

## **Executive Summary**

The Government of Uruguay recognizes the important role foreign investment plays in economic development and maintains a favorable investment climate that does not discriminate against foreign investors.

Uruguay has a stable legal system in which foreign and national investments are treated alike, most investments are allowed without prior authorization and investors may freely transfer abroad their capital and profits from their investment. Investors can choose between arbitration and the judicial system to settle disputes. The World Bank's 2016 "Doing Business" Index placed Uruguay 4th out of eleven countries in South America.

There are significant tax incentives for investors which, together with strong economic growth and booming commodities prices, contributed to a strong increase in foreign and local investment over the past decade. Foreign Direct Investment (FDI) rose from an average of \$0.3 billion in 2000-2004 to \$2.5 billion in 2010-2014. Over the past decade, Uruguay received the third largest inflow of FDI in South America adjusted by Gross Domestic Product (GDP), especially in pulp mills, construction, agriculture and industry.

With the fourth largest stock of foreign investment, the United States is an important investor in Uruguay. Currently about 130 U.S. firms operate locally and distribute their investments amongst a wide array of sectors, including forestry, tourism and hotels, other services, and telecommunications.

Uruguay is a stable democracy. Political risk is low and there have been no recent cases of expropriation. U.S. firms have not identified corruption as a problem for investment.

Uruguay has free trade agreements with its Mercosur partners (Argentina, Brazil, Paraguay and Venezuela), as well as Chile, Bolivia, Colombia, Ecuador, Mexico and Peru. Its strategic location (in the center of Mercosur's wealthiest and most populated area) and its special import regimes (such as free zones and free ports) also make it a well-situated distribution center for U.S. goods into the region. Several U.S. firms warehouse their products in Uruguay's tax free areas and service their regional clients effectively. With a market of 3.3 million high-income consumers, Uruguay is a good test market for U.S. products.

Uruguay has bilateral investment treaties with over 30 countries, including the United States. The two countries have also signed agreements or Memorandums of Understanding (MOU) on Open Skies, Trade and Investment, Cooperation in Science and Technology, Promotion of Small and Medium Firms and Customs Mutual Assistance. As of April 2016, both governments are negotiating an agreement on social security. The United States does not have a double-taxation treaty with Uruguay.

### **1. Openness To, and Restrictions Upon, Foreign Investment**

#### **Attitude toward Foreign Direct Investment**

The Government of Uruguay (GOU) has traditionally recognized the important role that foreign and local investment plays in economic and social development and works to maintain a favorable investment climate.

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, both countries signed two additional protocols on business facilitation and on the environment in 2008. In 2014, Uruguay and the United States signed agreements or MOUs to foster scientific and technological exchange, promote Small and Medium Firms, and facilitate the mutual assistance of their Customs. As of April 2016, both governments are negotiating an agreement on social security that would, among other things, facilitate the temporary stay of expats and workers in each country.

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.

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.

### **Other Investment Policy Reviews**

The most recent investment policy review on Uruguay was done by the World Trade Organization (WTO) in 2012 and is available at [http://www.wto.org/english/tratop\\_e/tpr\\_e/tp363\\_e.htm](http://www.wto.org/english/tratop_e/tpr_e/tp363_e.htm)

The World Bank's 2016 Doing Business Report ranks Uruguay 4th out of 11 countries in South America for its ease of doing business.

### **Laws/Regulations of Foreign Direct Investment**

Investors may choose between arbitration and the judicial system to settle disputes. Uruguay's legal system is based on a civil law system derived from the Napoleonic Code, and the Judiciary is transparent and remains independent of the executive branch.

Law 16,906 (passed 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 (passed in January 2012 superseding Decree 455/007 from 2007) regulates Law 16,906 and provides significant incentives to investors, which have contributed to a strong increase in foreign and local investment.

Uruguay's Investment and Promotion agency's website helps potential investors navigate the laws, rules and incentives available to both foreign and local investors.

[http://www.uruguayxxi.gub.uy/index\\_en.html](http://www.uruguayxxi.gub.uy/index_en.html). In 2010 the GOU created a program to create firms in 24 hours, <http://empresaeneldia.portaldelaempresa.gub.uy/Apia/index.htm>

### *Business Registration*

Uruguay receives high marks in electronic government. It was ranked third in the entire Western Hemisphere according to the UN's 2014 electronic government development index, (after the United States and Canada), and third globally according to the UN's electronic participation index.

Domestic and foreign businesses can fully register their operations in days and without a notary at <http://empresas.gub.uy>

Uruguay's investment promotion agency, Uruguay XXI (<http://www.uruguayxxi.gub.uy/>) facilitates foreign investment to all investors, irrespective of the amount of investment or number of employees. Preferences to facilitate investment and business operations are available to domestic and foreign-owned MSMEs.

Uruguay defines micro, small and medium-sized enterprises (MSMEs) according to the number of employees and revenues. Micro firms employ between one and four workers and have annual revenues of about \$213,000. Small firms employ between five and twenty workers and have annual revenues of about one million dollars. In turn, medium firms employ between twenty and ninety-nine workers and have annual revenues of about eight million dollars. (Revenues figures were converted into dollars at the April 2016 exchange rate).

### **Industrial Promotion**

Uruguay has special regimes to promote the following activities: tourist industry; audiovisuals; exploration and exploitation of hydrocarbons, production of biofuels and generation of renewable energies; biotechnology; call centers and shared services centers; foreign financial intermediation; forestry; communications; electronics and electronic equipment; printing; naval and aeronautic industries; construction of vehicles, auto parts, freight vehicles or agricultural machinery; industrial solid waste; and software.

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

### **Limits on Foreign Control and Right to Private Ownership and Establishment**

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, with national and foreign investors 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.

### **Privatization Program**

Uruguay has not undertaken any major privatization program in the recent past. While some previously government-run monopolies have been opened to private-sector competition, the government continues to have a monopoly in several key sectors (please refer to section 9 for more information).

Private-Public Partnerships are governed by Law 18,786, which was passed in Parliament by consensus in July 2011, and Decrees 07/12 and 251/15 passed in 2012 and 2015. As of April 2016 there is one ongoing project and several in the pipeline.

### **Screening of FDI**

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.

### **Competition Law**

Uruguay has policies and laws to foster competition. Both from 1997, the two pillars are Law 18,159 and Decree 404. The Ministry of Economy has a special division to promote and defend competition.

Two regulatory agencies for telecommunications (URSEC) and water and energy (URSEA) were created in 2001 to, among other things, regulate and control their respective markets. In 2010, the Executive Branch transferred URSEC's policy-design capacity to the National Telecommunications Directorate (DINATEL), leaving it only with control attributes.

An Audiovisual Communications Law, known locally as the media bill (No 19,307 passed in December 2014 and pending regulation as of April 2016) includes provisions on market caps for cable TV providers that could limit competition. In April 2016, Uruguay's Supreme Court ruled these market caps and some local content requirements unconstitutional.

### **Investment Trends**

Uruguay's traditionally low levels of investment rose significantly over the last decade following an increase in domestic investment and a surge in Foreign Direct Investment (FDI).

Domestic investment rose from 15% of GDP in 1996-2005 to 20% of GDP in 2006-2015. In turn, FDI surged from an average of \$0.3 billion in 2000-2004, to \$1.5 billion in 2005-2009 and \$2.5 billion in 2010-2014. The historical record was at \$3.1 billion in 2013. With a 5.7% FDI

to GDP ratio in 2005-2014, Uruguay ranked third in South America (after Guyana and Chile) and received twice as much FDI/GDP as neighboring Brazil and three-fold Argentina's.

In recent years, Uruguay has received unusually large-scale investments. In 2005-06, the Finnish firm UPM (formerly Botnia) made Uruguay's largest-ever foreign investment with the construction of a \$1.2 billion pulp mill. In 2011-14, Finnish-Swedish-Chilean Montes del Plata invested an even larger projected sum –\$1.9 billion in plant and \$0.7 billion in land– in another pulp mill project. The other sectors that received the greatest amount of FDI, besides pulp mills, 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).

U.S. investment in Uruguay has risen to an annual average of \$90 million in 2012-2014 from an annual average of \$69 million in 2009-2011. About 130 U.S. firms operate in Uruguay and directly employ over 15 thousand workers. Major firms include Weyerhaeuser (forestry), Coca Cola (beverages), Conrad Hotels (tourism and gambling), Sabre (call center), McDonald's (restaurants) and Pepsi (syrops).

*Table 1*

<b>Measure</b>	<b>Year</b>	<b>Index or Rank</b>	<b>Website Address</b>
<b>TI Corruption Perceptions index</b>	2014	21 of 175	<a href="http://transparency.org/cpi2014/results">transparency.org/cpi2014/results</a>
<b>World Bank's Doing Business Report "Ease of Doing Business"</b>	2015	92 of 189	<a href="http://doingbusiness.org/rankings">doingbusiness.org/rankings</a>
<b>Global Innovation Index</b>	2015	68 of 143	<a href="http://globalinnovationindex.org/content/page/data-analysis">globalinnovationindex.org/content/page/data-analysis</a>
<b>U.S. FDI in partner country (\$M USD, stock positions)</b>	2015	1,478/956	BEA/Uruguay's government
<b>World Bank GNI per capita</b>	2014	16,350	<a href="http://data.worldbank.org/indicator/NY.GNP.PCAP.CD">data.worldbank.org/indicator/NY.GNP.PCAP.CD</a>

## 2. Conversion and Transfer Policies

### Foreign Exchange

Uruguay maintains a long tradition of not restricting the purchase of foreign currency or the remittance of profits abroad. Free purchases of foreign currency and remittances were preserved even during the severe 2002 banking and financial crisis.

Uruguay does not engage in currency manipulation to gain competitive advantage. 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.

### *Remittance Policies*

Uruguay maintains a long tradition of not restricting remittance of profits abroad.

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."

Uruguay is considered a Jurisdiction of Primary Concern for money laundering in the US Department of State's International Narcotics Control Strategy Report (INCSR II).

## **3. Expropriation and Compensation**

Uruguay's Constitution declares property rights an "inviolable right" subject to legal determinations that may be taken for general interest purposes, and states that no individuals can be deprived from this right –except in case of public need and with a previous and 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.

There have been no cases of expropriation of investment – neither from the United States nor from other countries – in the past five years.

## **4. Dispute Settlement**

### **Legal System, Specialized Courts, Judicial Independence, Judgments of Foreign Courts**

Uruguay's legal system is based on a civil law system derived from the Napoleonic Code and includes written commercial law. Two courts specialized on Organized Crime deal with intellectual property claims.

The Judiciary is transparent and remains independent of the executive branch. However, it has sometimes been criticized for being slow. The executive branch rarely interferes directly in judiciary matters, but at times has voiced its dissatisfaction of court rulings.

### **Bankruptcy**

A Bankruptcy Law passed in 2008 (No. 18,387) sought to expedite bankruptcy procedures,

encouraged arrangements with creditors before a firm goes definitively bankrupt, and provided the possibility of selling the firm as a single productive unit.

The World Bank's 2016 Doing Business Report ranks Uruguay 4th out of 11 countries in South America for its ease of "resolving insolvency."

### **Investment Disputes**

Over the past 10 years, no U.S. citizens or corporations have been involved in an investment dispute.

In February 2010, the tobacco company Philip Morris International sued the Government of Uruguay, arguing that new health measures involving cigarette packaging amounted to unfair treatment of the firm. The case was filed under the Uruguay-Switzerland Bilateral Investment Treaty and, as of April 2016, remains before ICSID.

### **International Arbitration**

Investors may choose between arbitration and the judicial system to settle disputes. Local courts recognize and enforce foreign arbitral awards.

The U.S.-Uruguay BIT devotes over ten pages to establish detailed and expedited dispute settlement procedures. There have been no claims under the agreement.

#### *ICSID Convention and New York Convention*

Uruguay became a member of the International Center for the Settlement of Investment Disputes (ICSID) in September 2000 and is also a signatory of the 1958 New York Convention on the Recognition and Enforcement of Foreign Arbitral Awards.

### **Duration of Dispute Resolution**

Uruguay's Judiciary is independent, albeit sometimes slow according to private sector representatives. Courts' decisions are enforced and international arbitration awards are respected.

## **5. Performance Requirements and Investment Incentives**

### **WTO/TRIMS**

The WTO's Trade Policy Review on Uruguay (2012) does not mention any measures that are inconsistent with Trade Related Investment Measures (TRIMs) requirements.

### **Investment Incentives**

The investment promotion regime is regulated by Law 16,906 (passed in 1998) and Decree 002/12 (passed in January 2012) that grants significant tax incentives to investors in a wide array

of sectors and activities.

Law 16,906 grants automatic tax incentives of up to 40% of corporate income tax 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 have in practice been superseded by the regulating decree.

On top of the automatic tax exemptions, Uruguay has several other incentives for activities that help achieve specific goals. 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 that 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). Certain activities –such as the purchasing of land, real estate or private vehicles– are not eligible for the benefits.

Other incentives under this category 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.

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.

There are also special regimes to promote specific sectors (please refer to Industrial Promotion section).

A detailed document on incentives to investment is available, in English, at <http://www.uruguayxxi.gub.uy/guide/schemes.html> and <http://www.uruguayxxi.gub.uy/guide/descargas/Investment%20promotional%20schemes.pdf>

### *Research and Development*

U.S. and other foreign firms are able to participate in government financed or subsidized research and development programs. However, given the relatively infrequent nature of such funding opportunities, examples of U.S. firms actual receiving funding are quite rare.

### **Performance Requirements**

Foreign investors are not required to meet any specific performance requirements, and 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 the number of foreign workers or on investment permits.

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

### **Data Storage**

Uruguay does not require foreign investors to use local content in goods or technology in order to invest. However, local content may be required in some sectors in order to become eligible for special tax treatment or government procurements. For instance, the state-owned electric utility recently offered a number of long-term purchase agreements for wind and solar generated electricity that included 20% local content requirements.

Uruguay does not require foreign IT providers to turn over source code or provide access to surveillance.

## **6. Protection of Property Rights**

### **Real Property**

Secured interests in property and contracts are recognized and enforced. Mortgages exist and Uruguay has 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.

Traditional Use Rights are not applicable as there is no relevant indigenous community in Uruguay. The vast majority of land has clear property titles.

Since 2005, there has been a debate over the government's and unions' position to consider occupations of workplaces as an extension of workers' right to strike – thus enabling workers to lawfully occupy workplaces – which has been opposed by business chambers. (See Labor Section for further information)

### **Intellectual Property Rights**

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.

The quality of IP protection and level of enforcement within Uruguay has improved over time and in 2006 the Office of the U.S. Trade Representative (USTR) removed Uruguay from its Special 301 Watch List due to progress in enforcing Intellectual Property Rights, especially with respect to copyright enforcement.

Uruguay was included in USTR's 2014 Notorious Markets Report for an increase in reports of counterfeiting and piracy from its free trade zones, and removed from the Report in 2015 due to the passage of a decree that imposed stricter customs controls on free zones. The 2015 decree gave Customs officials the authority to operate inside free trade zones, control the flow of in-coming and out-going goods and fine both the owners of counterfeit goods and the storage providers that facilitate distribution of counterfeits.

Patents are protected by a 1999 Law (No. 17,164). 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 years. The law defines compensation as "adequate remuneration" to be paid to the patent-holder. Some industry groups criticize the slowness of the patent-granting process as well as the lack of data protection.

A 1999 trademark law (No. 17,011) upgraded trademark legislation to TRIPS standards. Registered trademarks last ten years and the license can be renewed as many times as desired. The law provides prison penalties of six months to three years for violators, and requires proof of a legal commercial connection to register a foreign trademark. While enforcement of trademark rights has improved in recent years, local citizens have sometimes managed to register trademarks without owners' prior consent.

Customs officers have ex officio authority to seize and destroy counterfeit goods but they usually act upon right holders' request. Right holders are responsible for paying for the storage and destruction of the counterfeit goods.

Uruguay tracks and reports on Custom's seizures of goods, some of which are counterfeit. Information is available at <http://www.aduanas.gub.uy/innovaportal/v/10500/4/innova.front/incautacion-de-mercaderias.html>. Notwithstanding there is no centralized reporting system on seizures of counterfeit goods.

For additional information about treaty obligations and points of contact at local IP offices, please see Uruguay's country profile at WIPO at [http://www.wipo.int/directory/en/details.jsp?country\\_code=UY](http://www.wipo.int/directory/en/details.jsp?country_code=UY)

#### *Resources for Rights Holders*

Post's Economic Officer covering IP issues is:

Mr. Andrew Winkelman

Chief of the Economic-Commercial Section

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Post's public list of local lawyers is available at <http://uruguay.usembassy.gov/uscitizenservices-notary-attorneys.html>

## **7. Transparency of the Regulatory System**

Transparent and streamlined procedures regulate local and foreign investment.

Uruguay has transparent legislation and a special Commission at the Ministry of Economy to foster competition. The main legal pillars (Law No. 18,159 and decree 404, both passed in 2007) are available at the Commission's website: <https://www.mef.gub.uy/578/5/areas/defensa-de-la-competencia---uruguay.html>

Accounting, legal, and regulatory procedures are transparent and consistent with international norms. Proposed laws and regulations are only occasionally published in draft form for public comment. It is common that parliamentary commissions receive stakeholders while discussing a bill. There are no informal regulatory processes managed by non-governmental organizations or private sector associations.

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.

## **8. Efficient Capital Markets and Portfolio Investment**

A capital markets law (No. 18,627) was passed in 2009 to try to jumpstart the local capital market. However, despite some very successful bond issuances by public firms, the local capital market remains underdeveloped and highly concentrated in sovereign debt, making it difficult to finance through the local equity market. Trading in shares and commercial paper is virtually non-existent (only six firms are registered with BVM to issue shares), severely limiting market liquidity.

As a result of such underdevelopment and the lack of enough liquidity in the markets to enter and exit sizeable positions, Uruguay regularly receives “active” investments oriented to establishing new firms or gaining control over existent ones, but lacks “passive” investments from investment funds.

The government maintains an open attitude towards foreign portfolio investment but there is no effective regulatory system to encourage and facilitate it. Uruguay does not impose any restrictions on payments and transfers for current international transactions.

Bearer shares, which had been 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.

### **Money and Banking System, Hostile Takeovers**

The banking system is generally sound. After undergoing a massive crisis in 2002, the local system has been largely unaffected by the 2008 global financial crisis and has good capital, solvency and liquidity ratios.

With over 40 percent of the market, government-owned Banco de la Republica is the nation’s largest bank. The rest of the banking system is comprised of another government-owned

mortgage bank and nine international commercial banks.

Credit is allocated on market terms, but long-term banking credit has traditionally been difficult to obtain. Foreign investors can access credit on the same market terms as nationals.

## **9. Competition from State-Owned Enterprises**

The State still plays an important role in the economy and Uruguay maintains government monopolies in several areas, including importing and refining of oil, workers' compensation insurance, landline telephony, internet services and water sanitation.

Some traditionally government-run monopolies were opened to private-sector competition in recent decades. Cellular and international long distance services, insurance, and media services are open to local and foreign competitors. Private-sector generation of power is allowed and increasing, especially in renewable energies, but the state-owned power company holds a monopoly on wheeling rights. State-owned companies tend to have the largest market share even in sectors open to competition.

Uruguay is not a party to the WTO's Plurilateral Agreement on Government Procurement. 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 and on-shore exploration.

In an attempt to address its major infrastructure shortage while preserving fiscal balance, in 2011 Uruguay passed a Public-Private-Partnerships (PPP) law (No. 18,786). The law 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. Interested PPP bidders must demonstrate the background and financial strength asked for in the terms of reference of the PPP procurement process.

The PPP law was launched with high hopes that it would attract private sector participation in major infrastructure projects such as highway and railway construction and operation, waste disposal, and energy. However, as of April 2016, only one PPP project is underway and another is at an advanced stage. Given the minimal use of the system, a tighter fiscal situation and an urgency to address infrastructure needs, in 2015 the government passed new regulations (Decree 251/15) to simplify the procedures and speedup the process. As of April 2016, the simplification has resulted in three projects in the pipeline and major plans to undertake roads and school construction projects under PPPs.

### **OECD Guidelines on Corporate Governance of SOEs**

State-owned firms are required by law to publish an annual report, and their balances are audited

by independent firms.

Most state-owned firms are defined as autonomous but in practice coordinate certain issues, mainly tariffs, with their respective ministries and the Executive Branch. SOE boards are appointed by the Executive Branch, require Parliamentary ratification and remain in office for the same term as the Executive Branch.

The multi-million dollar losses of the government-owned oil company ANCAP, which were investigated by a parliamentary commission in 2015, triggered a debate about the need to reform the corporate governance of SOEs. As of April 2016, the government is receiving assistance from the World Bank to strengthen the management of selected SOEs.

### **Sovereign Wealth Funds**

There are no Sovereign Wealth Funds in Uruguay.

## **10. Responsible Business Conduct**

The concept of Responsible Business Conduct (RBC) is relatively new to producers, consumers and the government, which does not have a high-profile plan to encourage it.

Many companies do abide by the principles of RBC as a matter of course. Many multinational companies develop RBC strategies and made significant contributions in promoting safety awareness, better regulation, a positive work environment and sustainable environmental practices.

U.S. companies have proven to be leaders in promoting a greater awareness of and appreciation for RBC in Uruguay. In fact, in 2015 a U.S. company was awarded the Secretary of State's Award for Corporate Excellence for its work on Environmental Sustainability.

Consumers tend to pay attention to the RBC image of companies, especially as it relates to a firm's work with local charities or community causes. The Catholic University (Universidad Catolica) has a program in place to monitor RBC matters ([www.ucu.edu.uy/es/rse](http://www.ucu.edu.uy/es/rse)).

### **OECD Guidelines for Multinational Enterprises**

The government does not play an active role in promoting generally accepted CSR principles.

## **11. 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. There have been no cases of political violence or damage to projects/installations over the past decade.

In 2016, The Economist magazine ranked Uruguay as the only "full democracy" in Latin America, and one of only two in the world "outside of the rich western countries of Europe, North America and Australasia".

## 12. Corruption

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

Together with Chile, Uruguay was ranked as the least corrupt country in Latin America in the 2015 edition of Transparency International's Corruption Perception Index.

Uruguay has 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. Some high level Uruguayan officials, from the Executive, Parliament and the Judiciary, have been prosecuted for corruption in recent years.

Laws 17,835, 18,494 and 19,355 (passed in 2004, 2009 and 2015, respectively) 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 (and also applies to Uruguayans living abroad). Prosecutions have been gradually increasing since 2005. More detailed information on legislation and cases is available at <https://www.presidencia.gub.uy/antilavado/inicio/>

The Transparency and Public Ethics Committee (<http://www.jutep.gub.uy/>) is the government office responsible for combating public sector corruption.

*UN Anticorruption Convention, OECD Convention on Combating Bribery*

Uruguay signed and ratified the UN's Anticorruption Convention. It is not a member of the OECD and therefore not party to the OECD's Convention on Combating Bribery.

*Resources to Report Corruption*

Contact at government agency or agencies responsible for combating corruption:

Name: Mr. Luis Yarzabal

Title: President

Institution: Junta de Transparencia y Etica Publica

Address: Rincon 528, 8th floor, ZC 11000

Tel: (598) 2917 0407

e-mail: [secretaria@jutep.gub.uy](mailto:secretaria@jutep.gub.uy)

The local branch of Transparency International is <http://www.uruguaytransparente.org.uy/>

## 13. Bilateral Investment Agreements

In November 2005, Uruguay and the United States signed a Bilateral Investment Treaty (BIT) to promote and protect reciprocal investments that 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](http://www.ustr.gov/Trade_Agreements/BIT/Section_Index.html).

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.

Besides the United States, Uruguay has Bilateral Investment Agreements with the following countries: Armenia; Australia; the Belgium-Luxembourg Economic Union (BLEU); Canada; Chile; China; Czech Republic; El Salvador; Finland; France; Germany; Hungary; India; Israel; Italy; Japan; South Korea; Malaysia; Mexico; Netherlands; Panama; Poland; Portugal; Romania; Spain; Sweden; Switzerland; United Kingdom; Venezuela and Vietnam. Uruguay also has BIT with Argentina, Brazil and Paraguay (a general agreement signed in MERCOSUR in 1994).

In 2009, the OECD included Uruguay in a grey list of jurisdictions that had not “committed to implement the internationally agreed tax standard.” Since then, the government has endorsed OECD standards on transparency and exchange of information and upgraded several regulations to meet such standards. Main measures include signing several tax information exchange agreements, 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. In December 2015, the government announced that, starting in 2017, Uruguay will begin implementing an automatic exchange of tax information with countries with which it has tax information exchange agreements (TIEAs).

### **Bilateral Taxation Treaties**

Uruguay and the United States do not have double taxation or tax information agreements in place.

OECD’s Global Forum on Transparency and Exchange of Information for Tax Purposes indicates that, as of April 2016, Uruguay had signed 36 TIEAs, 20 of which include double taxation provisions, and 24 of which are in force. Ten of the TIEAs, three of which include double taxation provisions, are pending parliamentary ratification.

Uruguay has TIEAs with double taxation provisions with Ecuador, Finland, Germany, Hungary, India, Liechtenstein, Malta, Mexico, Portugal, Romania, South Korea, Spain, Switzerland and United Kingdom. Agreements with Belgium, Luxembourg, Poland, Singapore, United Arab Emirates and Vietnam are pending parliamentary ratification.

Uruguay also has TIEAs in effect –without double taxation provisions– with Argentina, Australia, Canada, Denmark, Faroe Islands, France, Greenland, Iceland and Norway. TIEAs with six other countries are pending parliamentary ratification (Brazil, Chile, Guernsey, The Netherlands, South Africa and Sweden).

## **14. OPIC and Other Investment Insurance Programs**

Overseas Private Investment Corporation (OPIC) programs are active in Uruguay, though few U.S. companies/projects request their services as due to the country’s stability, access to foreign

currency, etc., they see little need for them. The GOU signed an investment insurance agreement with OPIC in December 1982. In 2014, the average exchange rate was \$23.15 Uruguayan Pesos to the Dollar.

## 15. Labor

Despite its very high literacy rate and tradition of quality public education, Uruguay is currently experiencing a high dropout rate at the high school level and poor performance in the OECD's Program for International Student Assessment (PISA) that have the potential to reduce the number of qualified workers available over the mid-term. In 2008, the government launched a special institute, INEFOP, to help train the workforce.

Social security payments are approximately 30 percent of workers' basic salary. Private sector employers are prohibited from firing workers for discriminatory or anti-union reasons. It is not uncommon that dismissals result in labor conflicts. The employer must pay the worker one month for each year of work, with a cap of six months.

From 2003 to 2014, the labor market operated at virtually full employment with rising labor costs, tracking strong economic growth during this period. As the economy slowed in 2015, the unemployment rate increased and wages increased at a slower rate. Unemployment is structurally higher among youth, especially young women.

Salary Councils - consisting of a three party board including representatives from unions, employers, and the government - are responsible for setting wage increases at a sectoral level that are then applied by individual firms in the sector. 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.

Some foreign investors have reported concerns about the productivity level of Uruguay's workforce and their capacity to adjust employment to respond to changes in market conditions. Productivity is usually not included in the negotiations that take place in the salary councils.

Since 2005, the government has passed over 30 labor laws, several of which were opposed by the business community. Some of these laws promote and protect labor unions, reinstate collective bargaining, regulate outsourcing activities, regulate the work times in rural activities, extend the term to claim worker's rights, relate to the eviction of employees who occupy workplaces (occupation is considered an extension of workers' right to strike), and impose penal sanctions to employers who fail to adopt safety standards in their firms.

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.

Unionization quadrupled from about 110,000 in 2003 to over 400,000 in 2015 (almost one-fourth of employed workers), and is particularly high in the public sector and some private sectors, such as construction and banks.

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.

## **16. Foreign Trade Zones/Free Ports/Trade Facilitation**

Free trade zones (FTZs) were created in 1987 (by Law 15,921). Key legislation and regulations of free zones can be found at <http://zonasfrancas.mef.gub.uy/>.

Twelve free trade zones (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 the common external tariff upon entering any member country– industrial production in local FTZs is usually 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. Firms operating in FTZs are also exempted from national 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. 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.

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, some of which are sector-specific, have been created. 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 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 cannot 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), a public-private sector institution that seeks to coordinate efforts towards establishing Uruguay as the leading MERCOSUR distribution hub. Uruguay's Investment Promotion Agency, Uruguay XXI, has several reports on Uruguay's role and advantages as a logistics hub.

## 17. Foreign Direct Investment and Foreign Portfolio Investment Statistics

Table 2: Key Macroeconomic Data, U.S. FDI in Host Country/Economy

Economic Data	Host Country Statistical source*		USG or international statistical source		USG or International Source of Data: BEA; IMF; Eurostat; UNCTAD, Other
	Year	Amount	Year	Amount	
<b>Host Country Gross Domestic Product (GDP) (\$M USD)</b>	2015	\$ 53,533	2014	\$57,471	<a href="http://www.bcu.gub.uy/Estadisticas-e-Indicadores/Paginas/Default.aspx">http://www.bcu.gub.uy/Estadisticas-e-Indicadores/Paginas/Default.aspx</a> www.worldbank.org/en/country
Foreign Direct Investment	Host Country Statistical source*		USG or international statistical source		USG or international Source of data: BEA; IMF; Eurostat; UNCTAD, Other
<b>U.S. FDI in partner country (\$M USD, stock positions)</b>	2014	\$956	2014	\$1,478	
<b>Host country's FDI in the United States (\$M USD, stock positions)</b>	N/A	N/A	2014	\$741	<a href="http://bea.gov/international/direct_investment_multinational_companys_comprehensive_data.htm">http://bea.gov/international/direct_investment_multinational_companys_comprehensive_data.htm</a>
<b>Total inbound stock of FDI as % host GDP</b>	2014	37%			

\* <http://www.bcu.gub.uy/Estadisticas-e-Indicadores/Paginas/Default.aspx>

Table 3: Sources and Destination of FDI

Five countries accounted for half of total investment stock in 2014. Argentina was the largest investor with 28 percent of total FDI, followed by Spain (8 percent), Brazil (7 percent), and the United States (4 percent). Annual average U.S. investment rose to \$90 million in 2012-2014 from \$69 million in 2009-2011.

Uruguay's Central Bank reports that the United States held the 3rd largest stock of investment in 2014 –\$956 million (the U.S. Department of Commerce's Bureau of Economic Analysis indicates an investment stock of \$1.5 billion). U.S. investment is distributed among a wide array of sectors, including forestry, tourism and hotels, services (e.g. call centers or back office) and telecommunications.

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### Direct Investment from/in Counterpart Economy Data, 2013

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#### From Top Five Sources/To Top Five Destinations (*US Dollars, Millions*)

Inward Direct Investment			Outward Direct Investment		
Total Inward	19,564	100%	Total Outward	N/A	100%
Argentina	5,357	27%			
Brazil	1,423	7%			
Spain	1,157	6%			
United States	899	5%			
Netherlands	807	4%			

"0" reflects amounts rounded to +/- \$500,000.

Source: IMF Coordinated Direct Investment Survey

*Table 4: Sources of Portfolio Investment*

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### Portfolio Investment Assets, 2014

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#### Top Five Partners (Millions, US Dollars)

Total	Equity and Inv. Fund Shares			Total Debt Securities				
All Countries	4,794	100%	All Countries	810	100%	All Countries	3,789	100%
United States	1,093	23%	Luxembourg	248	31%	United States	926	23%
Luxembourg	425	9%	United States	167	21%	Brazil	317	8%
U.K.	358	7%	U.K.	143	18%	Netherlands	246	6%
Brazil	330	7%	Spain	82	10%	Canada	225	6%
Netherlands	256	5%	Bermuda	81	10%	Sweden	193	5%

Source: IMF Coordinated Portfolio Investment Survey

## **18. Contact for More Information**

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