Uruguay: 2013 Investment Climate Statement

<u>Openness to, and Restrictions Upon, Foreign Investment</u>

The Government of Uruguay has traditionally recognized the important role foreign investment plays in economic development and worked to maintain a favorable investment climate. The left-of-center Frente Amplio administration that will remain in power through March 2015 stresses the importance of local and foreign investment for social and economic development.

Uruguay and the United States signed a Bilateral Investment Treaty (BIT) in November 2005, which entered into force on November 1, 2006. Uruguay and the United States also signed an Open Skies Agreement in late 2004 (ratified in May 2006), a Trade and Investment Framework Agreement (TIFA) in January 2007, and a Science and Technology Cooperation Agreement in April 2008. Under the TIFA, in 2008, both countries signed two additional protocols on business facilitation and on the environment.

Law 16,906 (adopted in 1998) declares promotion and protection of investments made by national and foreign investors to be in the nation's interest. The law states that: (1) foreign and national investments are treated alike; (2) investments are allowed without prior authorization or registration; (3) the government will not prevent the establishment of investment in the country; and (4) investors may freely transfer abroad their capital and profits from the investment. Decree 002/12 (adopted in January 2012 superseding Decree 455/007 from 2007) regulates Law 16,906 and provides significant incentives to investors that have contributed to a strong increase in foreign and local investment.

Aside from a few limited sectors involving national security and limited legal government monopolies in which foreign investment is not permitted there is neither *de jure* nor *de facto* discrimination toward investment by source or origin, and national and foreign investors are treated equally. In general, the GOU does not require specific authorization for firms to set up operations, import and export, make deposits and banking transactions in any particular currency, or obtain credit. Screening mechanisms do not apply to foreign or national investments, and special government authorization is not needed for access to capital markets or to foreign exchange.

In tenders for private sector participation in state-owned sectors, foreign investors are treated as nationals and allowed to participate in any stage of the process. Bidders on tenders should be prepared for a lengthy adjudication process. Although U.S. firms have not encountered major obstacles in Uruguay's investment climate, some have been frustrated by the length of time it takes to complete bureaucratic procedures and tenders. In addition, the ease by which losing parties may ask for annulment of bid results and force a rebid can result in significant delays in the process.

Private-Public Partnerships were instated in July 2011 by Law 18,786, which was passed in Parliament by consensus. Implementing regulations were established in January 2012 by Decree 07/12.

The World Bank's 2013 "Doing Business" Index, which ranks 185 countries according to the ease of doing business, placed Uruguay 89th globally and 14th within the Latin American and the Caribbean region (33 countries). Uruguay gets high marks in the categories "getting electricity," "starting a business" and "resolving insolvency," but lags in "paying taxes," "dealing with construction permits," and "registering property."

Uruguay has gradually improved in the Corruption Perception Index over time, from 35th place in 2001 to 20th place a decade later, and is ranked as a "moderately free economy" by the Heritage Foundation's Index of Economic Freedom.

Table 1	Index	Ranking	Year
T.I. Corruption Perception Index (10 is lack of perceived corruption)	72	20 in 176	2012
Heritage Economic Freedom (100 is entirely free)	69.9	29 in 179	2012
World Bank's Doing Business (1 is easiest for doing business)		89 in 185	2013
MCC indicators are Not Applicable			

Conversion and Transfer Policies

Uruguay maintains a long tradition of not restricting the purchase of foreign currency or the remittance of profits abroad, even during the harsh 2002 banking and financial crisis.

Article 7 of the U.S.-Uruguay BIT provides that both countries "shall permit all transfers relating to investments to be made freely and without delay into and out of its territory." The agreement also establishes that both countries will permit transfers "to be made in a freely usable currency at the market rate of exchange prevailing at the time of the transfer."

Since 2002 the peso has floated freely, albeit with intervention from the Central Bank aimed at reducing the volatility of the price of the dollar. Foreign exchange can be freely obtained at market rates and there is no black market for currency exchange. The U.S. Embassy uses the official rate when purchasing local currency. There are no restrictions on technology transfer.

Expropriation and Compensation

In the event of expropriation, the Uruguayan Constitution provides for the prompt payment of "fair" compensation.

Article 6 of the U.S.-Uruguay BIT rules out direct and indirect expropriation or nationalization, except under certain very specific circumstances. The article also contains detailed provisions on how to compensate investors, should expropriation take place.

Dispute Settlement

The investor may choose between arbitration and the judicial system to settle disputes. Uruguay became a member of the International Center for the Settlement of Investment Disputes (ICSID) in September 2000. Uruguay's legal system is based on a civil law system derived from the Napoleonic Code, and the government does not interfere in the court system. The Judiciary is independent, albeit sometimes slow.

The U.S.-Uruguay BIT devotes over ten pages to establish detailed and expedited dispute settlement procedures.

Performance Requirements and Incentives

Article 8 of the U.S.-Uruguay Bilateral Investment Treaty bans both countries from imposing seven forms of performance requirements to new investments, or tying the granting of existing or new advantages to performance requirements.

Local and foreign investors are treated equally. There are no preferential tax deferrals, grants, or special access to credit for foreign investors. Foreign investors are not required to meet any specific performance requirements. Moreover, foreign investors are not inhibited by discriminatory or excessively onerous visa, residence, or work permit requirements. The government does not require that nationals own shares or that the share of foreign equity be reduced over time, and does not impose conditions on investment permits.

The investment promotion regime is regulated by Law 16,906 (passed in 1998) and Decree 002/12 (passed in January 2012). Law 16,906 grants automatic tax incentives to several activities including personnel training; research, scientific and technological development; reinvestment of profits; and investments in industrial machinery and equipment. Other benefits provided exclusively to industrial and agricultural firms by Law 16,906 have in practice been superseded by the regulating decree .

Decree 002/12 grants significant tax incentives to investors in a wide array of sectors and activities. Certain activities –such as the purchasing of land, real estate or private vehicles– are not eligible for the benefits. The principal incentive consists of the deduction from corporate income tax of a share of total investment (up to 100%) over a certain period. The amount of the deduction depends on the score the project gets in a matrix of pre-defined criteria. The matrix takes into account the project’s: (1) generation of jobs (quantity and quality); (2) contribution to research and development and innovation, or increase in the usage of clean technologies; (3) increase of exports; (4) contribution to geographic decentralization away from the capital Montevideo; and (5) sectoral indicators that vary according to the nature of the investment (e.g. capital market development, hiring of workers from vulnerable groups or contribution to tourism services and infrastructure).

Other incentives include: 1) exoneration from tariffs and taxes (including VAT) on imports of capital goods and materials for civil works that do not compete against local industry; 2) exoneration from the patrimony tax on personal property and civil works; 3) refunding of VAT paid on local purchases of materials and services for civil works; and 4) special tax treatment of fees and salaries paid for research and development.

Local and foreign investors reacted positively to Decree 455/007. The number of investment proposals approved for tax exemptions doubled in 2008 to 310, valued at over US$1 billion, well above the 58 proposals submitted annually in 2002-2007. Despite the global economic crisis, the number of investment proposals increased further in 2009, 2010 and 2011 (to US$1.3 billion, US$1.2 billion and US$1.4 billion, respectively). In 2012 Uruguay experienced a record year with US$2.0 billion of proposed projects through November (60 percent increase from Jan-Nov. 2011) It is unknown how many of these proposals materialized into concrete projects.

There are special regimes to promote tourism, communications, call centers, production of electronics and electronic equipment, software exports, printing activity, naval and aeronautic industries, forestry, production of vehicles or auto parts, and construction of agricultural machinery. The exploration and exploitation of hydrocarbons is also incentivized, as well as the production of biofuels and the generation of renewable energies.

None of the promotion systems described above differentiates between foreign and national investors.

A government decree establishes that government tenders will favor local products or services, provided they are of equal quality and not more than 10 percent more expensive than foreign goods or services. U.S. and other foreign firms are able to participate in government-financed or subsidized research and development programs on a national treatment basis.

Right to Private Ownership and Establishment

Private ownership does not restrict a firm or business from engaging in any form of remunerative activity, except in two areas: national security interest and legal government monopolies (see Competition from State Owned Enterprises). One hundred percent foreign ownership is permitted, except where restricted for national security purposes.

In December 2011, the Uruguayan Parliament passed Law 18,876 establishing a new tax on large landholdings. The law, which was debated even within the ruling party, applies equally to local and foreign investors and taxes land property in a progressive fashion. Taxes range from US$3.5 per acre to $7.1 per acre depending on the farm’s size. As of January 2012 over 100 legal challenges have been filed before the Uruguayan Supreme Court, which has to determine whether the tax is compatible or not with Uruguay’s Constitution.

Protection of Property Rights

Secured interests in property and contracts are recognized and enforced. Mortgages exist, and there is a recognized and reliable system of recording such securities. Uruguay's legal system protects the acquisition and disposition of all property, including land, buildings, and mortgages. Execution of guarantees has traditionally been a slow process. A Bankruptcy Law passed in 2008 (No. 18,387) seeks to expedite such executions, encourages arrangements with creditors before a firm goes definitively bankrupt, and provides the possibility of selling the firm as a single productive unit.

In 2005, soon after taking office, the Frente Amplio administration of President Tabare Vazquez rescinded a 1966 decree that enabled employers to request police action to evict occupying workers. Under certain circumstances the GOU considers occupations as a licit extension of workers' right to strike, a point of view generally opposed by employers. In November 2008, the International Labor Organization (ILO) released a report suggesting that Uruguay revise its legislation on this issue. (See Labor Section for further information)

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

In 2003, Uruguay passed new TRIPS-compliant copyright legislation. The 2003 copyright law represented a significant improvement over the 1937 law. The Office of the U.S. Trade Representative (USTR) removed Uruguay from its Special 301 Watch List in 2006 due to progress in enforcing Intellectual Property Rights (IPR), especially with respect to copyright enforcement.

Patents are protected by Law 17,164 of September 2, 1999. Invention patents have a twenty-year term of protection from the date of filing. Patents for utility models and industrial designs have a ten-year term of protection from the filing date and may be extended for an additional five. The law defines compensation as "adequate remuneration" to be paid to the patent-holder. Some industry groups believe that the law's compulsory licensing requirements are not TRIPS consistent and criticize the slowness of the patent-granting process. Other industry groups criticize the lack of a data protection law.

The GOU approved a trademark law on September 25, 1998, upgrading trademark legislation to TRIPS standards. Under this law, a registered trademark lasts ten years and can be renewed as many times as desired. It provides prison penalties of six months to three years for violators, and requires proof of a legal commercial connection to register a foreign trademark. Enforcement of trademark rights has improved in recent years. Notwithstanding, local citizens have sometimes managed to register trademarks without owners' prior consent.

Transparency of Regulatory System

Transparent and streamlined procedures regulate foreign investment. However, long delays and repeated appeals can significantly delay the process to award international and public tenders.

Article 10 of the Uruguay-U.S. BIT mandates both countries to publish promptly or make public any law, regulation, procedure or adjudicatory decision related to investments. Article 11 sets transparency procedures that govern the accord.

Efficient Capital Markets and Portfolio Investment

The banking system is generally sound and has good capital, solvency and liquidity ratios. Profitability, in a context of low international interest rates and low demand for credit, is a problem. With over 40 percent of the market, government-owned Banco de la Republica is the largest bank. Long-term banking credit has traditionally been difficult to obtain. Foreign investors can access credit on the same market terms as nationals.

Uruguay's capital market is underdeveloped and highly concentrated in sovereign debt, making it hard to finance through the local equity market. Uruguay is receiving "active" investments oriented to establishing new firms or gaining control over existent ones, but lacks "passive" investments from investment funds. There is no effective regulatory system to encourage and facilitate portfolio investment.

A capital markets law (No. 18,627) was passed in December 2009 to try to jumpstart the local capital market. The 138-article law is a substantial revision of the 1996 law that was only 53 articles long. The 2009 law sought to increase market transparency, competitiveness and efficiency and protect investors' interests while complying with the guidelines of the International Organization of Securities Commission (IOSCO) and the IMF. Among other things, the law offered tax incentives to help develop the capital market, gave more regulatory powers to the Central Bank, and provided for new corporate governance regulations on debt issuers and increased protection of minority shareholders. Despite the new regulation the capital market did not take off and pension funds currently handle funds that are ten-fold the local market's capitalization.

There are two stock exchanges; a purely electronic one (BEVSA), which encompasses the vast majority of transactions, and one that combines floor and electronic operations (Bolsa de Valores de Montevideo, BVM). Trading in shares and commercial paper is virtually nil (only six firms are registered with BVM to issue shares), severely limiting market liquidity.

Bearer shares, which were widely used, were banned in 2012 as part of the process of complying with OECD requirements (see Bilateral Investment Agreements section).

Private firms do not use "cross shareholding" or "stable shareholder" arrangements to restrict foreign investment, nor do they restrict participation in or control of domestic enterprises. There are eight investment funds authorized but most are not operating. Risk rating firms first came to Uruguay in 1998.

Competition from State Owned Enterprises

Uruguay maintains state monopolies in a number of areas where direct foreign equity participation is prohibited by law. These include the importing and refining of oil, workers' compensation insurance, and landline telephony. Water sanitation, which had been opened to private-sector participation in the mid-1990s, returned to government control in 2004 after a referendum determined that water is a natural resource to be administered exclusively by the State.

Some previously government-run monopolies have been opened to private-sector competition. Cellular and international long distance services, insurance, and media services are open to local and foreign competitors. Despite competition, state-owned companies have the largest market share in all the aforementioned sectors. Private-sector generation of power is allowed and increasing, especially in renewable energies, but the state-owned power company UTE holds the monopoly on wheeling rights.

State-run monopolies sometimes contract with foreign-owned companies to provide specific services over a period of time under Build-Operate-Transfer (BOT) systems. Road construction and maintenance, and the construction and operation of both Montevideo's port container terminal and the international airport, are examples of BOT projects. The state-owned oil company ANCAP has also established associations with foreign partners for off-shore exploration.

In an attempt to address its major infrastructure shortage while preserving fiscal balance in July 2011 Uruguay passed a Public-Private-Partnerships law (No. 18,786). The law was passed in Parliament by consensus and regulated in January 2012 by Decree 07/12. The law formalizes the procedures, responsibilities, and obligations from the State and private investors. According to specialists, while the law in its broadest sense closely tracks the Spanish model, it also incorporates numerous aspects of "Anglo-Saxon" models from the UK, Canada, and Australia. The law provides a wide and neutral definition of Public-Private-Partnership (PPP) and allows various kinds of contracts that enable private sector companies to design, build, finance, operate and maintain certain infrastructures, including brownfield projects. With some exceptions (such as medical services in hospitals or educational services in schools) PPPs can also be applied to social infrastructure. The return for the private sector company may come in the form of user payments, government payments or a combination of both. The procurement process is clear in the law and requires fair and open competition. Interested PPP bidders must demonstrate the background and financial strength asked for in the terms of reference of the PPP procurement process. Unilateral modifications to the contract are not allowed if not agreed up front, which provides stability to the contract.

The GOU believes the law will attract further participation in major infrastructure projects such as highway and railway construction and operation, waste disposal, and energy. The first call for PPP proposals –to build a prison for about 2,000 inmates– was released in December 2012.

Most state-owned firms are defined as autonomous but in practice coordinate certain issues, mainly tariffs, with their respective ministries and the Executive Branch. State-owned firms are required by law to publish an annual report, and their balances are audited by independent firms.

Corporate Social Responsibility

The concept of Corporate Social Responsibility (CSR) is relatively new in Uruguay, but many companies do abide by the principles of CSR as a matter of course. Many multinational companies find it advantageous to stake out a CSR strategy and have made significant contributions in promoting safety awareness, better regulation, a positive work environment and sustainable environmental practices. Consumers do pay attention to the CSR image of companies, especially as it relates to a firm's work with local charity or community causes. U.S. companies have proven to be leaders in promoting a greater awareness of and appreciation for CSR in Uruguay.

Political Violence

There have been no recent cases of political violence. Uruguay is a stable democracy in which respect for the rule of law is the norm and the majority of the population is committed to non-violence.

The Economist's 2011 Democracy Index ranked Uruguay as the most democratic country in Latin America and the Caribbean (LAC), and one of only two "full democracies" in the region, together with Costa Rica.

A 2011 Latinobarometro study pointed to Uruguay as the country that is the second most supportive of democracy and the most opposed to authoritarian governments among 18 Latin American countries. Moreover, Uruguayans registered the greatest level of satisfaction with "the way democracy works in practice" and concurred most among respondents in Latin America that the "government rules for the benefit of the people." Uruguay also headed Latinobarometro's rankings of political participation and freedom of speech in Latin America.

Corruption

Overall, U.S. firms have not identified corruption as an obstacle to investment.

Scoring 72 points (out of 100) in the 2012 edition of Transparency International's Corruption Perception Index, Uruguay and Chile ranked first (as in the least corrupt) in the Latin America and the Caribbean region and 20th globally (among 176 countries). The United States ranked 19th with a score of 73. Uruguay has gradually improved in the Corruption Perception Index over time, from 35th place in 2001 to 20th place a decade later.

Uruguay has strong laws to prevent bribery and other corrupt practices. A law against corruption in the public sector was approved in 1998, and acceptance of a bribe is a felony under Uruguay's penal code. Several Uruguayan officials and two judges were prosecuted for corruption in recent years.

Laws 17,835 and 18,494 (passed in 2004 and 2009) and Decree 226/10 establish a strong framework against money laundering and terrorism finance and include corruption as a preceding crime. Money laundering is penalized with sentences of up to ten years (which also apply to Uruguayans living abroad).

Bilateral Investment Agreements

In November 2005, Uruguay and the United States signed a Bilateral Investment Treaty (BIT) to promote and protect reciprocal investments, which was subsequently ratified by both legislatures and entered into force on November 1, 2006. The full text of the agreement is available at www.ustr.gov/Trade_Agreements/BIT/Section_Index.html or http://uruguay.usembassy.gov/economic-data.html.

Among other benefits, the BIT grants national and most-favored-nation treatments to investments and investors sourced in each country. The agreement also includes detailed provisions on compensation for expropriation, and a precise procedure for settling bilateral disputes. The annexes include sector-specific measures that are not covered by the agreement and specific sectors or activities which governments may restrict further.

Uruguay also has BITs with Argentina, Brazil and Paraguay (its MERCOSUR partners, signed in 1994) and 31 other countries (Armenia, Australia, Belgium, Canada, Chile, China, Czech Republic, El Salvador, Finland, France, Germany, Great Britain, Hungary, India, Israel, Italy, Luxembourg, Malaysia, Mexico, Portugal, The Netherlands, Panama, Poland, Portugal, Romania, Spain, South Korea, Sweden, Switzerland, Venezuela and Vietnam).

In 2009, the GOU reacted to its inclusion by the OECD in a grey list of jurisdictions that had not "committed to implement the internationally agreed tax standard" and has since endorsed OECD standards on transparency and exchange of information. From 2009 through 2012 the GOU upgraded several regulations to meet such standards, including signing several tax information exchange agreements (TIEAs), relaxing bank secrecy provisions, and modifying its bearer shares system. In October 2012 the OECD acknowledged the GOU's progress and allowed Uruguay to move on to the second phase of the review process, consisting of a survey of the practical implementation of the standards.

According to the OECD's Global Forum on Transparency and Exchange of Information for Tax Purposes, as of January 2013 Uruguay has 24 TIEAs in place, 13 of which include double taxation provisions. Most TIEAs lack parliamentary ratification.

TIEAs with double taxation provisions exist with Ecuador, Finland, Germany, Hungary, Liechtenstein, Mexico, Portugal, Spain and Switzerland. Agreements with Argentina, Finland, India, Malta, Romania and South Korea are pending parliamentary ratification.

Uruguay also has a TIEA (without double taxation provisions) with France that is in effect, and with nine other countries pending parliamentary ratification (Australia, Brazil, Denmark, Faroe Islands, Greenland, Iceland, The Netherlands, Norway and Sweden).

OPIC and Other Investment Insurance Programs

The GOU 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 available in Uruguay.

Labor

From a global perspective, respondents to the 2012-13 edition of the World Economic Forum's Global Competitiveness Report identified "restrictive labor regulations" as the "most problematic issue for doing business in Uruguay." According to the WEF, Uruguay's labor markets are considered "very rigid, with some of the world's most restrictive hiring and firing practices and a lack of flexibility in wage determination that does not match pay to productivity." Globally, the report ranks Uruguay as the country with the least flexibility in wage determination among 144 countries.

A law on Collective Bargaining (No. 18,566) was passed in September 2009, which among other things established a bargaining system structured at three levels: national scope; branch of activity or productive chain; and bipartite collective bargaining at the company level. The law was adamantly opposed by the two most representative local business chambers and the International Organization of Employers, which filed a case against the government before the International Labor Organization's Freedom of Association Committee in February 2009.

Salary Councils consist of a three party board including representatives from unions, employers, and the government. The councils are responsible for setting the wage increases for individual sectors. If unions and employers fail to reach an agreement to determine the wage increase to be applied for sectors, the government makes the final decision.

Social security payments are high and increase employers' basic wage costs by about 30 percent. An employer can dismiss workers as long as the firing is not deemed discriminatory and the employer pays the worker one month for each year of work, with a cap of six months.

In 2005, soon after taking office, the Frente Amplio administration of President Tabare Vazquez rescinded a 1966 decree that enabled employers to request police action to evict occupying workers. Occupations surged in 2005 and 2006 (from an annual rate of 15-20 per year prior to 2005 to 36 in 2006) and declined in 2007 to 30. In 2008, 150 plants were occupied for one day during a conflict in the metal industry, and seven plants were occupied in a conflict in the plastic industry in 2009. Twenty-one plants were occupied in 2010 (equivalent to 14 percent of total conflicts) and in 2011 another metal industry conflict resulted in the simultaneous occupation of between 30-50 factories (figures vary depending on the sources).

On December 2, 2010 the GOU passed a decree providing expedited procedures for evicting occupants of public-sector workplaces. The PIT-CNT (Uruguay's largest labor union federation) initially assessed the measure as unconstitutional. The business community thought the decree was as a positive step forward, but criticized that the GOU for using a different standard to deal with workers´ occupations in the private and public sectors.

At 98.3 percent according to the World Bank, Uruguay's literacy rate is the second highest in South America . However, Uruguay endures longstanding problems in its educational system (including a high dropout rate in high school and poor performance in the OECD's Program for International Student Assessment, PISA) that could reduce the number of qualified workers available over the mid-term.

Some foreign investors have also reported concerns about the productivity level of Uruguay's workforce. At a macro level, the GOU estimates that productivity increases account for about half of the strong economic growth that took place between 2005 and 2011. Productivity is usually not included in the negotiations that take place in the salary councils. Given the strong economic growth, very low current unemployment (that limits future growth based on labor accumulation) and inflationary pressures, the GOU is concerned about fostering productivity and intends to include productivity measures in upcoming wage negotiations.
Uruguay has ratified numerous International Labor Organization (ILO) conventions that protect worker rights, and generally adheres to their provisions. The Uruguayan constitution guarantees workers the right to organize and strike, and union members are protected by law against dismissal for union activities. Sympathy strikes are legal. In labor trials, the Judiciary tends to rule in favor of the worker, as s/he is considered to be the weaker party. Labor unions are nominally independent from the government but in practice have a close affinity with the ruling Frente Amplio party.

Several labor laws strengthening unions and labor rights have been passed since 2005. The law on the "Promotion and Protection of Labor Unions," passed in 2006, renders any discriminatory action affecting the employment of unionized workers illegal. Among other measures, the law provides for the immediate reinstatement of the employee if any infringement of the law is proven. Business chambers strongly opposed the bill, arguing that it slanted labor relations heavily in favor of unions. Unionization tripled from about 110,000 in 2003 to about 330,000 in 2011 (about 21 percent of employed workers), and is particularly high in the public sector.

Law 18,099 (passed in 2007) on outsourcing was adamantly opposed by the business community, as it made employers responsible for possible labor infringements on employees by third-party firms that were contracted by the employers. The GOU later passed Law 18,251 (also in 2007) to mollify some of the private sector's concerns.
Although investment is rising, there is an ongoing discussion about the impact of the labor situation on productivity and whether labor conflicts scare foreign investors.

Foreign-Trade Zones/Free Ports

The operation of free trade zones (FTZs) is regulated by Law 15,921 (from 1987) and the Ministry of Finance's Free Trade Zone Directorate. Thirteen FTZs are located throughout the country Most FTZs host a wide variety of tenants performing various services (e.g., financial, software, call centers, warehousing and logistics). One FTZ was created exclusively for the development of pharmaceuticals, and two for the production of paper pulp. Since MERCOSUR regulations treat products manufactured in most member states' FTZs (with the exception of Tierra del Fuego and Manaus located in Argentina and Brazil) as extra-territorial –and hence charge them its common external tariff upon entering any member country– industrial production in local FTZs is destined to non-MERCOSUR countries.
Goods, services, products, and raw materials of foreign and Uruguayan origin may be brought into the FTZs, held, processed, and re-exported without payment of Uruguayan customs duties or import taxes. Government monopolies are not honored within FTZs. Local and foreign-owned industries alike enjoy several advantages in an FTZ, including exemption from all domestic taxes. Customs duty exemptions are applicable to the entry and exit of goods. Additionally, the

employer does not pay social security taxes for non-Uruguayan employees who have waived coverage under the Uruguayan social security system. However, Uruguayans must comprise at least 75 percent of a company's labor force to qualify for FTZ tenancy. Goods of Uruguayan origin entering into FTZs are treated as Uruguayan exports for tax and other legal purposes.

Decree 344/010 passed in November 2010 introduced some changes in the free zone regime in order to discourage the establishment of shell or "paper" companies in free zones for tax evasion purposes. The Decree requires companies to submit a business plan and limits the term of the authorization to ten years, which is renewable upon GOU review.

Article 309 of Law 18,996 (passed in November 2012) regulates the kind of activities that FTZ users can perform outside the FTZs. For instance, the law prevents them from performing commercial activities of substantial nature (e.g. selling, exhibiting or delivering) related to goods destined to Uruguay's regular (i.e. non-free zone) territory. The law also requires users to request a GOU permit to perform non-substantive activities outside FTZs.

As of January 2013 the GOU was working on a decree to modify the free zones regime with a view to promoting the use of qualified labor in high-tech or knowledge-intensive projects; relaxing the 25% cap for foreign workers; and giving additional incentives to new free zones that settle in the interior of the country.

Law 17,547 passed in August 2002 allows for the establishment of Industrial Parks. Several decrees signed since 2007 have made Industrial Parks more attractive and since then a number have been created. Several of these Parks are sector specific (e.g. pharmaceuticals, technological or warehousing). Advantages include fiscal exemptions and tax benefits. Industrial Parks can be established by the private sector or the national or local governments.

Uruguay has other special import regimes in place, including Temporary Admission, Private Customs Deposits and Free Ports. The Temporary Admission regime allows manufacturers to import duty-free the raw materials, supplies, parts and intermediate products they will use to manufacture products that will later be exported. The system requires a government authorization and that final products be exported within a period of 18 months. Firms do not have to be located in a specific location to benefit from Temporary Admission.

The Free Port and Bonded Warehouses are special areas where goods that are kept within the premises are exempted from all import-related duties and tariffs. While in the premises, merchandise may be labeled, fractioned and re-packaged. The two differences between the Free Ports and the Bonded Warehouses regimes are that goods can stay for an unlimited amount of time in Free Ports (Bonded Warehouses restrict the stay to one year), and processes done in Free Ports can not modify the nature of the good (industrialization is allowed in Bonded Warehouses)

The GOU has been increasingly promoting Uruguay as a regional, world-class logistics and distribution center. In December 2010 it created the National Logistics Institute (INALOG by its Spanish acronym). INALOG brings together the public and private sectors to combine and coordinate efforts towards establishing Uruguay as the leading MERCOSUR distribution hub. Road and railway rehabilitation and the construction of a new deep-water port under the PPP regime are included in this effort. Follow this link to a report by Uruguay's Investment Promotion Agency on the Uruguay's role and advantages as a logistics hub.

Foreign Direct Investment Statistics

While Foreign Direct Investment (FDI) in Uruguay has been traditionally low (even by Latin American and regional standards), it surged in the last decade with a seven-fold growth in 2001-2011. In 2005-2011, Uruguay ranked second in the ratio of FDI to GDP in South America, after Chile but about two-fold neighboring Brazil or Argentina.

Annual inflows of FDI rose gradually from US$332 million in 2004 (2.4 percent of GDP) to $2.2 billion in 2011 (4.7 percent of GDP). Except for a drop in 2008 FDI has not been hit by the global economic and financial crisis. On an annual basis Uruguay's FDI/GDP ratio has been under Chile's and on par with Peru's since 2009.

The sectors that received the greatest amount of FDI in 2003-11 were construction (real estate in Punta del Este, hotels, and office buildings), agriculture (forestry, ranching, farming, and slaughterhouses, and industry (food and beverages and chemicals).

In recent years Uruguay has received unusually large-scale investments. In 2005-06 Finnish firm UPM (ex-Botnia) made Uruguay's largest-ever foreign investment with the construction of a $1.2 billion pulp mill. In 2011-13 Finnish-Swedish-Chilean Montes del Plata is investing an even larger projected sum –$1.9 billion in plant and $0.7 billion in land– in another pulp mill project. As of early 2013 there are ongoing discussions about a mega-mining project (in which an Indian/UK firm plans to invest about $3.0 billion) and the possible construction, likely under PPP, of a deep water port along the eastern seaboard.

Four countries –Argentina, Spain, Brazil and the United States– account for about half of total FDI in 2007-11. With an investment of $2.7 billion in the five-year term (equivalent to 28 percent of total FDI) Argentina was the largest investor. Spain accounted for 7 percent ($712 million), Brazil for 7 percent ($657 million) and the United States for 4 percent ($395 million).

According to Uruguay's Central Bank the United States and held the 4th largest stock of investment in 2011 –$760 million (the U.S. Department of Commerce's Bureau of Economic Analysis indicates an investment stock of $905 million in 2011). The Central Bank also reports that the United States was the 4th largest investor in the 2001-2011 decade preceded by Argentina, Spain and Brazil. Annual average U.S. investment more than tripled to $79 million in 2007-2011 from $23 million in 2001-2006. Uruguay's Investment and Export Promotion Agency, Uruguay XXI, gets numerous inquiries from U.S. businesspeople.

U.S. investment is distributed among a wide array of sectors –mainly forestry, tourism and hotels, services (e.g. call centers or back office) and telecommunications. About 130 U.S. firms operate in Uruguay. Major firms include Weyerhaeuser (forestry), Conrad Hotels (tourism and gambling), Sabre (call center), McDonald's (restaurants) and Pepsi (beverages).

Host country contact information for investment-related inquiries

Uruguay XXI – Investment and Export Promotion Agency
Mr. Roberto Villamil
Executive Director
Address: Rincón 518/528, Montevideo, Uruguay
Tel: (598) 2915 3838 - Fax: (598) 2916 3059
Web page: http://www.uruguayxxi.gub.uy