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ENERGÍA Y MINERÍA

Incentives for automotive manufacturers in Uruguay

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Horizontal Incentives for automotive manufacturers

- Foreign investors in the country receive equal treatment as local investors. There is freedom to transfer funds and remit profits without authorization or prior registration requirements.

- Act 16.906, which declares the promotion and protection of domestic and foreign investment a matter of national interest, was approved in 1998.

- Under this Act, investment projects in all industrial and commercial sectors that are promoted by the Executive Branch, qualify to obtain an exemption from the Income Tax on Economic Activities (IRAE) between 20% and 100% from the amount invested, according to the kind of project. The nationwide IRAE rate is 25%.

- This law also exempts from Wealth Tax (IP) of movable fixed assets and for civil works, and allows to recover the Value Added Tax (VAT) paid on purchases of materials and services for the latter. It also exempts from payment of fees and taxes on the importation of movable property of fixed assets that are non-competitive with domestic industry.

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Other horizontal incentives for automotive manufacturers

- Reimbursement of VAT and indirect taxes applied to the purchase of supplies.

- Temporary Admission regime for imports of machinery and material supplies which are included in the exported goods. Therefore, no taxes are applied to them (customs and others).

- Exemption of VAT and other internal taxes on the importation of movable property (industrial machinery, industrial installations, agricultural machinery and utility vehicles) to be used for the production cycle (Decrees 59/998 and 220/998).

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Specific incentives for automotive manufacturers

- **Subsidy to vehicle and auto parts exports:** 10% refund on the FOB value of vehicle and car parts exports, through credit certificates issued by the Government, as long as they have a National Value Added of 20% (Decree 316/92).

- **Special import regime for Terminals (assemblers):** Automotive terminals may import vehicle kits with a preferential fee of 2%. This preferential fee requires a complete assembling process in the country (from CKD Kit) and direct their production to the domestic market.

  SKD kits pay 2,7% tariff the first year; 5,4% tariff the second year; and 8,1 % tariff the third year and subsequent years. This applies only for the production of new models not previously manufactured in the country.

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Trade agreements

- Based on the regulations applied by the Mercosur, the extra-zone tariffs for cars and light vehicles are 23% in Uruguay (except electric vehicles which have 0% tariff), 20% in Argentina and 35% in Brazil.

- Meanwhile, in Uruguay trucks pay a tariff of 23%, diesel buses pay 6% and petrol buses 23%. Auto parts pay a fee between 14% and 18%, and road and agricultural machinery in general between 0% and 2%. Although as mentioned earlier, there are certain benefits for assembling companies.

- Uruguay has signed bilateral economic cooperation agreements with Argentina and Brazil which allow access to these markets advantageously.

Trade agreements: Brazil

- Uruguay may export car products to Brazil at zero tariff and under no quantitative restrictions provided it complies with the Rules of Origin with a minimum Regional Content Index (ICR) of 50%.

- It is possible to export at zero tariff and an even lower regional content of 40%, subject to a quantitative restriction of US$ 650 million for total automotive exports (vehicles or set or sub-sets of auto parts). In practice this quota does not exercise as restraint because Uruguay has never exported to Brazil automotive products for more than US$ 300 million.

- For this quantitative restricted exports exists for new models a Progressive Integration Program (PIP) for each exporter with a requested minimum ICR of: 25% at the beginning of the first year, 33% at the beginning of the second year, and 40% at the beginning of the third year.

Trade agreements: Brazil

Uruguay: Regimes of origin for automotive products for exports to Brazil (ICR demanded)

	Existing models	New models
No quantity limitations	50%	
Quantity limitations (US$ 650 million for total automotive exports - vehicles or set or sub-sets of auto parts-).	40%	1st year: 25%
		2nd year: 33%
		3rd year: 40%

Note: Definition of Regional Content in the agreement with Brazil: ICR = [1 – (CIF destination port value of non-originating materials (outside Mercosur imports)/FOB export value of the final product")] * 100

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Trade agreements: Brazil

- The new automotive agreement that regulates bilateral trade between Uruguay and Brazil (signed in December 2015) ensures equalization in the treatment of Uruguay and Brazilian products in the sector support measures that Brazil instrument in the future to protect its industry.

- Until now, vehicles produced in Uruguay have the same treatment as Brazilians, but this does not apply to auto parts.

- In the new automotive agreement is ensured equal treatment of Uruguayans and Brazilians products (including auto parts) in sector support measures that Brazil instrument in the future (from 2017 onwards).

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Trade agreements: Argentina

- Uruguay may export car products to Argentina at zero tariff and under no quantitative restrictions provided it complies with the Rules of Origin with a minimum ICR of 60%.
- Regarding new models of vehicles or set or sub-sets of auto parts, approved in the PIP for each exporter, zero tariff under no quantitative restrictions also applies and a lower regional content is allowed: 40% at the beginning of the first year, 50% at the beginning of the second year, and 60% at the beginning of the third year.
- It is possible to export at zero tariff and an even lower regional content of 50%, subject to quantitative restrictions: Vehicles and commercial light cars up to 20.000 units per year and auto part sub-sets up to US$ 60 million.
- For this quantitative restricted exports there also exist a PIP approved for each exporter with a required minimum ICR of: 30% at the beginning of the first year, 35% at the beginning of the second year, 40% at the beginning of the third year, 45% at the beginning of the fourth year, and 50% at the beginning of the fifth year.

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Trade agreements: Argentina

Uruguay: Regimes of origin for automotive products for exports to Argentina (ICR demanded)

	Existing models	New models
No quantity limitations	60%	1st year: 40% 2nd year: 50% 3rd year: 60%
Quantity limitations (Vehicles and commercial light cars up to 20.000 units per year and auto part sub-sets up to US$ 60 million.)	50%	1st year: 30%
		2nd year: 35%
		3rd year: 40%
		4th year: 45%
		5th year :50%

Note: Definition of Regional Content in the agreement with Argentina: ICR = [1 – (auto part imports from outside MERCOSUR (CIF)/product sale price “exfactory”)] * 100

Trade agreements: Argentina y Brazil

- In the case of auto parts (except for sets and sub-sets which are governed by ICR), Uruguay can export to Argentina and Brazil without quantitative restrictions provided they comply with Mercosur General Rule of Origin.

Other trade agreements

- **<u>Mexico</u>**: In 2002, a specific agreement was executed with Mexico for the automotive industry, which allows the export to Mexico of car parts and vehicles at zero tariff, under regimes of origin favorable to Uruguay (50% in the general case), especially in the case of new products (30% of regional content required for the first year, 35 % for the second, 40% for the third, 45% for the quarter, culminating in 5 years with a required content of 50%).

- **<u>Other trade agreements</u>**: Uruguay enjoys preferences to export automotive products in most of its trade agreements. In particular, full and partial preferential treatment is granted for the access to Chilean, Bolivian, Ecuadorian, Peruvian, Colombian and Venezuelan markets.

As a result of industrial and trade policies implemented many companies have chosen Uruguay as a strategic point for their activities.

- LIFAN
- KIA
- PSA (PEUGEOT – CITROËN)
- BADER
- CINTER – APERAM
- FANACIF – AFFINIA
- FAURECIA
- FISHER
- MAXION – MONTICH
- TAKATA
- YAZAKI

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