URUGUAY - INVESTMENT CLIMATE STATEMENT 2010

Openness to Foreign Investment

The Government of Uruguay recognizes the important role foreign investment plays in economic development and works to maintain a favorable investment climate. Aside from a few sectors 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.

The Uruguayan Government's (GOU)'s Law 16906, 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 455/007 adopted in November 2007, regulates Law 16906 and provides significant incentives to investors.

The left-of-center Frente Amplio administration that governed from March 2005 through March 2010 stressed the importance of local and foreign investment for social and economic development. The GOU's macroeconomic policies have reduced Uruguay's vulnerability to external shocks and helped to keep the economy growing even through the 2008-2009 global financial crisis. The Frente Amplio candidate was elected again in 2009, and President-elect Jose Mujica will take office in March 2010. Vice President-elect Danilo Astori, who served as minister of economy in the prior administration, will remain actively involved in economic management.

Some foreign investors put planned investments on hold due to Law 18.092 (passed in 2007), which requires corporations that purchase land to use registered shares held by individuals – instead of bearer shares. The GOU later exempted some large foreign firms from this requirement. The government has also passed labor legislation strengthening labor rights, some of which was opposed by business chambers. Some analysts believe this legislation has led to an increased number of labor conflicts, sometimes resulting in the occupation of workplaces.

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 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.

The World Bank's 2010 "Doing Business" Index, which ranks 183 countries according to the ease of doing business, placed Uruguay 114th globally and 9th within the Latin American region (17 countries). Uruguay gets high marks in the categories "getting a credit" and "closing a business," but lags in "paying taxes", "registering property," and "dealing with construction permits." Since 2004, Uruguay has made progress on cutting the cost of starting a business and dealing with construction permits as well as the number of days to export. However, the cost per container exported or imported has grown (by 19 percent and 12 percent, respectively).

Uruguay is ranked as a "mostly free economy" by the Heritage Foundation's Index of Economic Freedom.

Table 1	Index	Ranking	Year
– T.I. Corruption Index (10 is lack of perceived corruption)	6.7	25 in 180	2009
– Heritage Economic Freedom (100 is entirely free)	69	38 in 179	2009
– World Bank's Doing Business (1 is easiest for doing business)		114 in 183	2010

Although U.S. firms have not encountered major obstacles to investing in Uruguay, some have been frustrated by the length of time it takes to complete bureaucratic procedures and tenders.

Uruguay and the United States signed a Bilateral Investment Treaty (BIT) in November 2005, which entered into force on November 1, 2006 (available at www.ustr.gov/Trade_Agreements/BIT/Section_Index.html and http://uruguay.usembassy.gov). 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 agreements on business facilitation and environment.

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 2002 banking and financial crisis. Foreign exchange can be freely obtained at market rates.

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."

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.

Following a constitutional amendment to implement state control of water services, the GOU took over the operations of URAGUA, a Spanish water company that had operated locally from 2000 through 2005. The GOU and URAGUA subsequently reached a negotiated settlement.

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 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 expeditious dispute settlement procedures.

Performance Requirements and Incentives

Article 8 of the U.S.-Uruguay Bilateral Investment Treaty bans 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. Furthermore, 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 Government of Uruguay's investment promotion plan is regulated by Law 16906 and Decree 455/007 passed in November 2007. Law 16906 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 16906 (such as tax exemptions on imports of fixed assets and reimbursement of VAT on local purchases of goods and services for construction) have in practice been superseded by Decree 455/007, which has a wider scope.

Decree 455/007 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 size of the benefit to be granted is determined according to the size of the investment and a pre-defined list of criteria. Investment projects are classified as small (defined in indexed units and equivalent to USD 0.35 million as of December 2009), medium (up to USD 7 million), large (up to USD 700 million) and of great economic significance (over USD 700 million). A matrix based on a pre-defined list of criteria includes the project's: (1) generation of jobs; (2) contribution to R+D and innovation; (3) impact on GDP, exports, and local value added; (4) contribution to geographic decentralization; and (5) use of clean technologies.

The principal incentive consists of the deduction from income tax of a share of total investment. Investors are allowed to cut their corporate income tax payments by between 51 percent to 100 percent of their investment (for up to a 25-year term) according to their score on the matrix. Other incentives include: i) the exoneration of tariffs and taxes on imports of capital goods that do not compete against local industry, ii) the exoneration of the patrimony tax on personal property and civil works, iii) refunding VAT paid on purchases of materials and services for civil works, and iv) special tax treatment to fees and salaries paid for research and development. Decree 455/007 also streamlined procedures for firms requesting tax exemptions and established a "single-window" process to channel investment requests and guide investors. For further information, please refer to http://www.uruguayxxi.gub.uy.

Local and foreign investors reacted positively to Decree 455/007. The number of investment proposals surged in 2008 to 310, valued at over $1 billion, well above the average of 58 proposals submitted annually in 2002-2007. Despite the global crisis, investors submitted 308 proposals in the first three quarters of 2009, but it is unclear how many of these proposals have materialized.

There are also special regimes to promote the tourism industry, plantations of forestry and citrus, exploitation of hydrocarbon , production of biofuels, development and exports of software, production of vehicles or auto parts, and shipbuilding. ,. Additional special regimes also apply to the development of the printing industry (printing and sale of books, magazines, and educational material), communications (newspapers, broadcasting, television, theater and film exhibit and distribution), production of electronics and electric equipment (e.g. computers, telecommunication equipments, measurement tools, medical equipment and electrical appliances), and call centers. Investors can combine benefits, applying for certain tax benefits under Decree 455/007 and for other benefits under the sectoral special regimes. . These regimes do not differentiate 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.

Protection of Property Rights

In 2005, the GOU 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 involving the metal industry, and seven plants were occupied in a conflict involving the plastic industry in 2009. In 2006, the GOU passed Decree 156/06 to restrain excesses and provide for obligatory negotiations between employer and employees prior to employees resorting to occupations of the workplace. In practice, however, workers have sometimes resorted to occupations early in several labor conflicts. Furthermore, under certain circumstances, the decree considers occupations as a licit extension of workers' right to strike, a provision which is opposed by entrepreneurs. Courts have ruled to evict occupying workers in several instances. In November 2008, the International Labor Organization released a report, suggesting that Uruguay revise its legislation on this issue.

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 new Bankruptcy Act (Law 18387 passed in October 2008), 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.

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 1998 and 1999, Uruguay passed trademark and patent legislation. In 2003, coordinating closely with U.S. and international IPR organizations, Uruguay passed new TRIPS-compliant copyright legislation. The 2003 copyright law represented a significant improvement over the 1937 law and led USTR to upgrade Uruguay from the "Priority Watch List" to the "Watch List." Uruguay signed the WIPO Copyright Treaty (WCT) and the WIPO Performances and Phonograms Treaty

(WPPT) in 1997. Parliament ratified the WCT in October 2006 (Law 18036) and the WPPT on February 20, 2008 (Law 18253). The United States Trade Representative (USTR) removed Uruguay from the Special 301 Watch List in 2006 due to progress in IPR, especially with respect to copyright enforcement. The USTR statement commended the "positive progress" and was "encouraged that Uruguay has set a positive example by its efforts to combat piracy and counterfeiting."

Patents are protected by Law 17164 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 U.S. industry groups believe that the law's compulsory licensing requirements are not TRIPS consistent. On average, filing a medical patent takes two years longer than in the United States.

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.

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 promptly publish 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

Foreign investors can access credit on the same market terms as nationals. As long-term banking credit has traditionally been more difficult to obtain, firms tend to roll over short-term loans.

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, has been a problem. The largest bank is the government-owned Banco de la Republica, which as of July 2009 accounted for 40 percent of total credits and deposits.

Uruguay's capital market is underdeveloped and concentrated in sovereign debt. While Uruguay is receiving "active" investments oriented to establishing new firms or gaining control over existent ones, it lacks major "passive" investments from investment funds that are an essential source of start-up capital and liquidity for new ventures and companies wishing to expand operations.

There is no effective regulatory system to encourage and facilitate portfolio investment. There are two stock exchanges. An electronic exchange concentrates on foreign currency transactions and a traditional exchange focuses on sovereign bonds. Only 12 firms are registered in the traditional stock exchange. Trading in shares and commercial paper is virtually nil, severely limiting market liquidity. There are few investment funds in operation, mostly serving domestic clients to invest their funds in Uruguayan sovereign debt. Risk rating firms first came to Uruguay in 1998.

However, there has recently been a good deal of discussion -- encouraged and facilitated by the Embassy -- among the relevant Uruguayan actors about how to reinvigorate Uruguay's capital markets. A revised capital markets law is under discussion in the parliament.

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.

Competition from State Owned Enterprises

Uruguay has a history of maintaining state monopolies in a number of areas where direct foreign equity participation is prohibited by law. While privatization is generally opposed by the population, some government-run monopolies have been dismantled over the past few decades, and private sector participation in the economy has increased significantly. Several state-owned entities have contracted with foreign-owned companies to provide specific services for a given period of time under Build-Operate-Transfer (BOT) regimes. While basic telephone services remain a monopoly, government-owned ANCEL, Spain’s Telefonica, and Mexico’s America Movil provide cellular services. International long distance calling, data transmission, and value-added services are also open to the private sector. The Telecommunication and Postal Services regulatory agency (URSEC) aims to preserve a level playing field for private and public firms, but regulatory enforcement of government-owned entities varies.

Other sectors have varying levels of private sector participation. Although private power generation is allowed, the state-owned power company, UTE, holds a monopoly on wheeling rights. The state-owned oil company, ANCAP, remains the only importer and refiner of petroleum products. ANCAP has established associations with foreign partners, especially in the area of off-shore exploration. For the latter, ANCAP organized an international road-show, including an event in the U.S. for interested oil companies. In the ports, private companies provide most services. The national airline, PLUNA, is 75% owned by a consortium of investors (including U.S. capital). The insurance and mortgage sectors are de-monopolized, but workers compensation insurance remains a government monopoly. An October 2004 constitutional amendment, approved by 64% of voters, declared water a national resource to be controlled exclusively by the State.

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 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

Uruguay is a stable democracy (Uruguay ranked as the most democratic country in Latin America, according to The Economist's 2008 Democracy Index) in which respect for the rule of law is the norm and the vast majority of the population is committed to non-violence.

Corruption

Uruguay has strong laws to prevent bribery and other corrupt practices. In 2009, Uruguay ranked top in Transparency International's Corruption Perception Index in Latin America's, together with Chile (both countries ranked 25th among 180 countries worldwide, the U.S. ranked 19th) . Uruguay has gradually improved in Transparency International's Corruption Perception Index over time, from the 35th place in 2001 to the 25th place in 2009.

Despite Uruguay's favorable rating and effective legislation, other surveys indicate a perception of public sector corruption. Almost three out of four top tier executives polled by KPMG in 2007/2008 opined that there is fraud in the public sector –especially in the awarding of public contracts–, and one in three stated their firm had been affected by corruption.

Several former Uruguayan officials, customs officials and one judge were prosecuted for corruption in recent years. Overall, U.S. firms have not identified corruption as an obstacle to investment.

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. Money laundering is penalized with sentences of up to ten years (which also apply to Uruguayans living abroad). Laws

17835 and 18494 (passed in 2004 and 2009) establish a solid framework against money laundering and terrorism finance. Enforcement is improving at a steady pace.

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 and http://uruguay.usembassy.gov.

The 62-page agreement has 37 articles and 3 annexes, and was the first "latest generation" BIT signed by USTR. 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), Armenia, Australia, Belgium, Canada, Chile, China, Czech Republic, El Salvador, Finland, France, Germany, Great Britain, Hungary, Israel, Italy, Luxembourg, Malaysia, Mexico, Portugal, The Netherlands, Panama, Poland, Romania, Spain, Sweden, Switzerland, and Venezuela. BITs with India and Vietnam, signed in 2008 and 2009 respectively, await Parliamentary approval.

Uruguay has Double Taxation Agreements with Chile, Germany, Hungary, Israel, Norway, Panama, Paraguay, Poland and Switzerland. In 2009, the GOU reacted to its inclusion by the OECD in a list of jurisdictions that "have not committed to implement the internationally agreed tax standard" and swiftly endorsed OECD standards on transparency and exchange of information, stating it would include tax-information sharing clauses in Double Taxation Agreements with OECD members. In 2009 Uruguay signed double taxation and fiscal transparency agreements with Spain and Mexico, which as of December 2009 are awaiting Parliamentary approval.

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 used in Uruguay.

Currency Exchange

In 2002, after three years of recession and in the face of devaluations in neighboring economies, Uruguay eliminated its decade-long exchange rate band. Since then, the peso has floated freely, albeit with some intervention from the Central Bank aimed at reducing the volatility of the price of the dollar. There is no black market for currency exchange.

The dollar fell 20 percent from December 2008 through December 2009. The U.S. Embassy uses the official rate when purchasing local currency.

Labor

The Uruguayan labor force is well educated, and the government has instituted technical training programs to help meet industry's skilled labor requirements. At 97 percent, Uruguay's literacy rate is the highest in Latin America and on par with that of the United States.

Social security payments are high and increase employers' basic wage costs by about 30 percent. In addition to the worker's salary, employers must pay: (a) 7.5 percent of the wage to social security, (b) 5 percent to health insurance, (c) 0.125 percent to a labor restructuring fund, (d) a supplementary annual bonus equivalent to 1/12 of the annual pay (basically a 13th month's wages), and (e) a vacation pay equivalent to about 80 percent of the net wage received by the employee times 20 (days of leave) divided by 30 (days a month). An employer can dismiss workers, as long as the dismissal is not discriminatory and if the employer pays the worker one month for each year of work, with a cap of six months.

Uruguay has ratified 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. Labor unions are nominally independent from the government. Sympathy strikes are legal. In labor trials, the Judiciary tends to rule in favor of the worker, as he/she is considered to be the weaker party.

The Vazquez administration introduced major changes to Uruguay labor regime with the passage of thirty-six laws, some of which were adamantly opposed by business chambers. The main changes include the reinstatement of collective bargaining; the creation of tri-partite salary councils; and the passage of several laws aimed at promoting and protecting the rights of unions and individual workers.

Occupations of workplaces increased in 2005-2010 following the elimination of a decree that enabled employers to request police to evict workers, and passage of legislation that favored unions. Under certain circumstances the GOU considers occupations as a licit extension of workers' right to strike, which is opposed by entrepreneurs (see Protection of Property Rights section).

In 2005, the GOU reinstated salary councils, a three party board consisting of representatives from unions, employers, and the government. The councils are responsible for setting the wage increases for individual sectors; if the unions and employers fail to reach an agreement to determine the wage increase to be applied for sectors, then the government makes the final decision. The councils were first instituted in 1943 and dissolved on several occasions, the last time in 1992.

In 2006, the administration passed a law on the “Promotion and Protection of Labor Unions” that 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.

In January 2007 Parliament passed Law 18099 on outsourcing, which was 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. In November 2007, the GOU submitted another bill clarifying some of the private sector’s concerns, which was passed in January 2008 as Law 18251. Parliament passed a law in December 2008 providing between 6 and 12 days of mandatory leave for students to prepare for exams. Some businesspeople thought the law could affect labor-intensive sectors that hire students, such as call centers.
Law 18395, passed in 2008, reduced retirement to age 60 for both men and women who have worked for at least 30 years, modified the system for advanced age retirement and provided more beneficial terms to mothers with children. Law 18399, also from 2008, modified the unemployment insurance regime, gradually , reducing unemployment benefits during the six month eligibility period, and extending coverage for employees over 50 years old to one year. Workers who become disabled on the job receive a monthly payment from the government equal to 70 percent of their salaries, plus free medicine and medical care.

Another bill on Collective Bargaining for public sector employees, submitted in February 2008, is also before Parliament.
The level of unionization has increased steadily since the governing Frente Amplio Party took office on March 1, 2005. The umbrella labor organization PIT/CNT claims to have over 320,000 active members, or 28 percent of the workforce. Unionization is particularly high in the public sector.

Foreign-Trade Zones/Free Ports

Law 15921 of December 17, 1987, regulates the operation of free trade zones (FTZs) within the country. Twelve free trade zones are located throughout the country. While most are dedicated almost exclusively to warehousing, three host a wide variety of tenants performing various services (e.g., financial, software and call centers). One in particular (Zonamerica) was developed as a technology park to provide services and infrastructure for competitive development of companies with international reach. Two FTZs were created exclusively for the development of the paper and pulp industry. These activities are considered to take place outside the national territory. When goods from an FTZ are introduced into Uruguay’s customs territory, they are treated as "imports" and thus subject to customs duties and import taxes. Goods of Uruguayan origin entering into FTZs are treated as Uruguayan exports for tax and other legal purposes.

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. Current government monopolies are not honored within FTZs. Local and foreign-owned industries alike enjoy several advantages in an FTZ, including the 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 75 percent of a company's labor force to qualify for FTZ tenancy.

Uruguay is a founding member of MERCOSUR, the Southern Cone Common Market composed of Argentina, Brazil, Paraguay and Uruguay (as of December 2009 Venezuela's membership was pending). Since MERCOSUR regulations treat products manufactured in all member states FTZs as extra-territorial and hence charge them its common external tariff, with few exceptions, little manufacturing is done in local FTZs. Furthermore, products manufactured by Uruguayan or foreign firms in Uruguayan FTZs are not eligible for MERCOSUR certificates of origin and must pay the bloc's common external tariff upon entering other member countries.

Uruguay has other special import regimes in place, including industrial zones, private customs deposits, free ports and temporary admission. The free port and private customs deposits exempt goods that are kept within the premises from all import-related duties and tariffs. While in the premises, merchandises may be labeled, fractioned, re-packaged, or have any other process done to it as long as it does not modify the nature of the good. There are no limits for the length of stay of merchandise in the port, nor for the volume of stored goods.

Under the temporary admission regime, manufacturers can import duty-free raw materials, supplies, parts and intermediate products used to manufacture products that are later exported. Products that are consumed during the production process without being incorporated in the finished exported product, containers and packing material are also covered. The system requires a government authorization and that final products be exported within a period of 18 months.

Foreign Direct Investment Statistics

Foreign Direct Investment (FDI) in Uruguay has been traditionally low (under 3 percent of GDP), even by Latin American and regional standards, because of the country's small market, the lack of major privatization initiatives, and the small number of firms that base their MERCOSUR-wide operations locally. However, FDI rose significantly in recent years – to 6 percent of GDP in 2008.

Annual inflows of FDI rose from $397 million in 2004 to $847 million in 2005, $1.4 billion in 2006, $1.1 billion in 2007 and $1.8 billion in 2008. Surging inflows of FDI have led the stock of FDI to record levels ($8.9 billion in 2008).

The sectors that received more FDI in 2003-2007 were agriculture (forestry, ranching, farming, and slaughterhouses), construction (real estate in Punta del Este, hotels, and office buildings), industry (chemical and food and beverages), and services (mostly financial intermediation).

While the economy continued growing in 2009, the global crisis had an impact on investment. FDI fell 52 percent in the first half of 2009 over the first half of 2008. Overall investment fell 20 percent in the January-September 2009 (over January-September 2008) mainly due to a declining inventories. A counter-cyclical increase in public sector investment (up 32 percent) offset the drop in private investment (down 10 percent).

Finnish Botnia's construction of a $1.2 billion pulp mill in 2005-2007 was Uruguay's largest-ever foreign investment. Another cellulose producer, Spain's Ence, planned to build a pulp mill worth $1.0 billion. In mid 2009 Ence sold the project to a Finnish-Swedish-Chilean firm, Stora Enso-Arauco, which has said it still intends to develop the plant. A dispute between Argentina and Uruguay over these pulp mills investments led to strained relations between the two countries. In March 2010 the GOU is due to auction the right to construct and operate a second major container terminal in the Port of Montevideo, an investment expected to be around $270 million.

The United States was the fourth largest foreign investor in Uruguay in 2003-2007 with 3.2 percent of total FDI ($144 million). Argentina, Spain and Brazil were the biggest investors , with 18.5 percent ($820 million), 4.1 percent ($180 million) and 3.9 percent ($173 million) respectively. .
According to the U.S. Department of Commerce, the 2008 stock of U.S. direct investment in Uruguay amounted to $569 million. Major U.S. investments include Weyerhaueser (forestry), Conrad Hotels (tourism and gambling), Sabre (call center), McDonald's (restaurants) and Pepsi (beverages).

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