2000 will rely more on exports than on the reactivation of the domestic market. The IMF agrees with GOU projections of 2.0 percent growth in 2000, but we expect growth of about 1.5 percent. Uruguayan economic recovery will largely depend on Argentina and Brazil. The GOU plans to maintain fiscal discipline in 2000, and has indicated it will deregulate and de-monopolize some economic activities. External debt is expected to increase this year, but the debt structure is supportable. Interest rates are rising, but domestic financial markets remain calm. Annual inflation is expected to be within four to six percent. The IMF recently approved a 22-month stand-by credit of USD 200 million.

Investment Grade: As of 2000, Uruguay is the only MERCOSUR country with investment grade status (and one of two in South America). Standard & Poor's gave Uruguay BBB-, Moody's BAA3, IBCA BBB-, and Duff & Phelps BBB-. As of June 2000, Standard & Poor's outlook on Uruguay is "stable."

MERCOSUR Integration: MERCOSUR faced several harsh problems in late 1998 and all of 1999 that seriously harmed the trade flows amongst its partners. Intra-MERCOSUR trade declined roughly 25 percent in 1999. Problems include the devaluation of Brazil's real, lack of effective macroeconomic coordination, political problems in Paraguay, the imposition of trade-restrictive measures in Argentina and Brazil, and a war of incentives between Argentina and Brazil to attract foreign investment. The MERCOSUR presidents plan to "re-launch" MERCOSUR at the July 2000, Buenos Aires Summit.

MERCOSUR integration has fostered regional trade. Uruguayan exports to MERCOSUR partners grew from 36 percent of overall exports in 1991 to 45 percent in

1999, while imports from MERCOSUR partners grew from 41 percent of total imports in 1991 to 44 percent in 1999. Uruguay's trade with MERCOSUR countries doubled since 1991, while trade with the United States grew by forty-six percent.

Investment Law: A law on promotion and protection of investment was approved in 1997. The law establishes some automatic tax exemptions and incentives for several industrial sectors. The exemptions and incentives include accelerated depreciation, a reduction of the employers' contribution to social security, the exoneration of corporate income and net-worth tax payments during a specified period of time (depending on the proposed investment sector), and the exoneration of import tariffs on equipment which does not compete with equipment produced locally.

Inflation: The inflation rate has declined steadily for the last nine years from 130 percent in 1990 to 4.2 percent in 1999. The IMF agrees with the government's projection of four-to-six percent inflation for 2000.

Budget Deficit: The budget deficit grew almost fourfold in 1999 to 3.9 of GDP. The GOU plans to cut the deficit in half to 1.8 percent of GDP in 2000, and reduce it further to 1 percent of GDP in 2001. In the mid-term, the GOU plans to lower the national debt and the budget deficit, while also gradually cutting taxes. It has committed to the IMF not to increase taxes during the next five years to help reduce private sector costs and to foster competitiveness.

External Debt: Uruguay's net external debt has been decreasing steadily as a percentage of GDP since 1988. In 1999, however, it grew by 5.5 percent to USD 3.1 billion (or 15 percent of GDP.) Debt service is manageable at 4 months of exports. Almost 90 percent of net external debt is publicly held. The GOU projects that public debt will increase in 2000 but remain manageable.

A Highly Dollarized Economy: Uruguay's economy is highly dollarized. The vast majority (90 percent) of private sector bank deposits are dollar-denominated. Eighty-one percent of the overall credit to the private sector is denominated in dollars. Furthermore, people usually carry out most of their purchases of durable goods in dollars.

Capital Market: The Uruguayan capital market is small (operations account for less than 5 percent of GDP,) highly dollarized, un-diversified and with predominantly public rather than private debt. Please refer to the section "Efficient Capital Market and P-Portfolio Investment" in Chapter VII for a detailed analysis of capital and financial markets.

Interest Rates: Interest rates charged by private banks for dollar-denominated loans have risen since late 1998, and are currently at 13 percent. Consumer loan rates are at their highest real levels since 1991. Interest rates paid by private banks on dollar-denominated deposits have been more volatile, but have averaged 5.1 percent in CY2000.

Exchange Rate Policy: The Uruguayan government has a policy of fixed but declining devaluation of the peso vis-a-vis the U.S. dollar. Expected local currency depreciation for 2000 is 7.4 percent. The average exchange rate for 2000 is expected to be 12.0 pesos per dollar.

Labor Market: Recent unemployment has remained above historical levels despite good growth performance. When Uruguay joined MERCOSUR, some firms were either forced to close due to lack of competitiveness or undergo technical reconversion programs. As a result of high labor costs, most firms reconverting became more capital-intensive. Average unemployment increased from 10.1 percent in 1998 to 11.2 percent in 1999 due to the economic crisis. Unemployment continued to rise in the first quarter of 2000 and as of April 2000 it peaked at 12.4 percent--the highest rate in fifteen years. Labor conflicts are expected to increase in CY2000, as the debate over the national budget heats up. Please refer to the Investment Climate/Labor Market section for a detailed description of the labor market.

Social Security Reform: Social security reform was implemented in 1996. Prior to the reform, the government financed an annual social security deficit equivalent to more than 6 percent of GDP. The reform is converting the highly deficit-ridden public system into a solid, bifurcated system of public and private providers (known locally as AFAPS). Its short-term fiscal cost is being financed primarily by external loans. In the medium-to-long term, the reform is expected to reduce the social security deficit to 1 percent of GDP. Over 550,000 people have joined private pension plans (out of a 1.5 million working population), which manage around 700 million dollars of savings.

Principal Growth Sectors

Uruguay’s economy contracted by 3.2 percent in 1999, to a USD 21 billion GDP. Almost all economic sectors were hit by the crisis. Given recent export growth, the government and the international monetary fund (IMF) expect a 2.0 percent growth in GDP for 2000, above our projection of 1.5 percent growth.

Manufacturing (16 percent of GDP) plunged by 8.4 percent in 1999. The most affected sectors were textiles and clothing, chemicals, and metallic products. Industry performed poorly for the last three years, with zero annual growth.

Commerce, Restaurants and Hotels (14 percent of GDP) declined 3 percent in 1999 due to restrained private consumption, and a decline in the number of tourists. The sector grew at a 2.5 percent annual average rate over the last three years. Significant investment has been made in the hotel sector, which is provided preferential treatment by the GOU.

Transportation and Communications (8 percent of GDP) has been one of the most dynamic sectors over the last three years, with 4.6 percent average annual growth. It grew 3.5 percent in 1999, and was one of only three sectors to escape the recession. The GOU has announced its intention to deregulate and de-monopolize many telecommunication activities.

Construction (6 percent of GDP) grew by 3 percent in 1999, led by public construction. Private construction, in turn, plunged due to the domestic downturn. Overall construction has grown 4.6 percent annually on average over the last three years.

Agriculture and Livestock (5 percent of GDP), was the second sector most adversely hit by the 1999 recession--after industry--and slumped by 8 percent. Depressed commodity prices, lack of export competitiveness for the critical Brazilian market (resulting from the Brazilian devaluation,) and adverse climatic conditions explain the contraction. Agriculture and livestock has slightly contracted over the last three years.

Electricity, Gas and Water Utilities--4 percent of GDP--contracted by 3 percent in 1999. It has been, however, among the most dynamic sectors over the past three years, with a 6.0 percent average annual rate of growth. Growth should continue, fueled by natural gas imports from Argentina, a liberal energy sector law, and the interconnection of MERCOSUR power grids.

Mining, 0.2 percent of GDP, grew by 2.6 percent in 1999, and has been the best performing of all sectors in the past three years, growing at an average rate of 6.5 percent per year. Firms are exploring for various minerals and diamonds.

Government Role in the Economy

Uruguay's economy is based on the principle of free enterprise and private ownership, although investors are often faced with cumbersome bureaucratic procedures. The government owns, outright or partially, companies in insurance, water supply, electricity, telephone service, petroleum refining, airlines, postal service, railways, and banking. These activities generate about 18 percent of the gross domestic product and employ a similar percentage of the total labor force.

Privatization and Deregulation: Compared to other countries in the region, the progress in privatization has been slow. In December 1992, 72 percent of voters overturned substantial parts of a state-enterprise privatization law and prevented the privatization of the state-owned phone company, ANTEL. Nevertheless, the government has given the private sector access to areas formerly reserved for the state such as insurance and mortgages, road construction and repair, piped-gas distribution, water sanitation and distribution, cellular telephony and airline transportation. A law on the reform of the energy sector that included the private generation of energy was approved in 1997. Transmission and distribution rights (wheeling rights) remain a state monopoly. The newly elected Batlle administration has made deregulation and demonopolization of several sectors remaining under government control a top priority.

Balance of Payments Situation

Uruguay’s principal 1999 trading partners (exports plus imports) in descending order were Brazil, Argentina, the European Union, and the United States. The United States bought 7 percent of Uruguay's exports in 1999 and provided 11 percent of the country's imports.

In 1999 the trade deficit, including goods and services, increased significantly to USD 483 million, as exports declined more than imports. Imports of goods and services declined by 9 percent to USD 4.1 billion, led by a decline in imports of capital goods--that slumped by one-fourth from 1998. Exports of goods and services plunged by 13 percent to USD 3.6 billion.

The leading suppliers of Uruguayan imports in 1999 were Argentina (USD 796 million,) Brazil (USD 652 million,) the European Union (USD 627 million--mainly France and Italy,) and the United States (USD 375 million.) While Uruguayan imports from the U.S. fell 18 percent in 1999, this occurred during a recession when overall imports of goods declined 12 percent.

The U.S. share of Uruguay's imports has increased slightly over the last decade, and the new government favors expanding trade with the U.S. MERCOSUR's market share has declined steadily over the past five years, to its current 43 percent, after having peaked at almost half of overall imports in 1994. (Note: The decline in the MERCOSUR market share is explained by a decline in Brazil's importance as a source for Uruguayan imports. Argentina's market share, in turn, has increased significantly over the past decade. End Note.) The EU's market share has experienced only very mild growth since 1989.

Uruguay's leading 1999 export markets were Brazil (USD 560 million), the European Union (USD 439 million--mainly Germany and the U.K.,) Argentina (USD 513 million,) and the United States (USD 158 million). Uruguay's exports are highly concentrated in a few products. Exports of meat, rice, wool, dairy products, and leather, account for roughly half of overall exports.

The current account deficit worsened in 1999 by USD 130 million, growing to USD 605 million (and from 2.1 to 2.9 percent of GDP.) The deficit is expected to be slightly higher in 2000. Financing of the deficit should not be a problem, as Uruguay receives capital inflows from its neighbors in times of regional financial turmoil. The government has placed debt in the international market at significantly lower rates than the ones paid by any Latin American country (except Chile.)

In 1999 Central Bank's net foreign reserves declined by USD 13 million, to USD 2.4 billion. Present reserves are equivalent to nine months of imports, enough to service external debts for two years.

Infrastructure

Land Transportation: Located between two Latin-American giants, Uruguay is the geographical center of MERCOSUR's most densely populated zone. MERCOSUR integration has fostered trade among its partners and transportation-related infrastructure is expected to continue to grow. Uruguay is in the middle of a land corridor that connects the pacific and the Atlantic oceans, through Santiago de Chile, Buenos Aires, and Sao Paulo. Investment in regional road systems is underway, with the active participation of the private sector. The rehabilitation of certain stretches of the railway network that will transport lumber from the interior of the country to the seaports is being studied. Taking into account the cost of fuel, tolls, road taxes, etc., Uruguay's freight shipment costs are the highest in MERCOSUR.

Water Transportation: Uruguay is the natural gateway to the 1.2 million sq. mile Parana-Paraguay-river- transportation system inhabited by 40 million people. The waterway goes north to Paraguay and Bolivia and deep into Argentina and Brazil. A major seaport is located in Montevideo; many of its services have been privatized or are in the process of being privatized. Small ports are located in the free zones of Nueva Palmira and Colonia, and in the towns of Piriapolis, Punta del Este and La Paloma. The Nueva Palmira port is expected to experience strong growth as it is the terminal port of the Parana-Paraguay waterway. The government plans major renovation and extension for the port of La Paloma.

Air Transportation: Uruguay is connected to the rest of the world via an international airport located in Montevideo, serviced by approximately ten regularly-scheduled foreign airlines and one national airline. Privately operated interior air service is not very reliable.

Chapter III. Political Environment

Nature of Political Relationship with the U.S.

Relations between the United States and Uruguay are excellent. Uruguay is an active participant in international fora. The government of Uruguay has taken an active role in the 1994 and 1998 Summit of the Americas and follow-up working groups. Uruguay supports the establishment of a Free Trade Area of the Americas. The two governments cooperate on a wide range of issues, including counter-narcotics, technology, defense, and environment.

Major Political Issues Affecting Business Climate

Upon taking office on march 1, 2000, the centrist Government of President Jorge Batlle (Colorado Party/lista 15) introduced an extensive legislative program to address some of the pressing problems facing the country. A parliamentary coalition with the Blanco Party assured passage of the so-called Urgency Law. The administration’s five-year economic plan is now before Parliament.

Principal opposition to the government’s programs comes from the Encuentro Progresista - Frente Amplio (EP-FA), a grouping of leftist parties and factions, and from the national labor confederation PIT/CNT. All major parties are committed to democratic principles and a mixed economy with private sector participation.

Political System, Elections and Orientation of Major Political Parties

Uruguay is a constitutional democracy with an elected president and parliament. The country is divided into nineteen departments (states) including Montevideo, the capital.

National elections are held every five years with the next general elections scheduled for October 2004. The first round of national elections in which the president, vice-president, senators and deputies are elected is held on the last Sunday of October of the election year. To win, a presidential candidate must obtain a minimum of 51 percent of the votes cast. The system provides for a presidential run-off election to be held on the last Sunday of November if no presidential candidate obtains a simple majority in the first round.

The election of state governors takes place on the second Sunday of May in the year following a national election year. Up to two candidates per party may be nominated.

The president may not stand for immediate re-election, but may be re-elected after at least one term out of office. State governors may be re-elected one time and there is no limit on the re-election of senators and deputies. All elected offices are for a five-year term. The judiciary, one of the most independent in Latin America, is headed by a five-member Supreme Court. Departmental governments have budgetary independence from the central government and may set local tax rates.

The 1999 election results produced a parliament divided among the three main political forces. The two traditional parties, the Colorado and the Blanco (national), have existed in their present form for most of this century. The third, Encuentro Progresista - Frente Amplio (Progressive Encounter - Broad Front), a leftist coalition of various parties and factions, was founded in 1971. Factionalism within parties makes defining their orientations somewhat difficult, nevertheless the following general observations hold true.

Colorado Party: The Colorado Party was the traditional party of the urban areas and, until being usurped by the EP-FA, was the party of the working class and of Montevideo. President Jorge Batlle, of the party’s lista 15 faction, supports free market economics and less government participation in the economy. The largest faction of the party, the Foro Batllista, is led by ex-President Julio Maria Sanguinetti, a self-proclaimed social democrat, who advocates gradual economic reform while protecting basic Uruguayan sectors, such as agriculture. Contrary to its traditional principles of state-owned and state-controlled enterprises, recent Colorado administrations have been open to foreign investment, offered state services on a private concession basis, and eliminated some state monopolies.

National (Blanco) Party: The National Party is the traditional party of the rural interior. In the minority for most of its existence, the 1990-95 administration of president Luis Alberto Lacalle was only the third Blanco administration this century. The Lacalle administration unsuccessfully attempted to privatize a number of state-owned enterprises. It reduced inflation from 129 percent to 44 percent during its term of office. While party ideology runs from fiscal conservatism to populism, the largest faction favors economic reform and free enterprise. The national party fared poorly in

1999 presidential and parliamentary elections, although it later won local elections in 13 of the 19 departments.

Encuentro Progresista-Frente Amplio (EP-FA): The leftist coalition, which captured 40 percent of the vote in 1999, advocates a redistribution of wealth through the reduction of the value added tax (now 23 percent) combined with the institution of a personal income tax. It also supports retaining state enterprises and weakening the country's legendary bank secrecy laws. The party favors MERCOSUR, but only if tariffs are sufficiently high to defend domestic production and employment. The coalition won the capital's municipal government for the first time in 1989 and was reelected in 1994 and 1999. During its administration of Montevideo, it has raised land and property taxes significantly and services such as garbage collection and parks and plazas maintenance have been given to private companies on a concession basis.

Chapter IV . Marketing U.S. Products and Services

Distribution and Sales Channels

Information on Typical Product Pricing Structure

The percent mark-up for products depends on the product and the availability of competing products.

Use of Agents/Distributors - Finding a Partner

A foreign supplier should be thorough in the selection of an agent or local representative. For this purpose, the supplier may wish to take advantage of the export promotion services provided by the U.S. departments of commerce and state through the U.S. Embassy in Montevideo. One service, the agent/distributor service (ads), helps identify pre-screened and qualified agents and distributors. The supplier should make clear in the contractual agreement between the parties whether the relationship is that of employer-employee or whether it is merely a commission-based relationship. Failure to do so could result in supplier liability for severance and related benefits if he or she decides to terminate the relationship.

Franchising

Franchising in Uruguay has so far been largely limited to food-related outlets, hotel operations, car rental companies and some retail clothing stores. There are no legal restrictions on operating franchises in Uruguay.

Direct Marketing

Because of Uruguay's small size, direct marketing is generally not cost effective.

Joint Ventures/Licensing

Both joint ventures and licensing are common in Uruguay and generally involve similar procedures practiced in most other countries.

Steps to Establishing an Office

The formation of a new enterprise or the acquisition of an existing Uruguayan company can be made freely. Shell corporations already formed but with no operations are also available for acquisition. It is advisable to contract with an experienced attorney who can provide guidance in completing the legal paperwork required.

Selling Factors/Techniques

Foreign manufacturers enjoying sustained sales of their products imported into Uruguay typically use the services of an agent or distributor. Practically all importers/distributors are based in Montevideo, although some maintain sales networks in the interior of Uruguay. A U.S. firm with a local representative has the advantage of keeping up-to-date with local market conditions, as well as with changes in policies affecting trade.

Uruguay is a good market for both new and used equipment and machinery. Often, equipment considered obsolete in the U.S. may still be sold to local industry. U.S. manufacturers will find that the major factors affecting a decision to buy their products are quality, price, payment terms, delivery time, after-sales servicing and compatibility with existing systems.

U.S. manufactured products are generally regarded as high in quality and competitive in price, but are sometimes rated low on an important factor in the decision to buy -- financing. American manufacturers offering flexible, innovative, and competitive credit terms will overcome a difficult hurdle in achieving export sales to Uruguay.

Advertising and Trade Promotion

Advertising in Uruguay is relatively expensive by U.S. standards. It is advisable to work with a local advertising agency. "El Pais" and "El Observador" are the leading newspapers in terms of circulation; "Busqueda" and "Cronicas Economicas" are highly respected weekly journals. Several of the major international advertising agencies maintain offices in Montevideo.

The Embassy hosts industry-specific catalog exhibitions. It also participates with a commercial booth in some trade fairs. Details concerning these fairs may be obtained from the political/economic/commercial section, American Embassy Montevideo, unit 4510, APO AA 34035, Tel: (5982) 418-7777, ext. 2325. Fax: (5982) 418-8581.

List of Major Newspapers and Business Journals

Busqueda: Danilo Arbilla, Editor; Av. Uruguay 1164, Montevideo, Uruguay; fax: (5982) 902-2036; e-mail busqueda@adinet.com.uy.

El Observador: Ricardo Peirano, Editor; Cuareim 2052, Montevideo, Uruguay
Fax: (5982) 924-7498; e-mail: observador@zfm.com; web page: observador.com.uy.

El Pais: Martin Aguirre, Editor; Plaza Cagancha 1162, Montevideo, Uruguay; fax: (5982) 908-2946. E-mail: cartas@elpais.com.uy; web page: diarioelpais.com

Cronicas Economicas: Jorge Estellano, Editor; Av. Libertador 1532; Montevideo, Uruguay; fax: (5982) 902-0759. E-mail: cronicas@netgate.com.uy; web page: cronicas.com.uy

Pricing Product

The Uruguayan market price structure reflects world market prices plus import tariffs and transportation costs. In addition to tariff advantages, products from nearby MERCOSUR countries like Argentina and Brazil enjoy significantly lower transportation costs than do products from the U.S., Europe and Asia.

Sales Support/Customer Service

Sales support and customer service are important factors when Uruguayans are deciding which products to buy. U.S. manufacturers should seriously consider appointing an agent in Uruguay to provide customer support services. Company representatives resident in neighboring countries are less effective.

Selling to the Government

Although U.S. companies may sell directly to the Uruguayan government, it is useful to have a registered local representative. Registration takes place once a year during a specified period of time in which interested parties may be added to the list of official government suppliers. Companies should also consider providing product literature and price quotations to selected government purchasing offices, and to the different state entities, as they frequently refer to literature on hand when drafting specifications for their procurement tenders. The Embassy continually reports via the major projects program and other means to the department of commerce on major opportunities for U.S. contractors and manufacturers in Uruguay.

Protecting Your Product From Intellectual Property Right (IPR) Infringement

Please refer to the section on Intellectual Property Rights in Chapter VII.

Need for a Local Attorney

It is advisable to obtain a local attorney before setting up operations in Uruguay or carrying-out substantial amounts of business. Local attorneys can be very helpful in sorting through the red tape and bureaucracy which may otherwise be frustrating for a newcomer. A free list of local attorneys may be obtained from the Embassy's consular section (tel: (5982) 418-7777 ext. 2362.)

Performing Due Diligence / Checking Bona Fides of Banks / Agents / Customers

Credit reports on Uruguayan firms may be obtained though the U.S. Embassy's international country profile (ICP) service for a USD 150 fee. Please call the Embassy's political/economic/commercial section in Montevideo to receive full details on how to order this service at (5982) 418-7777 ext. 2322, by fax at (5982) 418-8581, or by e-mail at montevideo.office.box@mail.doc.gov.

Chapter V. Leading Sectors For U.S. Exports and Investments

Best Prospects for Non-Agricultural Goods and Services

The U.S. exports high-technology products to Uruguay. Main U.S. exports to Uruguay in 1999 consisted of data processing machinery and its parts, radio and TV equipment and its parts, telephone equipment, medical and surgical instruments, medicines and, orthopedics articles. Sales of these items accounted for roughly one-third of total U.S. sales to Uruguay. Parts and accessories for data processing machinery, parts and pieces of electronic devices, and medicines experienced the strongest growth since 1996, with annual average growth rates ranging from 27 percent to 30 percent. On the other hand, imports of radio and TV equipment experienced a decline over the same period.

The most significant U.S. products sold in Uruguay are mechanical and electrical machinery, especially high-tech items. U.S. sales of high tech products may increase as a result of government proposals to create an "Uruguayan silicon valley" and potential telecommunications demonopolization.

Best prospects for U.S. products are chemicals (including agricultural), manufactured goods and machinery, transport equipment, food processing equipment, computer hardware and software, office machinery, alternative energy sources (such as wind energy and to a certain extent solar power), telecommunications, and medical and laboratory equipment.

Uruguay's proportionally large elderly population should be a good market for geriatric equipment and services in the near future. Tourism and forestry are high in the government's development plans and represent excellent opportunities for U.S. exports.

Best Prospects for Agricultural Products

Exports of food products to Uruguay have good potential. Imported food products for mass consumption are typically purchased from Argentina, Brazil, and Chile, while imports from Europe and the United States are aimed at the middle and higher income sectors. U.S. Companies with competitive prices should consider trying to access the mass market through the development of the private label concept.

Significant Investment Opportunities

Uruguay receives loans and grants from the Inter-American Development Bank, the World Bank, and other multilateral institutions for major projects and programs. The Embassy continually reports via the trade opportunity program, the foreign government tender program and the major projects program to the department of commerce and its district offices on major opportunities in Uruguay for U.S. contractors and manufacturers. Brief descriptions of these opportunities follow:

Parana-Paraguay river transportation system - The governments of Uruguay, Argentina, Brazil, Paraguay, and Bolivia are jointly working together on what has become the largest Latin-American "regional integration" project -- the joint use of the

2,500-mile long Parana-Paraguay-Uruguay rivers for the transportation of goods from the five countries to the Atlantic ocean. The ongoing project calls for investments on the order of USD 935 million including civil construction (USD 120 million), dredging and maintenance (USD 150 million), ports (including equipment, USD 115 million), and fleet (USD 550 million). Further opportunities for U.S. involvement lie in the development of the administration of the waterways. Information on the status of this project may be obtained from Jorge Sanguinetti, President, Comision Hidrovia, tel: (5982) 908-3386; fax: (5982) 902-1678.

Colonia-Buenos Aires bridge – If the bilateral treaty to construct the bridge is ratified by Argentina (it was ratified by Uruguay in 1999), the Colonia-Buenos Aires bridge administration hopes to issue the tender to construct this 24-to-32-mile long bridge joining Buenos Aires, Argentina, and Colonia, Uruguay later in 2000. Possibilities for U.S. involvement will exist in all aspects of this multi-billion dollar bridge project. It is planned that the bridge will be constructed and operated by a private concession under a build-operate-transfer (BOT) regime. Further information on this project may be obtained by contacting: Ing. Jose Serrato, Presidente, Comision Binacional Puente Buenos Aires - Colonia, tel: (5982) 902-0876, 900-7801, 900-7437, fax: (5982) 902-0876.

Suburban passenger railway system and metropolitan underground - A suburban railway system extending outwards from the capital city of Montevideo into the nearby bedroom communities along the river plate may be built under a build-operate-transfer (BOT) system. The proposed system would extend for a stretch of approximately 33 miles and be built along (or over, in case an elevated system were selected) the center, dividing lane, of a pre-existing four lane highway. Recent press articles have also informed about the plans to construct an underground railway system in the city of Montevideo. Further information may be obtained from: Sr. Bolivar Lissidini, President, Administracion de Ferrocarriles del Estado (AFE), tel: (5982) 924-0815; fax: (5982) 924-0807.

Power projects – Projects being examined include the upgrade of the power transmission and distribution grid, a USD 7 million project proposal to convert boilers (currently using fuel oil) to natural gas with consumption capacity of 3,000,000 cubic meters of gas per day; a USD 106 million proposal to transform a power plant into a combined cycle 119 MW plant; and the construction of an interconnection grid with the power distribution system of Brazil.

Good opportunities exist in the sale of small-scale wind and solar power generators.

Further information on on-going or planned power projects may be obtained by checking the internet at www.ute.com.uy or by contacting: Ing. Enrique Patino, Director Tecnico, Direccion Nacional de Energia, Ministerio de Industria, Energia y Mineria, tel: (5982) 908-5929, 901-2968, fax: (5982) 901-9382.

International airport - The government of Uruguay has decided to renovate the existing Carrasco international airport in Montevideo at an estimated cost of USD 60 million dollars. Three international consortia have already pre-qualified and a final decision is expected in 2000. Information on this and other airport projects may be obtained from: Luis Brezzo, Minister, Ministry of Defense and President of the Carrasco Airport Selection Committee. Av. 8 de octubre 2628, Montevideo, Uruguay, tel: (5982) 487-0491; fax: (5982) 481-4833.

Port renovations - From time to time the National Port Administration issues tenders for port renovation projects, channel deepening projects, and warehouse construction projects. Information on the renovation of the La Paloma port project may be accessed in the internet at www.port-uruguay.org/agrandes-frames.htm. Further information on any of these may be obtained from: Dr. Edison Gonzalez Lapeyre, President, Administracion Nacional de Puertos ANP, tel: (5982) 916-1123; fax: (5982) 916-1704, e-mail anppresi@adinet.com.uy.

Telecommunications – Due to the projected deregulation and demonopolization of the telecommunications sector, there may be some interesting projects in the near future. At the writing of this report, the government had announced plans to auction a third and maybe fourth cellular band operation to private companies. The rapid growth and extensive penetration of internet (estimated at 12 percent of the population) should also provide opportunities for U.S. firms in these sectors. The newly-elected government has also talked about creating a software development center in Uruguay. Information on these projects may be obtained from: Ing. Fernando Bracco, President, ANTEL, Daniel Fernandez Crespo 1508, piso 9. Tel: (005982) 400-4585. Fax: (005982 402-0208

The government of the United States acknowledges the contribution that outward foreign direct investment can make to the U.S. Economy. U.S. foreign direct investment is increasingly viewed as a complement or even a necessary component of trade. Nearly sixty percent of total U.S. Exports originate with American firms with investments abroad. Recognizing the benefits that U.S. Outward investment bring to the U.S. Economy, the Government of the United States undertakes initiatives, such as overseas private investment corporation (OPIC) programs, bilateral investment treaty negotiations and business facilitation programs, that support U.S. investors.

Chapter VI. Trade Regulations and Standards

Trade Barriers, Including Tariff and Non-Tariff Barriers

Uruguay's tariff structure follows the "HS" or harmonized system of tariff nomenclature. All customs duties, surcharges, service and other charges are consolidated in a customs unified rate or "tasa global arancelaria" (TGA).

Uruguayan importers are required to pay a four percent ad valorem tax on all freight arriving via foreign-registered airlines. Freight which arrives by the national airline is exempt from the tax. A civil aviation agreement between Uruguay and the United States provides for equal treatment between U.S. and Uruguayan airfreight carriers. U.S. carriers are therefore also exempt from this tax.

Areas in which foreign equity participation requires prior governmental approval are discussed in Chapter VII.

Customs Valuation

Customs valuation may be applied by the office of the director general of customs when there is a question concerning a supplier's classification and/or valuation. Valuation criteria are those followed by the World Trade Organization (WTO). Deception on the part of the importer or altering the value of imports is considered fraud and subject to legal penalties.

Tariff Rates

Goods entering from MERCOSUR countries generally pay no tariffs. A few exceptions exist but they are being progressively reduced and should be eliminated 2001.

MERCOSUR member countries agreed on a common external tariff (CET) in December 1994. On January 1, 1995, the CET entered into effect on imports from non-member countries, at rates ranging (with some exceptions) between 0 and 20 percent. At the end of 1997, the maximum CET was raised to 23 percent (which should be reduced again to 20 percent in December 31, 2000).

Capital goods for the industrial, hotel and forestry sectors are presently exempt from tariffs.

Import Taxes

In addition to tariff rates, a (refundable) value-added tax of 23 percent is applied over customs valuation plus import surcharges.

The maximum import duty ranges from 0 to 27 percent.

Import Licenses

Certain imports require special licenses or customs documents. Among these are drugs, certain medical equipment and chemicals, firearms, radioactive materials, frozen embryos, livestock, bull semen, anabolics, sugar, seeds, hormones, meat and wheat.

Export Controls

There are no export controls currently in force. Export sales of certain domestic products enjoy tax exemptions and special credits.

Import/Export Documentation Requirements

Only commercial firms, industrial firms or individuals listed in the registry of importers may legally import products into Uruguay. No unusual documents are required to import merchandise.

Temporary Entry

Products may be imported under the temporary admission or drawback provisions. Products imported under temporary admission provisions must be re-exported within 18 months.

Labeling, Marking Requirements

Labeling and marking requirements are set and controlled by two federal and several municipal agencies. Basically, labels must contain a description in Spanish of the main ingredients of a product, its country of origin, expiration date and the full name and address of the Uruguayan importer. A new consumer defense law will be approved in CY2000 that regulates labeling requirements.

Prohibited Imports

From time to time the government bans the importation of certain food articles originating from areas declared by the world health organization to be unfit. The municipality of Montevideo imposes strict, and at times outdated and arbitrary regulations regarding the composition of food articles (dyes, etc.). Imports of used cars are banned.

Standards

Uruguay uses the metric system of weights and measures. The Laboratorio Tecnologico del Uruguay (LATU) is the officially approved agency that controls standards and quality control of imports and exports. A national quality committee reviews and recommends issuance of ISO 9000/9001 certificates if warranted.

Free Trade Zones/Warehouses

Please refer to the section on free zones in Chapter VII.

Special Import Provisions

There are no special import provisions or restrictions. All goods may be imported except for a very limited list of goods which may require special authorization.

Membership in Free Trade Arrangements

Uruguay is a member of the world trade organization (WTO) and the Latin American Integration Association (ALADI). It holds several bilateral trade agreements with ALADI partners, including one with Mexico, signed in 1999. It is a founding member of the southern common market (MERCOSUR) composed of Brazil, Argentina, Uruguay and Paraguay. Chile and Bolivia are associate members of MERCOSUR. Separate free trade arrangements for certain products are also in effect with Brazil and Argentina, but will expire in 2001.

Customs Contact Information

Sr. Jorge Sienra
Director Nacional de Aduanas (National Customs Director)
Rambla 25 de agosto de 1825 s/n
Montevideo, Uruguay
Tel: (5982) 916-2141; fax: 916-4691

Chapter VII. Investment Climate

Openness to Foreign Investment

The Government of Uruguay (GOU) recognizes that foreign investment has an important role to play in the continuing development of the economy and maintains a favorable policy through a number of incentives, though it offers no special benefits vis-a-vis foreign investors. Aside from a few sectors in which foreign investment is not permitted, there is neither de jure nor de facto discrimination towards investment by source or origin.

In 1998, the GOU approved an investment promotion and protection law (no. 16906) which declares that the promotion and protection of national and foreign investment is in the nation’s interest. The main aspects of the law are that foreign and national investments are treated alike, investments are allowed without prior authorization or registration, the Government does not prevent the establishment of investments in the country, and it guarantees the free transfer abroad of capital and profits resulting from the investment. There are no restrictions on technology transfer.

One hundred percent foreign ownership is permitted except where restricted for national security purposes. Foreign investments are provided the same treatment as nationals at all stages of the investment.

The GOU does not generally require specific authorization to set up a firm, to import and export, to effect deposits and banking transactions in any currency, or to obtain credit. No screening mechanisms apply on foreign or national investments. No special government authorization is needed for access to capital markets or to foreign exchange.

There are no restrictions on technology transfer.

Uruguay has a history of maintaining state monopolies in a number of areas in which direct foreign equity participation is prohibited by law. Several state-owned entities, however, have associated themselves with foreign-owned companies to provide specific services for a specified period of time. Although private power generation is now allowed, the state-owned power company, UTE, still holds a monopoly on wheeling rights. The state-owned oil company, ANCAP, is the only importer and refiner of petroleum products in the country. The retail gasoline industry was privatized, but is subject to extensive regulation and competition from ANCAP. The state telephone company, ANTEL, controls the telephone and telecommunications industry. Cellular service is provided by ANTEL and a private firm regulated by ANTEL. A local wireless loop system, the installation and maintenance of public phones, data transmission, and some value-added services have been awarded to the private sector. Twelve of the thirteen ISP providers are privately owned. All Uruguayan ports are operated by and administered through the national port administration, ANP. Many port services, however, were privatized in 1992. A state enterprise, OSE, controls most water and sewage services in Uruguay except in some resort areas on the coast. Fifty-one percent of the state-owned airline PLUNA was sold to the private sector in 1996. The insurance and the mortgage sectors were demonopolized in 1996. The current Batlle administration plans to deregulate and demonopolize several more market sectors including oil, ports and telecommunications during the next five years.

Foreign investors are treated as nationals in privatization/concession programs and are allowed to participate in any stage of a privatization/concession.

Uruguay is presently the only MERCOSUR (Southern Cone Common Market) country with investment grade status (and one of two in South America). Standard & Poor's granted Uruguay a BBB- grade, Moody's a BAA3 grade, IBCA a BBB- grade, and Duff & Phelps a BBB- grade in late 1997/early 1998. As of July 2000 the outlook on Uruguay is "stable."

Conversion and Transfer Policies

Uruguay has maintained a long-lasting tradition of imposing no restrictions on the purchase of foreign currency, or remittance of profits abroad. Foreign exchange can be freely obtained.

Expropriation and Compensation

In the event of expropriation, the Uruguayan constitution provides for the prompt payment of fair compensation. There have been no expropriation actions taken in the recent past.

There are no laws that force local ownership, except for the areas reserved for the State.

Dispute Settlement

The investor is given the option of choosing between arbitration and recourse to the courts for the settlement of disputes.

Uruguay is not a member of the ICSID (International Center for the Settlement of Investment Disputes), although the Government has requested that Parliament agree to membership. Uruguay's legal system is based on a civil law system derived from the Napoleonic code. There are effective means for enforcing property and contractual rights. There is no Government interference in the court system. The Judiciary is independent, but sometimes slow.

There is both a commercial and a bankruptcy law. In the case of bankruptcies, creditors with real guarantees collect first, followed by state-owned enterprises, followed by private creditors.

Performance Requirements/Incentives

There are no specific performance requirements on which foreign investment is conditioned. The current investment law does not provide preferential tax deferrals, grants, or special access to credit to foreign investors. There are no discriminatory or excessively onerous visa, residence, or work permit requirements inhibiting foreign investors. Import price controls are applied on textiles.

By law, the government has established certain asset, value-added, and internal tax benefits, as well as social security payment reductions to certain activities. Also, it provides preferential treatment for capital goods imports and tax deferral for exports. No export or import quotas are applied. Investments in sectors such as forestry, hotels, and agro-industries are subject to additional specific incentives.

A government decree establishes that local products or services of equal quality, and no more than ten percent more expensive than foreign goods or services, shall be given preference in government tenders.

There is no requirement that nationals own shares, that the share of foreign equity be reduced over time, or that technology be transferred on certain terms. There are no government-imposed conditions on permission to invest.

U.S. and other foreign firms are able to participate in government financed and/or subsidized research and development programs on a national treatment basis.

Right to Private Ownership and Establishment

There are no restrictions on private ownership, the establishment of a business and/or on engaging in any form of remunerative activity, except in areas declared to be of national security interest, or in which the government maintains a legal monopoly (e.g. basic telephony).

Protection of Property Rights

Secured interests in property, both movable and real, are recognized and enforced. Mortgages exist and there is a recognized and reliable system of recording such security interests.

Uruguay has a legal system that protects and facilitates acquisition and disposition of all property rights, such as land, building, and mortgages.

Although Uruguay is a WTO member, its IP regime does not yet meet international TRIPS standards. Uruguay was placed on the watch list by USTR due to several problematic areas in the patent law and lack of trips-consistent copyright legislation.

Uruguay is a member of the World Intellectual Property Organization (WIPO) and a party to the Bern Convention, the Universal Copyright Convention (UCC), and the Paris Convention for the Protection of Industrial Property.

The most serious lack of IPR protection is the lack of a modern copyright law. Uruguay’s copyright law dates to 1937; the extent to which it protects computer software is subject to judicial interpretation each time a case is presented. A new copyright bill was sent to Parliament last year, but was not approved. The GOU is pushing for approval in 2000.

Law number 17164 on patents was passed on September 2, 1999. Invention patents have a 20-year term of protection from the date of filing. Patents of utility models and industrial designs have a 10-year term protection from the date of filing, that may be extended once for five more years. The law provides a lax definition of compulsory licensing and a vague determination of the "adequate remuneration" to be paid to the patent holder. Some U.S. industry groups are unhappy with the law, believing that its compulsory licensing requirements are not TRIPS consistent.

The GOU approved a trademark law on September 25, 1998 that upgrades trademark legislation to TRIPS' standards. The law provides that the registration of a trademark will last ten years and that it can be renewed as many times as desired. It also provides for six month-to-three years-prison penalties to law-breakers. Registering a foreign trademark without proving a legal commercial connection with the trademark is no longer a possibility; enforcement of trademark rights is excellent.

Transparency of The Regulatory System

Laws and procedures regulating foreign investment are transparent and streamlined. From time to time the government has created a series of regulations that allows debtors to refinance debt on extremely favorable terms and conditions. This practice has the effect of sustaining inefficient firms which compete with well-managed firms.

Efficient Capital Market and Portfolio Investment

Foreign investors have easy access to credit on market terms in the local market. The private sector has access to a variety of credit instruments but access to long-term credits in the banking sector may be difficult.

Uruguay's capital market is highly underdeveloped. There is no effective regulatory system established to encourage and facilitate portfolio investment nor are there "cross shareholding" or "stable shareholder" arrangements used by private firms to restrict foreign investment.

In 1996 and 1997, an unprecedented number of firms issued commercial paper to capture funds for investment projects under a new capital market law. Issuance of commercial paper nose dived in 1998--due to uncertainty generated by the closure of a well-known firm--but picked up in 1999. Although there are two stock markets, operations with stocks are practically non-existent. Most operations are carried out on public paper.

The use of investment funds expanded until 1997, but plunged in 1998 and 1999 under the international and regional financial turmoil. The vast majority of agents operating with investment funds are national, and funds invest most of their resources in Uruguayan public paper. The first risk-rating firms established a presence in Uruguay in 1998.

The private commercial banking system is composed of 21 banks, 9 financial institutions, 11 offshore banks, and 10 savings and loans organizations. Offshore financial institutions operate with limited functions. Uruguay has traditionally received deposits in time of regional financial turmoil. Non-residents' deposits account for 40 percent of overall deposits. Uruguay's banking system is sound. The delinquency rate is approximately 6 percent and the ratio of unpaid credit/overall credit in the private banking system is less than 2 percent. Both figures are low by international standards. In 1998, the Central Bank imposed increased prudential measures to the banking system and credit growth (especially to consumption), started to slow.

Uruguay's largest bank--the public-owned Banco de la Republica Oriental del Uruguay--receives roughly thirty percent of overall deposits from the private sector, and gives out almost 40 percent of overall credits to the private sector.

There are no practices by private firms to restrict foreign investment, participation, or control in/of domestic enterprises.

Political Violence

Within the institutional memory of the Embassy, there have been no significant incidents involving politically motivated damage to property and/or installations. Uruguay is a stable democracy where respect for the rule of law is the norm.

Corruption

There are specifically designed laws to prevent bribery and other corrupt practices. The government has taken the initiative to strengthen these laws. A new law on corruption in the public sector was approved in 1998. Acceptance of a bribe is a felony in Uruguay's penal code. U.S. firms have not identified corruption as an obstacle to foreign direct investment. As of June 1999, Uruguay is ranked 42nd in the transparency international scale amongst 109 countries and 85 positions. On the same scale, Denmark is ranked first and the U.S. seventeenth.

Some former high-level government officials have been or are under investigation for alleged bribes, corruption, or abuse of power charges.

Bilateral Investment Agreements

The Government of Uruguay has signed investment protection agreements with Canada, Italy, Korea, Poland, Great Britain, China, Germany, Switzerland, the Netherlands, Hungary, Romania, France and Spain. Double taxation agreements have been signed with Germany, Korea and Hungary.

Uruguay has signed bilateral investment treaties with China, Spain, France, Great Britain, Chile, Belgium, Luxembourg, Hungary, Italy, Mexico, Panama, The Netherlands, Poland, Rumania and Switzerland. In addition, bilateral investment treaties with the following countries are awaiting parliamentary approval: Israel, Malaysia, Portugal, the Czech Republic, Sweden, and Venezuela.

Uruguay does not have a bilateral investment treaty with the United States.

OPIC and Other Investment Insurance Programs

The Uruguayan Government signed an investment insurance agreement with the overseas Private Investment Corporation (OPIC) in December 1982. The agreement allows OPIC to insure U.S. investments against risks resulting from expropriation, inconvertibility, war or other conflicts affecting public order. OPIC programs are currently used in Uruguay.

The Uruguayan Government has a policy of fixed but declining devaluation of the peso vis-a-vis the U.S. dollar. Expected local currency depreciation in 2000 will be 7.4 percent.   The average exchange rate in 2000 is expected to be 12 pesos per dollar. The U.S. Embassy uses the official rate when purchasing local currency.

Labor

The Uruguayan labor force of some 1.5 million is well-educated and adept in the application of modern industrial techniques. The government has instituted technical training programs to help meet industry's skilled labor requirements. Uruguay has the highest literacy rate in Latin America at 97 percent, the same as in the United States. A law approved in may 1998 provides incentives for companies which hire young people including a reduction of between 12 and 18 percent in employer social security and healthcare contributions.

The social security overhead in Uruguay is high, increasing basic wage costs of an employer by almost 50 percent. The social security system currently allows for retirement at age 60 for both men and women. Disabled workers receive payment from the government of 70 percent of their salaries plus free medicine and medical care. The value of local manufactured goods reflects a relatively high percentage of labor content. Legislated labor and social security benefits add significantly to a firm's cost structure.

The country's average annual unemployment rate in 1999 was 11.2 percent, up from 10.1 percent in 1998. The unemployment rate was higher than Uruguay's historical rate over the past years as several firms were either forced to close due to lack of competitiveness or to technical reconversion programs in order to gain efficiency. As a result of high labor costs and a rigid labor market, most firms reconverting became more capital-intensive.

Uruguay has ratified a large number of ILO conventions protecting worker rights and generally adheres to their provisions. The Uruguayan constitution guarantees workers the right to organize and strike, and union leaders are protected by law against dismissal for union activities. Labor unions are independent of government and political party control. Sympathy strikes are not illegal. Organized labor has been declining in influence and currently an estimated fifteen percent of the work force is unionized. Unionization is high in the public sector (over eighty percent) and very low in the private one (below five percent). Strikes and labor-management conflict have been diminishing over the past years as some of the union leadership appears to be seeking methods of cooperation and negotiation. Unions are beginning to recognize that job protection can be as important as wage levels, and working hours lost from strikes show a clear downward trend.

Foreign Trade Zones (FTZ)/Free Ports

Law No. 15921 of December 17, 1987 regulates the operation of FTZs within the country. The law allows storage and warehousing, manufacturing, and financial, data processing or other related activity to take place within FTZs. Nine state-owned and operated, state-owned but privately operated, and private sector-owned FTZs are located throughout the country. MERCOSUR regulations treat products manufactured in all member-state FTZs as extra-territorial and thus manufacturing in Uruguayan FTZs by a Uruguayan or foreign firm will not benefit from MERCOSUR customs union advantages and will have to pay the MERCOSUR common external tariff.

The following advantages are granted by law to both local and foreign-owned industries operating in an FTZ:

A. Exemption from all domestic taxes in effect or which may be created. The only tax not covered by this exemption is the employer contribution to social security for Uruguayan employees. Uruguayans must comprise 75 percent of the labor force employed by the user of the zone. The employer is free from payment of social security taxes for non-Uruguayan employees if those employees waive coverage under the Uruguayan social security.

B. Goods, services, products or raw materials of foreign and Uruguayan origin may be entered into the zones, held there, processed, and re-exported without payment of Uruguayan customs duties and import taxes (goods of Uruguayan origin re-entering into FTZs will be treated as Uruguayan exports for all tax and other legal purposes). Goods entering into Uruguayan customs territory from FTZs are subject to customs duties and import taxes.

C. Industrial or commercial government monopolies are not honored within FTZs.

Foreign Direct Investment Statistics

Foreign direct investment (FDI) in Uruguay has been relatively low. Few privatizations have taken place.

A 1999 study by the GOU identified 756 foreign firms including firms with foreign capital participation. FDI in the non-financial sector amounted to USD 2.4 billion in the 1995-1999 period. The overall stock of FDI amounted to USD 5.6 billion as of 1999.

Although official figures on investment by sector are not available, during the last few years, the principal destinations of most foreign investment have been in forestry-related activities, industry, construction (hotels, office buildings & infrastructure,) and mining.

The US is the largest single investor in Uruguay--with 32 percent of overall FDI--, followed by Argentina and Spain.   FDI comes from North America, Europe and MERCOSUR roughly by thirds.

Host country contact information for investment-related inquiries

Uruguay XXI
Direccion de Promocion de Exportaciones e Inversiones
Plaza Independencia 831, of. 611
Montevideo, Uruguay
Tel: (5982) 900-2912 / 900-0318; fax: (5982) 900-8298
E-mail: uruxxi@adinet.com.uy; web page: www.uruguayxxi.gub.uy

Chapter VIII. Trade and Project Financing

Brief Description of Banking System

Uruguay's banking system is sound. The delinquency rate is approximately 6 percent and the ratio of unpaid credit/overall credit in the private banking system is less than 2 percent. Both figures are low by international standards. In 1998, the Central Bank imposed increased prudential measures to the banking system and credit growth (especially to consumption), started to slow down.

The private commercial banking system is composed of 21 banks, 9 financial institutions, 10 offshore banks, and six savings and loans organizations. They jointly supply about half of overall banking credit to the private sector. The private banking sector basically provides Uruguay's private sector with short-term, dollar-denominated credit. It also receives from the private sector mainly dollar-denominated deposits (FYI: Almost ninety percent of the private sector's deposits in the private commercial banking system are dollar-denominated.)

Uruguay has traditionally received deposits in times of regional financial turmoil. Non-residents' deposits account for 40 percent of overall deposits. But that pattern is starting to change as Argentina, Chile and Brazil strengthen their financial systems.

Offshore financial institutions operate with limited functions--they may neither accept resident deposits nor offer checking account services. They engage primarily in intermediating foreign currency denominated funds from abroad in the domestic financial market.

The public banking system is comprised of three banks: the Central Bank of Uruguay (BCU), the Banco de la Republica Oriental del Uruguay (BROU), and the Banco Hipotecario del Uruguay (BHU). The BCU is responsible for formulating and executing monetary and credit policies, supervising and controlling the banking system, issuing currency, and managing international reserves. The BCU is not independent. The BROU is a multi-purpose government-owned bank and the largest credit institution in Uruguay. The bank receives roughly thirty percent of overall deposits from the private sector and gives out almost 40 percent of overall credits to the private sector. The BHU is the largest mortgage bank in Uruguay and the principal intermediary of medium and long-term funds for housing in the country. A 1996 law allowed private banks to compete with the BHU.

Foreign Exchange Controls Affecting Trading

There are no foreign exchange controls which affect trading.

General Availability of Financing

Major project financing is provided by the IADB. Other agencies such as the world bank, the Inter-American Development Bank, and the Eximbank also operate in Uruguay. Foreign investors also have ready access to local financing sources such as the Banco de la Republica and other banks, government securities and the use of repatriated funds. Debt-equity swap arrangements are also in use.

How to Finance Exports/Methods of Payment

U.S. exports are generally financed by the international banking departments of major U.S. banks and/or with the help of programs run by Exim, OPIC, and the small business administration. Exports are usually financed through export letters of credit, sales on open account or drafts on foreign buyers.

Types of Available Export Financing and Insurance

The overseas private investment corporation (OPIC) offers
Investors insurance against currency inconvertibility, damage or interruption of operations from war, expropriation and political risk. OPIC also provides U.S. lenders with protection against both commercial and political risk by guaranteeing repayment of principal and interest on loans made to eligible investors.

Project financing available, including lending from multilateral institutions and types of projects supported

Some of The Major Sources of Project Financing Include:

A. Export-Import Bank (Eximbank): Eximbank provides U.S. exporters with several financing programs including working capital guarantees, export credit insurance, commercial bank guarantees, medium-term credits, small business credits, direct loans to foreign purchasers, and financial guarantees. Further information on Eximbank's programs may be obtained at 1-800-565-exim. Exim's Uruguay Desk Officers, Veronique Cavaillier and Xiomara Cregue, may be contacted by phone at 202-565-3913, fax: 202-565-3931, e-mail: veronique.cavaillier@exim.gov and xiomara.cregue@exim.gov.

B. Overseas Private Investment Corporation (OPIC): OPIC's programs include loans and loan guarantees, investment funds, and political risk insurance (currency inconvertibility, expropriation, and political violence). OPIC may be contacted at 202-336-8799.

C. Commodity Credit Corporation (CCC): The CCC finances exports of U.S. agricultural commodities. The CCC may be reached at 202-447-4274.

D. Small Business Administration (SBA): SBA's export revolving line of credit loan helps small businesses export their products. SBA may be contacted at 202-653-7794.

E. World Bank and Inter-American Development Bank: Both these banks offer programs which allow U.S. companies to compete in international major infrastructure projects. The public information centers of both banks may be contacted through 202-458-5454 and 202-623-2096 respectively.

Several States also have their own export financing programs.

Types of projects receiving financing support

Most government tenders receive financing support.

List of banks with correspondent U.S. banking arrangements

U.S. banks operating in Uruguay include the:

American Express Bank (tel: 5982-916-0092, fax: 5982-916-2245; e-mail: aeburuguaya@aexp.com),

Citibank (tel: 5982-915-5687; fax: 5982-916-0645; web: www.citibank.com/Uruguay),

Bankboston (tel: 5982-916-0076; fax: 916-2209),

The Republic National Bank of New York (tel: 5982-915-3393; fax: 5982-916-0125) and,

Deltabank (tel: 628-5054; e-mail: deltauru@adinet.com.uy)

Chapter IX. Business Travel

Business Customs

Business dress and appearance, as well as one's general approach to business relations, should be very conservative. An advance appointment for a business visit is usually necessary and considered customary courtesy. Punctuality is observed. Typically, business is discussed after social amenities. Business cocktails and lunches are common. At such meetings, personal matters should not be discussed on your initiative. Business breakfasts, while not unheard of, are not common.

Travel Advisory and Visas

U.S. citizens need a valid American passport, but visas are not required for holders of regular passports. Those traveling on diplomatic or official passports must have a valid visa in addition to the passport.

Business and tourist stays are limited to 90 days and may be extended for an additional 90 days.

No inoculations are currently necessary for entry. International travelers are advised to contact their local public health department, physician or travel agent at least two weeks prior to departure to obtain current information on health requirements.

Holidays

Jan. 01	New Year's Day
Jan. 06	Epiphany
Feb/Mar.	Two days for carnival (6 weeks before holy week)
Mar/Apr.	Five days for holy week (dates vary from year to year)
Apr. 19	Landing Day of The "33 Orientales"
May 01	Labor Day
May 18	Battle of Las Piedras
Jun. 19	Birthday of Artigas
Jul. 18	Constitution Day
Aug. 25	Independence Day
Oct. 12	Columbus Day
Nov. 02	All Saints Day
Dec. 25	Christmas

Note: Some holidays, when falling on a Tuesday, Wednesday, or Thursday, are transferred to the preceding Monday or following Friday.

Work week

Normal business hours are Monday through Friday 09:00 - 19:00. Banks open to the public Monday through Friday from 13:00 to 17:00. Commercial shops are also open on Saturdays from 09:00 to 13:00. Shops in the shopping centers are open every day from 09:00 until 22:00.

Business Infrastructure

International telephone and fax service is efficient though expensive. Uruguay's phone system is fully digitized. There is widespread use of cellular phones. International phone cards with "dial-usa" features, such as ATT, MCI and Sprint are accepted.

A couple of five-star category hotels in Montevideo have been recently inaugurated or renovated. There are four (Sheraton, Radisson, Holiday Inn, Days Inn) U.S.-managed hotels in Montevideo and three in the seaside resort of Punta del Este (Conrad, Days Inn, Choice)

Several airlines have service to Montevideo's Carrasco international airport from Europe, and other parts of Latin America. There are currently two U.S.-carrier daily flights to and from the U.S. (with a third possible in the future). Internal transportation is mainly by car or bus. There is very limited internal passenger railway service. Within Montevideo, bus and taxi services are extensive and inexpensive.

Uruguay observes standard time. This is three hours behind Greenwich mean time, two hours ahead of eastern standard time, and one hour ahead of eastern daylight time.

Electrical current is alternating 50 cycle, 220 volts, single and triple phase. Specially requested electric power supply to industry may be three-phase, 380 or 415 volts, 50 cycles.

Temporary Entry of Goods

There are no restrictions on the temporary entry of business-related equipment. Refundable deposits may be required, payable at the point of entry.

U.S. business travelers are encouraged to obtain a copy of the "Key officers of foreign service posts: Guide for business representatives" available for sale by the superintendent of documents, U.S. Government Printing Office, Washington, D.C.

20402. Tel: (202) 512-1800; fax: (202) 512-2250. Business travelers to Uruguay seeking appointments with U.S. Embassy Montevideo officials should contact the commercial section in advance. The commercial section can be reached by telephone at (5982) 418-7777 ext. 2325, fax (5982) 418-8581, or e-mail at montevideo.office.box@mail.doc.gov.

Chapter X. Economic and Trade Statistics

Appendix A: Domestic Economy

(USD millions, except where noted)

	Source of data	1998	1999	2000 Proj.
GDP	1/2	22,456	21,032	21,400
GDP Growth Rate (percent)	1/2	4.6	-3.2	1.5
GDP per Capita (USD)	1/2	6,827	6,348	6,410
Central Government Spending As percent of GDP	1/2	21	23	22
Inflation (percent)	1/2	8.6	4.2	5.5
Unemployment (percent)	3	10.1	11.3	12.0
Central Bank Net International Reserves	1/2	2,428	2,443	2,500
Average Exchange For USD 1.00	1/2	10.5	11.3	12.0
Debt Service Ratio (share of GDP, percent)	1/2	2.6	4.3	n/a
U.S. Economic Assistance	4	1.2	0.2	1.2
U.S. Military Assistance	4			
Excess Defense Articles		6.1	1.8	1.8

Grants		0.8	0.8	0.9

Appendix B: Trade

Trade (USD millions, except where noted)

of data	Source 1998	1999		2000 Proj.
Total Country Exports (fob)	1/2	2,769	2,245	2,500
Total Country Imports (fob)	1/2	3,811	3,357	3,760
Imports from U.S. (CIF)	1/2	460	375	345
Exports to U.S. (fob)	1/2	158	153	210

Sources of data:

1 -Central Bank of Uruguay (CB)
2 -Embassy computations based on CB data, GOU economic program submitted to IMF and estimates
3 - National Institute of Statistics (INE)
4 -Embassy Offices

Chapter XI. U.S. and Country Contacts

U.S. Embassy Trade Related Contacts:

American Chamber or Bilateral Business Councils

Jorge Lepra, President
American Chamber of Commerce
Plaza Independencia 831, of. 209
Tel: (5982) 908-9186
Fax: (5982) 908-9187
E-mail amchamuru@zfm.com

Rupert Coates, President
Asociacion Pro-Intensificacion del Comercio Uruguay-Estados Unidos
APICUE
Rincon 454, of. 520.
Tel: (5982) 915-1807; fax: (5982) 915-7982

Country Trade or Industry Associations in key sectors

Cr. Daniel Soloducho, President
Union of Exporters
Rincon 454, piso 2
Montevideo, Uruguay
Tel: (5982) 915-6050; fax: (5982) 916-1117

Gualberto Rocco, President
Chamber of Industries
Av. Libertador Lavalleja 1672
Montevideo, Uruguay
Tel: (5982) 901-5000; fax: (5982) 902-2567

Dr. Jorge Peirano Basso, President
Uruguayan Chamber of Commerce
Rincon 454
Montevideo, Uruguay
Tel: (5982) 916-1277; fax: (5982) 916-1243

Country Government offices relating to key sectors and/or significant trade related activities

Ministry of Industry, Energy and Mining
Rincon 747
Montevideo, Uruguay
Tel: (5982) 900-0231; fax: (5982) 902-1245

Ministry of Economy and Finance
Colonia 1089, piso 3
Montevideo, Uruguay
Tel: (5982) 902-1017; fax: (5982) 901-3820

Ministry of Tourism
Av. del Libertador 1409, piso 4-6

Montevideo, Uruguay
Tel: (5982) 900-4148; fax: (5982) 902-1624

Ministry of Transport and Public Works
Rincon 561
Montevideo, Uruguay
Tel: (5982) 915-7386; fax: (5982) 916-2893

Ministry of Agriculture and Fishing
Constituyente 1476
Montevideo, Uruguay
Tel: (5982) 418-2256; fax: (5982) 409-9623

Country Market Research Firms

Aim/Burke-Add
Colonia 933, piso 4
Montevideo, Uruguay
Tel: (5982) 902-6470; fax: (5982) 902-1911

PricewaterhouseCoopers
Cerrito 461, 1st floor
Montevideo, Uruguay
Tel: (5982) 916-0463; fax: (5982) 916-0605

Equipos Consultores
Bulevar Artigas 1098
Montevideo, Uruguay
Tel: (5982) 707-2698; fax: (5982) 708-6599

Ernst and Young
18 de julio 984, piso 4
Montevideo, Uruguay
Tel: (5982) 902-3147; fax: (5982) 902-1331

Oikos Consultora
Soriano 898, esc. 401
Montevideo, Uruguay
Tel: (5982) 900-1504; fax: (5982) 901-3975

Montaldo y Asociados

18 de julio 841, esc. 301
Montevideo, Uruguay
Tel: (5982) 902-0944; fax: (005982) 902-1716

Country Commercial Banks

Commercial banks operating in Uruguay include:

The American Express Bank (tel: 5982-916-0092, fax: 5982-916-2245; e-mail: aeburuguaya@aexp.com),

Citibank (tel: 5982-915-5687; fax: 5982-916-0645),

Bankboston (tel: 5982-916-0076; fax: 5982-916-2209),

Deltabank (tel/fax: 5982-628-5054; e-mail: deltauru@adinet.com.uy), and the

Republic National Bank of New York (tel: 5982-915-3393; fax: 5982-916-0125); and

ABN/AMRO, ACAC, Caja Obrera, Comercial, De Credito, Discount, Do Brasil, Exterior de America, Frances, Hipotecario, Lloyds, Montevideo, Nacion Argentina, Galicia, Republica, Santander, Sudameris and Surinvest.

Multilateral Development Bank Offices in Country

Inter-American Development Bank (IADB)
Andes 1365
Montevideo, Uruguay
Tel: (5982) 900-0508; fax: (5982) 902-1556

Others (in the U.S.):

TPCC
Trade Information Center in Washington
Tel: 1-800-usa-trade

U.S. Department of State
Office of the Coordinator for Business Affairs:
Tel: (202) 746-1625; fax: (202) 647-3953

U.S. Department of State

Suzanne Lawrence
Uruguay Desk Officer
Tel: (202) 647-2296

U.S. Department of Commerce
David Schnier
Uruguay Desk Officer
Tel: (202) 482-0703; fax: (202) 482-4157;
E-mail: david.schnier@mail.doc.gov

U.S. Department of Agriculture
Foreign Agriculture Service
Trade Assistance and Promotion Office
Tel: (202) 720-7420

Or

Philip Shull
Agricultural Attache
American Embassy Buenos Aires
Tel: (5411) 4777-8054; fax: (5411) 4777-3623
E-mail: shullp@fas.usda.gov

Chapter XII. Market Research and Trade Events

The Embassy does not prepare complete market research reports but can arrange with a private contractor to do so at a client's request. The Embassy reports International Market Insights (IMI) on an ad hoc basis to the U.S. Department of Commerce's National Trade Data Bank (NTDB). Subjects currently reported include an energy sector overview, investment climate, airport construction project, diagnostic/electronic medical equipment, truck purchasing, travel conditions, bridge construction projects, economic trends, thermal power projects, road infrastructure developments, MERCOSUR automobile update, and dredging of rivers. A complete list of market research is available on the NTDB. The Embassy also prepares market overview reports (MOR) on the following growth sectors which are best prospects for U.S. exporters: telecommunications, forestry, medical equipment, energy, tourism, and environmental technologies. Interested readers can acquire the reports by contacting the Embassy's commercial section (tel: 5982-418-7777- ext. 2325) or through post's web page at www.embeeuu.gub.uy

Chapter XIII. Trade Event Schedule

U.S. firms interested in participating in fairs in Uruguay should contact the Embassy's commercial section (tel: 5982-418-7777- ext. 2325) or consult the export promotion calendar on the ntdb or the nearest department of commerce district office for the latest information or to arrange individual trade programs.

"Doing business between MERCOSUR and the United States" September 25-26 in Montevideo, Uruguay. MERCOSUR, the southern cone common market, is made up of Argentina, Brazil, Paraguay and Uruguay, with Chile and Bolivia as associate members. The featured sectors are: telecommunications; transportation; hardware, software, and peripherals; energy and mining; franchising; electric machinery; medical equipment; and agribusiness. The President of Uruguay has agreed to open the conference. High-level participants from the United States Government (including US Department of Commerce Assistant Secretary Michael Copps and Department of State's Anthony E. Wayne, Assistant Secretary for Economic and Business Affairs) have been invited to assist at the opening. Opening speeches will be followed by presentations by the MERCOSUR Ministers of Industry or their designees. The US Ambassadors and Senior Commercial Officers from MERCOSUR will also be making presentations and will be available for one-on-one consultations. TDA, EXIMANK, SBA, and OPIC have been invited. Firms of all sizes are welcome. Given the diverse nature of MERCOSUR, matchmaking should not depend on firm size. Web page: www.usa-mercosur.com has information about the event in English, Spanish, and Portuguese. For more information: usa-mercosur@uy.pwcglobal.com; montevideo.office.box@mail.doc.gov; or keatsk@state.gov.