



**DIRECTORATE-GENERAL FOR EXTERNAL POLICIES OF THE UNION  
DIRECTORATE B  
- POLICY DEPARTMENT -**

**BACKGROUND NOTE  
ON THE POLITICAL AND ECONOMIC SITUATION  
IN URUGUAY  
AND ITS RELATIONS WITH THE EUROPEAN UNION**

**Summary:**

Uruguay's democratic maturity is demonstrated by the fact that it underwent an appalling recession (1999-2002) without disturbances to the constitutional order. Since 1 June 2005, Uruguay has occupied the rotating presidency of Mercosur, and is giving priority status to the conclusion of the EU-Mercosur Association Agreement.

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The opinions expressed are those of the author and do not necessarily reflect the position of the European Parliament.

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                  *European Commission*  
                  *Economist Intelligence Unit (EIU)*  
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ANNEXES

# I. POLITICAL SITUATION

## 1. Introduction

### 1.1. Geography<sup>1</sup>

Uruguay is the smallest country in South America, with a total area of only 173 600 km<sup>2</sup>. It is surrounded by Argentina, Brazil and the Atlantic Ocean. It has a population of approximately 3.5 m (with a density of 19 inhabitants/km<sup>2</sup>), of whom approximately one-half live in Montevideo, the capital, founded in 1724.

The absence of mountains means that Uruguay has a uniform climate of a temperate and humid nature. It is traversed by numerous watercourses, most of them tributaries of the 1600-km long Uruguay river (which separates the country from Argentina and gives it its name) and the Río Negro, which cuts the country into two. Uruguayan society is cosmopolitan, being the product of a series of waves of immigration from Europe across its entire history, testifying to openness of spirit and promoting tolerance. Most people are the descendants of immigrants to Uruguay. The mixed-race population is approximately 8%, while only 4% are black.

Uruguay has the highest literacy rate in South America. Primary and secondary education are compulsory and state education is free. Uruguay was long considered an exception. Thus, in the words of the Uruguayan writer Eduardo Galeano, 'our country introduced free and secular education before the UK, female suffrage before France, the eight-hour day before the US, and divorce all of 70 years before Spain'.

### 1.2. History

Uruguay was discovered in 1516 by the Spanish navigator Juan Diaz de Solis, who was seeking a route to the Indies via the newly-discovered continent. The conquest of Uruguay proved difficult thanks to the resistance of the natives (the *charruas*) and also to the lack of interest shown by the Europeans in a country with little in the way of natural wealth. Only in 1617 did Hernán Arias de Saavedra, the governor of Río de la Plata, take account of the country's strong agricultural potential, with its high-quality arable land, temperate climate and substantial water resources.<sup>2</sup>

The Spanish were expelled from Uruguay in 1814 by a revolutionary movement influenced by the ideas of 1789 and led by General José Gervasio Artigas. A national government was formed in 1815. The country then fell under Portuguese and Brazilian occupation (1817-1824), and it was only thanks to the revolt of the '33 Orientales' that it was, in 1828, finally recognised internationally, acquiring a constitution in 1830.

Political instability raised its head again between 1839 and 1851. This period, known as that of the 'Gran guerra' or great war, marked the beginnings of Uruguay's two-party system, opposing the conservative Blancos to the liberal Colorados. Relations with neighbouring Argentina - formerly Uruguay's ally against Brazil - became increasingly conflictive. It should be noted that throughout its history Uruguay has had to contend with the hegemonic aspirations of its two big neighbours.

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<sup>1</sup> See Annex I.

<sup>2</sup> He also pioneered the importing of cattle into the region.

From 1865 to 1958 - a period known as the '93-year reign' - the liberals of the Colorado party held a monopoly on power. Over that century, Uruguay's political history was especially marked by the presidencies (1903-1907 and 1911-1915) of José Batlle y Ordóñez, an emblematic figure who consolidated democracy and undertook reforms aimed at promoting national social and economic progress, allowing Uruguay to acquire a reputation as South America's most prosperous and advanced country.

Unlike most Latin American countries, Uruguay has suffered only on rare occasions from coups d'état or the intervention of the military in politics. There was a period of military rule ('el Militarismo') between 1876 and 1886, and the twentieth century saw two coups (in 1933 and 1973).

Another particularity of Uruguayan politics is the constant concern to ensure the balance of powers and, in particular, the fear of an over-powerful executive. Thus, the constitution of 1918 provided for the sharing of executive powers between presidency and government, while that of 1952 transferred executive power from the president to the *Consejo nacional*, a nine-member collegiate body. This collegiate presidential arrangement remained in force until the adoption of the 1967 constitution, which re-established the presidency of the republic.

The prosperous and peaceful 'Switzerland of South America' was to pass through a dark period between 1973 and 1985. The economic crisis provoked a high degree of social disturbance, inducing the Uruguayan armed forces to step by stages into the power vacuum left by a burnt-out political class. On 27 June 1973, President Juan María Bordaberry dissolved the Parliament and completed the military's stranglehold on the institutions. Less than three months later, Chile too fell to a dictator in the shape of General Pinochet. The two countries with the longest democratic traditions in South America were no longer exceptions to the rule. The entire Southern Cone was crushed by a cycle of regression. In Uruguay, political rights ceased to exist, and the country's long-established prosperity gave way to the visible impoverishment of the middle classes (traditionally in the majority).

After the collapse of the military regimes in Latin America in the 1980s, notably in Bolivia (1982) and Argentina (1983), Uruguay held general elections in November 1984. These proved abortive<sup>3</sup>, but nonetheless opened up the way to a phased return to political normality. The military took advantage to negotiate their return to barracks in exchange for total immunity. Thus, on 22 December 1986 President Julio Sanguinetti (1985-1990 and 1995-2000) agreed to the ratification of an amnesty law, approved by the two traditional parties, exonerating the military and the police of all responsibility for acts perpetrated during the dictatorship. This law (*Ley del Punto Final* or *Ley de Caducidad*), was, furthermore, put to a referendum in April 1989, and was approved by 52.7% of those voting.<sup>4</sup>

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<sup>3</sup> The main political leaders were not allowed either to stand or to vote.

<sup>4</sup> The result of this vote should be interpreted not as supporting the torturers but as expressing the people's desire to preserve the newly restored democracy.

## 2. Politics: internal

### 2.1 Institutional framework

Uruguay is a democratic republic. The 1967 Constitution, revised<sup>5</sup> in 1996, establishes a clear separation of powers. Executive power is held by the president on the basis of solidarity with his ministers. The president and vice-president are elected by direct universal suffrage for a five-year-term and may not stand for a second consecutive term.

Legislative power is vested in the National Assembly. There is a two-chamber system consisting of the Chamber of Deputies (99 members) and the Senate (31 members)<sup>6</sup>. Senators and deputies are elected by universal suffrage for a five-year term and may stand for re-election. Judicial power is exercised by the courts, whose judges are directly appointed by the Supreme Court. The latter consists of five members, who are appointed by the National Assembly subject to a two-thirds majority in favour.

Uruguay is divided into nineteen provinces (*departamentos*), each having a governor who is elected for a five-year term and may be re-elected once. The *departamentos* have a degree of autonomy. Their executive authority is the governor; their legislative authority is the departmental assembly.

The main political parties in Uruguay are the Colorado party, the Blanco party and the Frente Amplio (Broad Front). For over a century, the Blancos and the Colorados exercised a duopoly over Uruguayan politics. The Colorados traditionally represented the urban population, including the working class. This party is today dominated by an orthodox centre-right tendency spearheaded by the former president Jorge Batlle (president from 2000 to 2005). The Blancos (or Partido Nacional) have been in power on three occasions, most importantly with the presidency of Luis Alberto Lacalle (1990-1995). Traditionally, this party spoke for the rural interior. The two-party system has been undermined by the arrival of the Frente Amplio. This party started life in 1971 as a coalition of the left, supported by working-class elements and, especially, by those disillusioned with the Colorados.

### 2.2 Recent developments

In 1999, Jorge Batlle (Colorado) won the presidential election, but in the first round the Frente Amplio candidate, Tabaré Vázquez, came first with 39% of the vote. This obliged President Batlle to form a coalition with the Blancos in order to ensure his victory and form a government. The objectives of his government were to reduce public expenditure and undertake the reform of the state. However, this programme ran up against a succession of economic shocks from the outside: the devaluation of the Brazilian *real*, the Argentinian crisis, and foot-and-mouth disease. The deteriorating economic situation meant that President Batlle's majority lost its traditional supporters (the Blanco ministers resigned in October 2002) while the left in the shape of the Frente Amplio continued to progress. An ambitious programme for tackling the national recession was put in place. Today, over one-third of the urban population are living below the poverty threshold. Some 100 000 people are living in severe poverty. The unemployment rate is 13.6%, but is over 40% in the working-class quarters.

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<sup>5</sup> This revision was approved by the people in a referendum held on 8 December 1996.

<sup>6</sup> The Vice-President is also the ex officio president of the Senate and of the joint meeting ('congress') of the two chambers.

In this context, the victory of Tabaré Vázquez in the presidential elections of 31 October 2004 did not come as a surprise. What was surprising was his margin of victory: by winning with 50.69% of the votes, Mr Vázquez<sup>7</sup> dealt the death-blow to a century and a half of two-party politics in Uruguay. The country joined the current left-leaning tendency in Latin America, as represented by Presidents Ricardo Lagos in Chile, Luis Inácio da Silva in Brazil and Néstor Kirchner in Argentina. Furthermore, the Frente Amplio now has an absolute majority in parliament, with 17 out of 31 senators and 52 out of 99 deputies<sup>8</sup>.

The Uruguayan left is now faced with the challenge of responding to the enormous expectations of a people which has been profoundly affected by the financial crisis of 2002 - the most serious in the country's history - thanks to which Uruguay now has twice as many poor people as in 1999.

The Tabaré Vázquez government took office on 1 March 2005. Two months later municipal and departmental elections were held, and the Frente Amplio triumphed in the five *departamentos* in which 70% of the population live. However, four months after his investiture President Tabaré Vázquez is already confronted with a first wave of popular demands and the first economic policy disagreements within his government. Thus, the PIT-CNT trade union confederation called a four-hour strike on 30 June 2005 in support of pay claims. The unions are also opposed to the investment treaty (IBT) signed with the US by the outgoing president Jorge Batlle. This agreement, which has to be ratified by parliament, is supported by the minister for the economy, Danilo Astori, who wants to attract foreign investment. It is, however, contested by the left-wing forces within the government, who are also concerned at the consequences of the June 2005 agreement with the IMF, under which Uruguay was granted a standby loan (or bank guarantee) of EUR 940 m over three years, in exchange for a pledge to cut public expenditure (a majority of the active population is employed by the state). There is also disagreement over water: in a referendum held on 31 October 2004, 64% of Uruguayans voted in favour of state control over waste water disposal and the distribution of drinking water. Mr Vázquez had supported this position during his campaign, but has now signed a decree confirming the water concession. This is seen as a betrayal by the supporters of nationalisation. In addition, the presidential decision to reopen the inquiries into human rights violations under the military dictatorship is leading to tensions with the armed forces, who fear that dozens of officers may be asked to testify.

### **3. Politics: external**

The Uruguayan government's external policy continues to revolve around two main poles, namely Mercosur and the US.

#### *3.1. Relations with Mercosur and its members*

Uruguay is a signatory to the Treaty of Asunción of 26 March 1991, and is therefore a founder member of Mercosur, along with Argentina, Brazil and Paraguay. It may be noted that the

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<sup>7</sup> No second round was held, as the Blanco candidate, Jorge Larrañaga, conceded defeat having obtained 34% of the vote.

<sup>8</sup> The Frente Amplio is a grouping of some twenty parties: socialists, communists, 'left radicals', Christian Democrats, Social Democrats, dissidents from the traditional parties, and the former guerilla movement from the 1970s, the *Tupamaros* (now, as the Movement for Popular Participation, the majority tendency within the Frente Amplio).

Mercosur secretariat is, since the signature of the Ouro Preto Protocol in 1994, based in Montevideo: it is the government's intention that the Uruguayan capital should soon become the 'South American Brussels'. Uruguay sees Mercosur as a useful means of counteracting any aspirations of its two big neighbours to regional domination. Nonetheless, economic interdependence can also have damaging consequences, as happened with the Argentinian crisis of 2001-2002<sup>9</sup>.

The Vázquez government strongly supports regional integration. Furthermore, since 1 June 2005 Uruguay has held the rotating presidency of Mercosur. Internally, the Uruguayan presidency has given priority to strengthening the Mercosur customs union, which had suffered from the effects of the 2002 economic crisis in the Southern Cone. Externally, Montevideo wishes to see a successful conclusion to the negotiations between the EU and Mercosur for an association agreement<sup>10</sup>.

At present, relations with Argentine are affected by a disagreement over the proposed establishment of an Uruguayan cellulose factory next to the frontier. This is contested by Argentina on environmental grounds. Meanwhile, Uruguay has lodged a complaint with the WTO over Argentina's subsidies to producers in certain regions.

### *3.2 Relations with the US*

Montevideo-Washington relations were consolidated under the presidency of Jorge Batlle, who had offered his support to the US in the wake of 9-11, had endorsed the idea of creating the FTAA, and had broken off diplomatic relations with Cuba. It is clear that the Vázquez government will not be so close to the US: relations with Cuba have been resumed, and reservations have been expressed regarding the FTAA and the IBT. Nonetheless, it is important to pursue bilateral relations on a pragmatic basis.

## **II - ECONOMIC SITUATION<sup>11</sup>**

### **1. Introduction**

In the early twentieth century and thanks to the presidencies of José Batlle y Ordóñez, Uruguay was considered to be the most prosperous country in Latin America. One century later, in 2001-2002, that prosperity had evaporated and recession ruled. We need to understand how this has happened.

In the wake of the global recession of the 1970s, whose sole effect was to make things worse for the national economy, Uruguay decided to launch a series of reforms aimed at reducing the state's role in the economy and cutting back inflation. Despite the efforts of successive governments to fight the crisis, the economy collapsed, and the outcome was popular discontent and the seizure of power by the military. The economic policies of the military rulers proved to be no better for Uruguay's problems.

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<sup>9</sup> Indeed, at one point President Batlle, in an interview which provoked a diplomatic incident, described the Argentinians as 'incapable' and 'thieves'. The crisis was defused when the Uruguayan President apologised to his Argentinian counterpart on 4 June 2002.

<sup>10</sup> see Part III.

<sup>11</sup> see Annex II.

After the fall of the dictatorship (1985), there were signs of recovery: this trend was strengthened after 1990, thanks to the government's efforts to reduce the role of the state and the opening-up of the country to the financial markets, which turned Uruguay into a significant financial centre within Mercosur. Even so, the Uruguayan economy remains to a large extent dominated by agriculture, whose derived products account for more than half of national exports despite its relatively small contribution (12.8%) to GDP. Uruguay is a member of the Cairns Group and has a major potential in livestock terms. It can thus export not only live animals but also meat and by-products such as wool and leather. In addition, Uruguay grows crops such as sugar cane, sugar beet, wheat, rice, sorghum and maize. The role of the secondary sector in the economy is on the rise. This industrial growth is powered by the agri-food industry (especially the drinks and tobacco sectors), chemical and metal products, and machine construction. Uruguay's main trade partners are its Mercosur neighbours (mostly Brazil and Argentina), the EU (in second position), the US and the countries of Asia.

Since the Lacalle government (1990-1995), a totally open investment regime has been practised, with no restrictions on the repatriation of capital. This has enabled Uruguay to become a major stock exchange and financial centre - a role which is favoured by its strategic geographical location between the two Mercosur heavyweights.

Uruguay has a further asset in the existence of nine 'free zones', where local taxation and import duties do not apply and company tax is low. As far as re-exporting is concerned, products manufactured in the free zones need a nationalisation index<sup>12</sup> of 60% in order to benefit from preferential tariffs.

Tourism is an important sector: there is now a law on incentives to investment, providing for exemption from VAT and other taxes normally applied to the building of tourist infrastructures. In addition, tourism remains a key source of foreign exchange. Unfortunately, the tourist clientele cannot as things stand be called diverse, as most visitors are from Argentina or Brazil.

## 2. Recent trends

The period 1999-2002 was dramatic for Uruguay. The unfavourable regional and international conjunctures (the depreciation of the *real*, the Argentinian crisis, rising oil prices and falling prices for agricultural products), compounded by the foot-and-mouth outbreak in 2001, brought about an unprecedented recession: a two-thirds fall in monetary reserves, a fall in exports, an 11% decline in GDP, an increase in the debt, a banking crisis, and unemployment as high as 19%.

The decision to float the peso (May 2002) made it possible to bridge the gap which had opened up with Uruguay's Brazilian and Argentinian trading partners. With the support of the IMF, which released a total of USD 800 m, a new budgetary adjustment plan was adopted in July 2002, together with recovery measures, notably for the construction sector. Nonetheless, by August 2002 things had got worse again, and the international institutions agreed to provide an additional USD 800 m. Washington financed the early payment of the sums concerned on the basis of a relay loan, in order to avoid Uruguayan banks closing. This recourse to international loans has led to an explosion in the external debt, which now stands at USD 13 m (or 90% of GDP ...). Even so, the successful restructuring of the debt, which has managed to arrest the

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<sup>12</sup> This refers to the percentage of components originating in Mercosur.

gravest crisis in all of Uruguay's history, has helped bring about a recovery, which started in the second half of 2003 and is still going on. In the wake of an unexpected rise in GDP of 2.5%, followed by one of over 7% in 2004, the IMF's estimates suggest a rate of 4.5% for 2005. Meanwhile, the recovery in industrial production has also been confirmed: this is export-led but is also being stimulated by a visible recovery in consumption.

Although the economic indicators are now rising back towards their levels prior to the 2002 crisis, they still remain far below the levels of 1995-1998. The near-total freeze on public and private investment which prevailed for several years has jeopardised large economic and infrastructural areas. Numerous infrastructure projects which had been blocked for years are now resurfacing, but problems arise as to their financing, in view of a public debt level of nearly 110% of GDP.

Despite the economic recovery in Uruguay since mid-2003, the voters have forgotten neither the crisis nor the traditional parties' inaction in its face. Thanks to this, the October 2004 elections were won by Tabaré Vázquez, the former mayor of Montevideo, and his Frente Amplio coalition, sounding the death-knell for Uruguay's traditional two-party system of Colorados and Blancos.

One of the first successes registered by Vázquez was the agreement with the IMF, under which the Fund agreed to provide Uruguay with financial support in exchange for a reduction in the fiscal deficit and the public debt. Nonetheless, the new government's key task will be to assist and monitor the 100 000 people living in severe poverty. In this connection, it has established a 'National Social Emergency Assistance Plan' (PANES) for the least-favoured households, and has also asked for a loan of USD 100 m from the Inter-American Development Bank.

### **3. Prospects for Uruguay's economy**

It will be for the new government to define a long-term economic policy - something which has been significantly lacking, although the bases for a strategic positioning by this small country have been laid and are beginning to bear fruit. Uruguay could, building on the strengths of its geographical and political status (as a neutral country and the seat of Mercosur and ALADI) and its high educational standards, become a key pole within Mercosur for logistics, advanced technology and services, modelling itself on Belgium or Ireland.

In the short term, analysts predict a deceleration of growth. This already appears visible: GDP growth was above 10% in 2004, but seems likely to fall back to 3% by 2007.<sup>13</sup> Much will depend on exports and foreign investment<sup>14</sup>.

In the medium and long term, far-reaching reforms will be needed with a view to reducing the external debt, completing the restructuring of the banking sector and overhauling the efficiency of taxation and public expenditure<sup>15</sup>.

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<sup>13</sup> Economist Intelligence Unit

<sup>14</sup> Even so, hostility to privatisation could impact negatively on foreign investment. A referendum in October 2004 endorsed, by a two-to-one majority, a constitutional amendment seeking to nationalise water resources. The result was the immediate departure of the Spanish company Urugua.

<sup>15</sup> The social budgets are all but monopolised by pension costs, to the detriment of education, health and the fight against poverty and exclusion (which now affect one-third of the inhabitants of a once-prosperous country).

Nonetheless, recovery in Uruguay will remain dependent on the regional circumstances (still crucial for Uruguay despite its moves towards trade diversification, as was clear from the impact of the Argentinian crisis), as well as on the world economy (rising oil prices, high interest rates, imports from China, etc).

Economic recovery in Uruguay will also depend on the ability of President Vázquez to manage the cohabitation of the members of a highly diverse coalition whose membership ranges from the centre to the far left.

### **III. EU/URUGUAY RELATIONS<sup>16</sup>**

EU/Uruguay relations operate at two levels, the bilateral and the multilateral.

#### **1. Bilateral relations**

Under the Uruguayan military dictatorship (1973-1985), relations with the EU were all but non-existent. The return to democracy has allowed a proper relationship to be built. The starting-point, on 4 November 1991, was the conclusion of the framework cooperation agreement. One year after the creation of Mercosur, the Union became Montevideo's second priority: Uruguay had become aware of the need for a more diverse range of partners. The partnership thus created is significant not only economically but also politically and culturally. The EU supports the Uruguayan government's efforts to maintain political and economic stability despite the problems facing it.

Economically, the EU is Uruguay's second most important partner after Mercosur. The Union accounts for 23% of Uruguay's exports and 13% of its imports: the total value of this trade stood at over USD 1 bn in 2004. For the last three years, the trade balance has been unfavourable to the Union. The EU's imports from Uruguay consist principally of agricultural and stockbreeding products; its exports to Uruguay are mostly in the areas of machinery, electrical equipment and mineral and chemical products. Uruguay's main European supplier (and client) is Germany, followed by Spain, Italy, the Netherlands, the UK and France.

The aim of Uruguay's relations with the EU, as with the other Mercosur members, is to achieve the full liberalisation of the South American market. It is therefore necessary to dismantle tariff and non-tariff barriers. Uruguay, as a Mercosur member, is an SPG beneficiary, and 60% of its products enter the Community market without restrictions. The agreements signed by the Union with Uruguay, and later with Mercosur, are considered to be 'third-generation', and thus include a political dialogue and rule of law, human rights and good governance clauses. These conditions have to be fulfilled if Uruguay is to receive Community aid.

In this connection and following the return to democracy, Uruguay has been a recipient of cooperation aid, starting in 1986 with a decentralisation programme funded to the sum of EUR 4 m. In the wake of the implementation of the framework agreement in 1992, the sums earmarked have steadily increased, while the scope of the cooperation has broadened to include the state apparatus, health, the environment, rural development, human rights and civil society. The total sum involved in cooperation between 1986 and 1999 was EUR 50 m.

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<sup>16</sup> See Annexes III to V.

The objectives and means of this cooperation are set out in the EU/Uruguay memorandum of understanding signed in March 2001, which provides for aid to the sum of EUR 18.6 m targeted on the following:

- economic reforms (support for economic diversification and improvement of product and service quality) - EUR 8.4 m;
- modernisation of the state, especially decentralisation - EUR 5.5 m;
- social development as a priority of the national development strategy (projects for integrating young people into the labour market and reducing female unemployment).

Nine projects are currently under way, in the social, environment and institutional support fields.

This EU/Uruguay cooperation is carried out bilaterally, but it is important that it should be properly focused (at a time when all are affected by globalisation) in the context of a Community strategy targeted on Mercosur.

## **2. EU/Uruguay relations in the context of Mercosur**

### *2.1. Introduction*

EU/Uruguay bilateral relations took on a new dimension with the signature in December 1995 of the EU/Mercosur cooperation agreement, whose objective is to create an interregional association.

The EU has, since its creation, supported Mercosur's integration process. In 1992, the Commission signed an interinstitutional agreement with Mercosur with a view to providing technical and institutional support. The basis of the existing relations is the interregional cooperation framework agreement signed on 15 December 1995 in Madrid, which comprises trade, cooperation and political dialogue aspects. This agreement has institutionalised the dialogues that existed beforehand, and provides for twice-yearly meetings bringing together heads of state, ministers and senior officials. Since 2001, there have also been a number of official meetings, as well as meetings on the margins of the UN General Assembly bringing together the EU troika and the Mercosur states.

The purpose of this cooperation is to reinforce Mercosur's regional integration process and, in the long term, to create a large free trade area embracing the two blocs, in the field of goods and services in conformity with WTO rules, and to lay the bases for a closer political dialogue. In this context, at the Rio de Janeiro summit of 28 June 1999 the basis was established for the negotiations for the future association agreement. These negotiations began in November 1999 in Brussels, and are being carried out within the biregional EU/Mercosur negotiating committee, to which are attached a subcommittee on cooperation, three subgroups on specific cooperation areas, and three technical groups on commercial issues.

The first round of negotiations took place on 6 and 7 April 2000 in Buenos Aires. The participants decided that the future association should not be confined to the liberalisation of trade in goods and services, but should be extended to public contracts, investment, intellectual property, competition, trade protection instruments and dispute settlement.

It was only with the fifth negotiation meeting, held from 2 to 6 July 2001 in Montevideo, that the EU/Mercosur negotiations truly began. On this occasion, the Union presented its tariff proposals for goods, services and public contracts. The Mercosur states expressed their strong appreciation of this demonstration of support for their integration process at a time when the region was undergoing difficulties<sup>17</sup>.

The second EU/Mercosur summit (Madrid, 2002) should have been the moment for establishing the timetable for the negotiations and setting a deadline. However and despite its efforts, Mercosur was not able to bring the EU to the point where it could commit itself to concluding the negotiations in 2005. The summit confined itself to 'welcoming the progress made on the commercial chapters and the adoption of a package of measures to facilitate trade', and did not establish a deadline. The two sides agreed to develop a closer political dialogue on issues relating to human rights and the rule of law, sustainable development, conflict prevention within the UN, and the fight against terrorism and drug trafficking.

## *2.2. Recent developments*

The EU and Mercosur, meeting at ministerial level on 12 November 2003, had decided to complete the negotiations for an association and free trade agreement in October 2004, with a mid-term report being submitted to the Euro-Latin American summit in Guadalajara in May 2004. Despite the encouraging developments in Guadalajara, the October 2004 negotiations in Lisbon did not lead to the signature of the agreement.

Following the ministerial meeting of 2 October 2005 in Brussels, the two sides decided to resume negotiations at the beginning of 2006, with a view to concluding a trade, cooperation and political dialogue agreement ('fourth generation')<sup>18</sup> aimed at creating the world's biggest free trade area, with a market of over 680 m people and a trade volume of USD 40 bn. After more than four years, the negotiations continue to encounter obstacles on both sides: Mercosur wants lower customs duties for its sugar, beef and poultry exports, while the Union wants improved access to the South American market in the areas of services and public contracts. There will be a further ministerial meeting of the two sides in the first half of 2006, following the outcome of the WTO ministerial conference to be held in Hong Kong in December 2005. The objective is that the agreement should be signed at the Vienna summit in May 2006.

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<sup>17</sup> Commissioner Lamy said he believed Mercosur was the solution to the Argentinian crisis, and stressed that the EU's commitment was 'not to be modified, despite the region's temporary difficulties'; it was, he felt, rather, 'the proof that relations need to become closer'.

<sup>18</sup> Uruguay, which currently occupies Mercosur's rotating presidency (second half of 2005), is strongly in favour of this.

### **3. The role of the European Parliament**

The EP has always paid close attention to the political and social situation in Uruguay and to the problems of human rights and the rule of law<sup>19</sup>. Furthermore, aware of the major interest of the biregional negotiations, in May 2002 Parliament called for a free trade area between the EU and Latin America to be established by 2010, and urged the Madrid and Guadalajara Euro-Latin American summits to commit themselves to a genuine calendar for negotiations and to pragmatic conclusions aimed at improving living standards and promoting respect for human rights and the participation of civil society in decision-making.

In addition, following the 2004 elections the EP set up a delegation for relations with Mercosur.

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<sup>19</sup> The EP adopted numerous resolutions during the dictatorship, e.g. on the political situation (OJ C161, 20.6.1983, p. 124), on the calls for an amnesty for political prisoners (JO C104, 16.4.1984, p. 158), and on human rights violations (OJ 50, 9.3.1981 p. 16).



## URUGUAY: MACROECONOMIC DATA AND FORECASTS

	1999	2000	2001	2002	2003	2004	2005
<b>GDP Growth %</b>	-2,85	-1,44	-3,39	-11,03	2,17	12,27	5,17
<b>GDP US\$bn</b>	20,91	20,07	18,56	12,28	11,20	13,24	16,37
<b>GDP Per Capita US\$</b>	6.331	6.042	5.553	3.654	3.313	3.895	4.789
<b>Inflation (CPI) %</b>	4,16	4,76	4,36	13,97	19,38	9,16	4,62
<b>Population m</b>	3,30	3,32	3,34	3,36	3,38	3,40	3,42
<b>Population Growth %</b>	0,57	0,58	0,58	0,58	0,57	0,56	0,59
<b>Budget Balance % GDP</b>	-3,98	-4,11	-4,31	-4,06	-3,18	-1,78	-2,50
<b>Current Account Balance US\$bn</b>	-0,49	-0,57	-0,50	0,38	-0,06	-0,10	-0,17
<b>Current Account Balance % GDP</b>	-2,36	-2,82	-2,68	3,11	-0,52	-0,79	-1,01
<b>Total Export Earnings US\$m</b>	4.288	4.441	4.094	3.164	4.020	4.400	-
<b>Local Currency to Euro</b>	12,08	11,15	11,92	20,05	31,82	35,48	32,98
<b>Foreign Direct Investment \$m</b>	235	274	320	177	105	140	-
<b>Foreign Direct Investment % GDP</b>	1,13	1,36	1,73	1,44	0,92	1,15	-
<b>Total External Debt \$m</b>	7.501	8.196	9.706	9.450	9.500	9.780	-
<b>Total Debt % GDP</b>	35,87	40,83	52,31	76,64	83,55	80,32	-
<b>Debt Service Ratio % Total Exports</b>	22,23	26,63	31,92	47,41	42,29	36,84	-

Source: World Markets Research Centre

## Trade relations EU(25)-Uruguay, 2004

By products		1000 EUR			
HS Chapters	Harmonised System (HS): Sections and chapters	Imports (cif)		Exports (fob)	
		1000 EUR	% of total	1000 EUR	% of total
<b>01-99</b>	<b>Total</b>	631.207	100,0	413.641	100,0
	of which:				
<b>01-24</b>	<b>Agricultural prod. (incl. fish, prepared foodstuffs etc.)</b>	382.382	60,6	36.418	8,8
	of which:				
01-05	Live animals; animal products	186.398	29,5	1.318	0,3
	of which:				
02	Meat and edible meat offal	99.070	15,7	90	0,0
03	Fish and crustaceans, molluscs and other aquatic invertebrates	47.180	7,5	429	0,1
06-14	Vegetable products	172.180	27,3	2.620	0,6
	of which:				
12	Oil seeds and oleaginous fruits	115.690	18,3	465	0,1
16-24	Prepared foodstuffs; beverages	20.121	3,2	31.153	7,5
	of which:				
16	Prep. of meat/fish/crustaceans/molluscs/other aquatic invertebrates	12.853	2,0	555	0,1
<b>28-38</b>	<b>Products of the chemical or allied industries</b>	8.041	1,3	119.706	28,9
	of which:				
28	Inorganic chemicals; organic or inorganic compounds of precious metals etc		0,0		0,0
29	Organic chemicals	1.600	0,3	17.395	4,2
30	Pharmaceutical products	2.465	0,4	34.060	8,2
32	Tanning or dyeing extracts; tannings and their derivatives; dyes, pigments etc.	357	0,1	10.616	2,6
33	Essential oils and resinoids; perfumery, cosmetic or toilet preparations	1.571	0,2	28.608	6,9
<b>39-40</b>	<b>Plastics and rubber and articles thereof</b>	2.934	0,5	24.681	6,0
<b>41-43</b>	<b>Raw hides, and skins, leather, furskins etc.</b>	77.303	12,2	11.174	2,7
	of which:				
41	Raw hides, and skins and leather	54.230	8,6	10.130	2,4
42	Art. of leather; saddlery and harness; travel goods, handbags etc.	11.543	1,8	902	0,2
43	Furskins and artificial fur; manufactures thereof	11.530	1,8	142	0,0
<b>44-49</b>	<b>Wood/art. of woods etc; pulp of wood or other fibrous cellulosic</b>	67.839	10,7	13.789	3,3
	of which:				
44	Woods and articles of wood; wood charcoal	66.031	10,5	219	0,1
48	Paper and paperboard; art. of paper pulp, of paper or of paperboard	1.779	0,3	10.236	2,5
<b>50-63</b>	<b>Textiles and textile articles</b>	56.946	9,0	16.822	4,1
	of which:				
51	Wool, fine/coarse animal hair; horsehair yarn and woven fabric	53.759	8,5	4.151	1,0
<b>71</b>	<b>Natural or cultured pearls, precious or semi-precious stones etc.</b>	9.959	1,6	6.021	1,5
<b>72-83</b>	<b>Base metals/articles of thereof</b>	732	0,1	15.963	3,9
	of which:				
72+73	Iron and steel and articles of iron or steel	423	0,1	10.079	2,4
<b>84-85</b>	<b>Machinery and mechanical appliances; elec. eq., sound recorders etc.</b>	3.944	0,6	93.099	22,5
	of which:				
84	Nuclear reactors, boilers, machinery and mechanical appliances	2.474	0,4	62.632	15,1
85	Electrical machinery/equip. and parts thereof; sound recorders etc.	1.470	0,2	30.467	7,4
<b>86-89</b>	<b>Vehicles, aircrafts, vessels and associated transport equipment</b>	1.230	0,2	24.805	6,0
	of which:				
87	Vehicles other than railway/tramway rolling-stock etc.	884	0,1	22.130	5,4
<b>90-92</b>	<b>Optical, photographic, cinematographic etc. instruments</b>	3.754	0,6	14.455	3,5
<b>Various ch</b>	<b>Other products</b>	16.392	2,6	35.349	8,5

Source: COMEXT database, EUROSTAT

Production: JDa/DG4/European Parliament

### Trade of the EU with Uruguay by Member States, 2004

	EU-imports (cif)		EU-exports (fob)	
	1000 €	- % -	1000 €	- % -
<b>Total (EU25) *</b>	631.207	100,0	413.641	100,0
<i>of which:</i>				
France	29.861	4,7	66.808	16,2
Netherlands	71.900	11,4	21.917	5,3
Fr Germany	170.442	27,0	73.458	17,8
Italy	95.566	15,1	84.480	20,4
Utd. Kingdom	71.366	11,3	44.710	10,8
Ireland	432	0,1	3.631	0,9
Denmark	3.558	0,6	7.641	1,8
Greece	2.090	0,3	1.792	0,4
Portugal *	19.278	3,1	2.143	0,5
Spain	103.771	16,4	56.702	13,7
Belgium	20.576	3,3	18.735	4,5
Luxembourg	4	0,0	47	0,0
Sweden	12.232	1,9	13.492	3,3
Finland	11.313	1,8	5.621	1,4
Austria	454	0,1	7.544	1,8
Malta	705	0,1	60	0,0
Estonia	60	0,0	51	0,0
Latvia	94	0,0	25	0,0
Lithuania	1.163	0,2	12	0,0
Poland	13.915	2,2	2.501	0,6
Czech Republic	1.292	0,2	832	0,2
Slovakia	228	0,0	13	0,0
Hungary	388	0,1	811	0,2
Slovenia	135	0,0	585	0,1
Cyprus	383	0,1	30	0,0

Source: COMEXT database, EUROSTAT

Production: JDa/DG4/European Parliament

\* Excluding Portugal January 2005-April 2005

**Trade of the EU25 with Uruguay: 1999-2004**

MIO ECU/€

	EU-imports (cif)	EU-exports (fob)	Balance
1999	480	792	312
2000	439	871	432
2001	505	758	253
2002	602	464	-139
2003	610	392	-218
2004	631	414	-218
Jan-June: 2004	279	200	-80
Jan-June: 2005*	264	206	-58

Source: COMEXT database, EUROSTAT

Production: JDa/DG INFO/European Parliament

\*Data for June 2005 are not included for Malta

