



## Investment Opportunities in Uruguay

# Automotive and Auto Parts Industry

URUGUAY XXI  
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### Why invest in the Uruguayan automotive sector?

#### **Uruguay has vast experience in vehicle assembly and auto parts manufacturing**

Uruguay has a long history in auto parts manufacturing and vehicle assembly, as well as exports of both sub-sectors. Currently, there are more than 40 companies operating in the country, several of which have international quality certifications. Sector exports have tripled over the last four years.

#### **Uruguay, a reliable country with preferential access to regional markets**

In Uruguay, foreign investors receive the same treatment as local investors. Funds may be freely transferred and profits may be repatriated.

Uruguay belongs to Mercosur, a market of over 240 million inhabitants and almost 400 million if we include other South American countries with which Mercosur has economic complementation agreements, such as Bolivia, Chile, Colombia, Ecuador, Peru and Venezuela. The Brazilian and Argentine markets are open for all automotive products (except motorcycles) and roadway and agriculture machinery. Nearly 3.5 million new vehicles were sold in Mercosur in 2008.

Uruguay also has special agreements within Mercosur. The latest agreement, signed in 2008, requires that Brazil import auto parts and vehicles from Uruguay to be able to export to Uruguay with zero tariffs.

#### **Uruguay has a highly attractive investment promotion and export system**

In 2007, Uruguay adopted an investment promotion system that allows companies to use up to 100% of investments as income tax payments under certain conditions.

Benefits for all exports include:

- refund of VAT paid on supply purchases
- a tax exemption system (customs and other duties) for imports of supplies used in exported goods
- a pre-export financing system
- additional specific benefits for automotive sector exports and imports of parts for vehicle assembly with minimal tariffs (2%) under certain conditions.

#### **The Uruguayan automotive sector is attracting major foreign investments**

ArcelorMittal, Bader, Dana, GKN and Yazaki are just some of the transnational companies that supply regional and global markets from Uruguay.

These investments are being made in a context where foreign direct investment in Uruguay has risen 11 times over since 2002 to account for 6.8% of GDP in 2008.

## Uruguayan and regional markets

### Growth in new vehicle sales in Mercosur in recent years

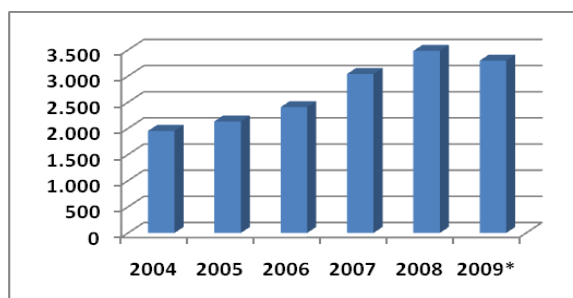
Auto sales had been growing worldwide in recent years, both in developed and emerging countries. Mercosur and associated countries also experienced this growth. Although since the end of 2008 the global crisis has affected this industry, growth is expected to resume in 2010.

Nearly 3.5 million units were sold in 2008 in the Mercosur automotive market, despite the recession that began at the end of the year. For 2009, 3.3 million units are forecasted to be sold.

From Uruguay, these markets can be accessed with zero tariffs under certain conditions to be specified later.

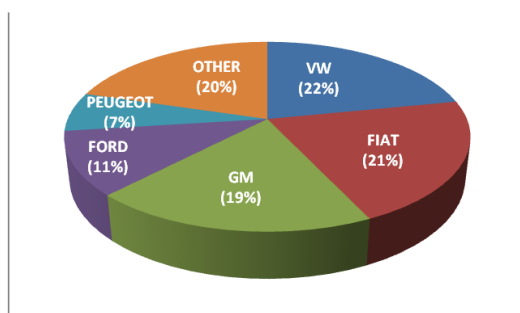
Annual sales of vehicles by country, 2004-2008, in thousands of units

Year	Brazil	Argentina	Uruguay	Paraguay	TOTAL
2004	1,620	312	9	10	1,951
2005	1,705	403	15	10	2,133
2006	1,920	461	15	10	2,406
2007	2,444	565	19	12	3,040
2008	2,824	612	26	20	3,482
2009*	2,830	430	20	15	3,295



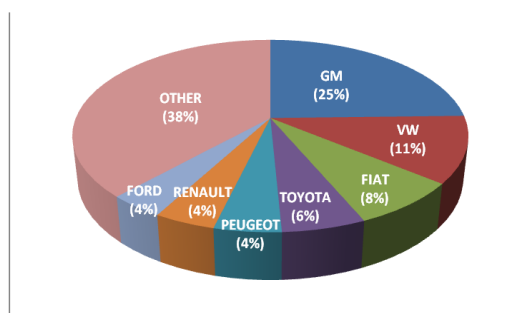
Sources: Brazil - Anfavea, statistics; Argentina - Adefa, statistics; Uruguay - ASCOMA; Paraguay - CIP, only new cars; Vehicles include cars, pick up trucks, trucks and buses. 2009\*: Uruguay XXI based on first half of 2009 vs. 2008.

Vehicle sales per brand in Mercosur (2008)



Sources: Brazil - Anfavea; Argentina - Adefa; Uruguay - Deloitte; Paraguay - CIP. Includes cars, pick ups, trucks and buses (except in Uruguay and Paraguay). Sales expressed in units.

Vehicle sales per brand in Uruguay (2008)



Sources: Deloitte, sector report. Only cars and pick up trucks, does not include trucks. Sales expressed in units

## Automotive and Auto Parts Industry

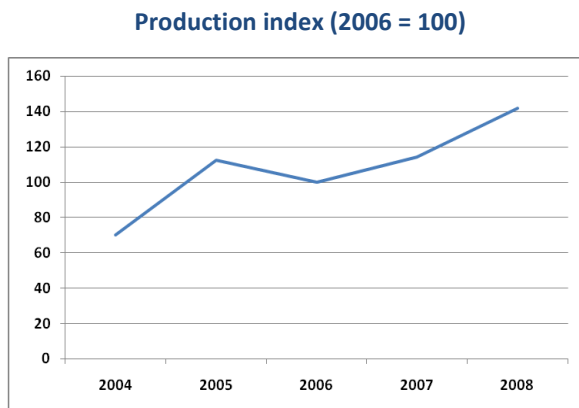
In recent years, General Motors, Volkswagen and Fiat have dominated the market, both in Mercosur and in Uruguay.

In Uruguay, new Asian brands have recently entered the market (FAW, Chery, Geely, etc.), achieving a 13.5% market share by 2008. In general, the region's highest selling vehicles are those assembled locally.

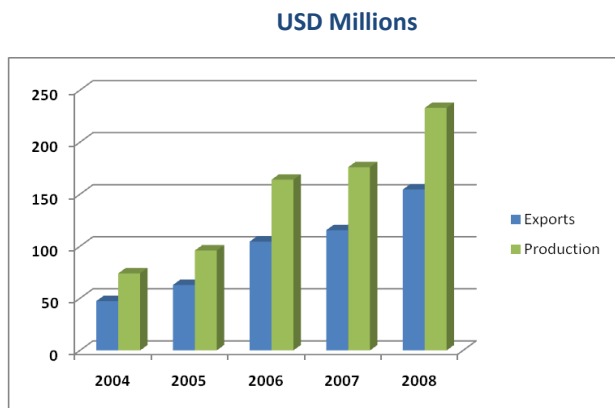
### Notable increase in vehicle and auto parts production and exports in Uruguay

Domestic vehicle and parts production has experienced a boom over the past four years, with double the volume and triple the total value produced. In 2008, automotive sector production accounted for 0.4% of overall GDP and accounted for 2.6% of total merchandise exported from the country<sup>1</sup>.

### Uruguay: production and exports of vehicles and auto parts, 2004-2008

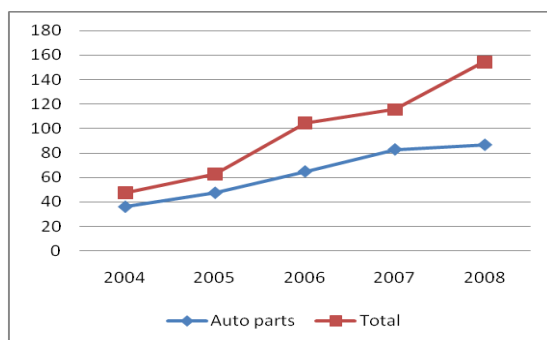


Source: Manufacturing Industry Physical Volume Index (INE).



Sources: Production – total sales in current UYP at the average annual exchange rate. Exports - Deloitte, sector report.

### Uruguay: vehicle and auto parts sales exports 2004-2008 (USD millions)



Sources: Deloitte, sector report. Auto parts do not include exports of leather seat parts. Vehicles include buses, minibuses, tractors and other special purpose vehicles, engines, bodywork, chassis, trailers and semi-trailers, among other items. Year 2008: forecasted by Uruguay XXI.

<sup>1</sup> Source: in-house analysis based on Central Bank of Uruguay data.

### Substantial investments in the Uruguayan automotive sector in the past 5 years

#### Auto parts

Both foreign and domestic companies operate in the auto parts sector. Foreign companies generally export to assembly plants in the region. In turn, domestic companies produce a wide variety of products, exporting leather seats to Germany and pistons and liners to the region, while others produce for the domestic market.

Several foreign companies have recently invested in the auto parts manufacturing industry in Uruguay, including:

**Bader (Germany)**, producing and exporting leather for car seats to Germany and Mexico.

**ArcelorMittal**, a European firm that in 2007 invested in the Cinter company, which produces steel tubes for vehicles and other uses and exports to Argentina, Brazil and the U.S.

**GKN Driveline (United Kingdom)**, produces CVJ sids shafts and exports to Argentina, Brazil and the U.S.

**Dana (U.S.)** produces differential axles and exports to Argentina.

**Yazaki (Japan)** produces clutch harnesses and exports to Argentina.

#### Vehicle assembly

There are two assembly plants in Uruguay with majority domestic ownership but with foreign capital participation, another that manufactures armor for autos as well as two planned vehicle assembly projects:

**Oferol**, in an agreement with Chery Automobile of China and Socma of Argentina, began to produce midsize cars for export to Brazil in 2008. Oferol currently performs piece work for these companies in its plant located in the department of Canelones.

**Nordex**, in an agreement with Renault Trucks of Swedish group Volvo, produces trucks for the domestic market and exports to Argentina, Chile, Angola and Libya (small runs that cannot be produced by headquarters), and in an agreement with Chinese

#### Case: Yazaki in Uruguay

Yazaki of Japan has manufacturing facilities in 20 countries, employing 190,000 people. A world leader in the design and manufacture of electrical distribution systems for cars, Yazaki markets its products throughout most of the world.

In 2006 and 2007, Yazaki made a USD 3.4 million investment in Uruguay to manufacture auto parts (electrical harnesses and conductors), demonstrating that "Uruguay offers a good business environment." By 2008, the company employed 600 people and exported USD 14 million to clients in Argentina including General Motors and Toyota.

The Uruguayan government supported the endeavor by supplying a property next to the port of Colonia and passing a bill to broaden the Investment Promotion Law and consequent tax breaks.

In 2008, Yazaki decided to build another manufacturing plant in the Canelones Technology Park. The local government granted the company a 17,000 square meter property for the project. The Transport and Public Works Ministry will clear the land and the company will initially invest USD 1.5 million. Production will be exported and 1,000 workers will be employed.

<sup>1</sup>Interview with Japanese Ambassador, *El País* newspaper, 19 March 2007.

company Dongfeng Motor, the company produces trucks for the domestic market in its Montevideo plant. The Nortel industrial plant of the same group in Maldonado produces auto parts for both truck brands.

In addition, Nordex is in advanced stages of negotiations with Kia Motors of Korea to assemble between 4,000 and 6,000 vehicles per year for export to Brazil. The kits (CKD) will be imported from South Korea.

**Chery Automobile** has also invested in partnership with a Uruguayan company (Bognor), in a vehicle armor plant to export production.

**Effa Motors**, a company majority owned by a Uruguayan businessperson living in Brazil, has launched a project to begin to assemble 4,000 vehicles per year in 2010 in San José, Uruguay, for the domestic market as well as for Brazil and Argentina. The company will produce passenger models (through an agreement with Chinese company Beijing Motors) and commercial vehicles (with Chinese company Harbin Hafei). Likewise, it will start production of light trucks, vans and passenger minivans with an estimated investment of USD 35 million.

The Chamber of Automotive Component Manufacturers of Uruguay is interested in developing an Auto Parts Industrial Park, and has initiated discussions with U.S. company Delphi, the main supplier for General Motors, for its possible incorporation.

Industrial parks are an attractive alternative for factory locations and are regulated by laws that grant tax and customs benefits to participating companies.

### Prospects for sector investment

Having overcome the difficulties arising from the ongoing international crisis in 2009, new investments in the automotive sector could take advantage of the production experience gained in the country to supply the expanded Mercosur market with the advantages offered by recent agreements and Uruguayan investment and export incentives (both general and sector specific).

These investments could include agreements with existing auto parts companies to offer products to both vehicle assembly companies as well as to the regional market with replacement parts for used cars.

### APPENDICES

#### Domestic and foreign investment promotion

Foreign investors in Uruguay enjoy the same benefits as domestic investors and do not need prior authorization to set up in the country.

Law 16,906 (dated 7 January 1998) declares that the promotion and protection of domestic and foreign investment is of national interest. Decree 455/007 updated the regulations of this law. Investment projects in any industry that are submitted and promoted by the Executive Branch may use between 51% and 100% the amount invested as partial payment of corporate income tax, according to project classification. The normal corporate tax rate is 25%.

In addition, moveable fixed assets and civil works are exempt from wealth tax and VAT can be recovered for purchases of materials and services for the latter.

Likewise, the law exempts import taxes and charges for movable fixed assets declared non-competitive to domestic industry.

#### Trade agreements and investment protection

##### 1 General trade agreements

Uruguay has been part of the World Trade Organization (WTO) since its creation in 1995 and is part of the Latin American Integration Association (ALADI, 1980) along with ten South American countries plus Cuba and Mexico.

In the framework of ALADI, the Southern Common Market (Mercosur) was formed in 1991 with Argentina, Brazil and Paraguay. Mercosur became a customs union in 1995, with the free movement of goods, the elimination of customs duties and non-tariff barriers between countries, and a common external tariff for countries outside the bloc. Venezuela is currently in the process of joining Mercosur.

Within the framework of ALADI, Mercosur has signed free trade agreements with other countries in South America: Chile (1996), Bolivia (1996), Colombia, Ecuador and Venezuela (2004) and Peru (2005), and has an agreement with Israel (2007), all of which form respective Free Trade Zones, with tariff reduction schedules that should be completed no later than 2014/2018, according to country.

Uruguay also signed a bilateral free trade agreement with Mexico (2003), which allows for the free movement of goods and services between both countries (zero tariffs), with certain exceptions that end in 2014.

### 2 Specific trade agreements for the automotive sector

#### a) Mercosur

In the Mercosur framework, extra-zone tariffs are currently 20% for cars and light vehicles, 12% for auto parts and between 2% to 12% for roadway equipment, buses and trucks.<sup>2</sup>

Uruguay can export passenger vehicles to Argentina and Brazil tariff free, as long as less than 20,000 units are sold to each country per year.

Limits for exports to Argentina and Brazil are as follows: trucks and tractors - 800 units for Argentina and 2,500 for Brazil, respectively; armored vehicles - 500 and 1,200 units; and subassemblies – USD 60 and 100 million, respectively.

In addition, Uruguay is also permitted a minimum Regional Content Index of 50% (instead of the usual 60%) that in the case of new models may drop to 40%.<sup>3</sup>

In 2008, Uruguay and Brazil agreed to reduce the trade deficit of Uruguay with Brazil in this sector by quantitative limitations on Brazilian exports that vary in proportion to the country's exports to Brazil in the previous year (applies to light passenger vehicles, auto parts that are assemblies and subassemblies and utility vehicles). This agreement is expected to stimulate exports to Brazil.

#### b) Mexico

In 2002, Uruguay and Mexico signed a specific automotive sector agreement, which allows duty free auto parts and vehicle exports to Mexico.

### 3 Investment protection

Uruguay has signed investment security, protection and promotion agreements with 26 countries, including Spain, the U.S., Finland, France and the U.K., among others.

## General government export incentives

### 1 Refund of VAT paid on supply purchases

Refunds of VAT on purchases are made generally by discounting VAT charged on sales and paying the difference to the State. Since this tax is not charged on exports, VAT included in purchases of inputs is refunded at the request of the company. The DGI tax bureau extends credit certificates that can be used in paying other taxes.

### 2 Refund of other taxes

The State refunds other internal taxes that make up the cost of a product exported through a notional percentage on FOB value determined by the Executive Branch (currently 2%).

<sup>2</sup> July 2009

<sup>3</sup> See ALADI page [www.aladi.org/Acuerdos/Disposiciones de internalizaci3n/Acuerdos de alcance parcial/Complementaci3n econ3mica/AAP.CE No. 2 Protocol 68 \(with Brazil\) y AAP CE 57 and Additional Protocol \(with Argentina\).](http://www.aladi.org/Acuerdos/Disposiciones%20de%20internalizaci3n/Acuerdos%20de%20alcance%20parcial/Complementaci3n%20econ3mica/AAP.CE%20No.%20Protocol%2068%20(with%20Brazil)%20y%20AAP%20CE%2057%20and%20Additional%20Protocol%20(with%20Argentina).)

### 3 Temporary admission

Imported supplies, components, packaging and molds to be incorporated in the production of exported goods are exempt from both customs duties and Value Added Tax. The only requirement is for exports to occur within a period no greater than 18 months (extendable to 36 months).

If the final product has imported supplies of 50% or less of the total value, it remains of Mercosur origin, which is required for intra-zone tariff exemptions. This system is set to expire in 2010 for Mercosur, but is expected to be renewed.

### 4 Export financing

The Central Bank of Uruguay (BCU) has a special subsidy system for interest on export financing.

If pre-or post export bank financing is obtained, 30% (or 10% in some cases) can be deposited in the BCU, which will pay interest on the total financing amount rather than only on the deposit.

### 5 Free Zones

There are the 10 Free Zones or customs enclaves for manufacturing activities and services to third countries where customs duties and taxes are not paid on entry and exit of goods and services. In addition, broad exemptions from national taxes are granted, such as the IRAE income tax, but not for social security payments for domestic personnel.

A minimum of 75% of Uruguayan citizens among total staff is the only requirement, although this percentage may be reduced with prior approval by the Executive Branch.

### 6 Free port and port warehouses

Montevideo and other ports in the country operate under a system enabling the free movement of goods, which are exempt from applicable import taxes and surcharges for activities including handling, fractioning, repackaging, etc. (that do not imply manufacturing).

## Specific government incentives for the automotive sector

There is a special incentive for automotive sector companies consisting of a 10% rebate of the value of vehicle and parts exports through credit certificates issued by the government that can be used to pay taxes by both the same company and by others that import vehicles. This percentage does not overlap the 2% mentioned in the "Refund of other taxes" section.

For terminals (assembly companies) another benefit exists, which is to be able to import supplies with a 2% tariff as long as full assembly in the country is completed (CKD, collection of completely disassembled parts).

### List of Uruguayan auto parts products

* Radiators and parts.	* Exterior body parts and pieces.
* Batteries, lead acid electric storage batteries (starter, traction and stationary).	* Castings.
* Aluminum pistons, engine liners, piston rods.	* Complete seats for cars and buses.
* Battery terminals.	* Axle and differential assemblies.
* Aluminum shapes.	* Steel pipes with and without seamless drawing.
* Rubber parts (seals, o-rings, suspension bushings)	* Seals for cars, trucks, buses, tractors.
* Parts and components for motorcycles	* Thermal acoustic absorbers for frames and punched felt on natural fibers.
* Mechanical cables (parking brake, speedometer, clutch).	*CVJ sids shafts.
*Brake fluid, refrigerants and anti-freeze.	* Computerized cooling system diagnostic and monitoring tools.
*Exhaust systems.	*Curved and flat tempered glass.
*Tires.	*Leather for the automotive industry.
*Automotive electrical circuit harnesses.	

### Institutions

Auto parts companies are grouped in the Chamber of Automotive Component Manufacturers of Uruguay, a member of the Chamber of Industries of Uruguay. These two institutions promote the sector in diverse areas (exhibitions, round tables, training programs) that are often supported by government agencies. Besides, there exists the Chamber of the Automotive Industries of Uruguay, also a member of the Chamber of Industries of Uruguay.

### Uruguay in a Nutshell (2008)<sup>4</sup>

<b>Official name</b>	<b>República Oriental del Uruguay</b>
<b>Location</b>	South America, bordering Argentina and Brazil
<b>Capital</b>	Montevideo
<b>Surface area</b>	176,215 km <sup>2</sup> (68,037 mi <sup>2</sup> ). 95% of the territory has soil suitable for agriculture and livestock activities.
<b>Population</b>	3.3 million
<b>Population growth</b>	0.3% (annual)
<b>GDP per capita</b>	USD 10,082
<b>GDP per capita (PPP)</b>	USD 13,295
<b>Currency</b>	Uruguayan peso (\$)
<b>Literacy rate</b>	98%
<b>Life expectancy at birth</b>	76 years
<b>Form of government</b>	Democratic republic with presidential system
<b>Political divisions</b>	19 departments
<b>Time zone</b>	GMT - 03:00
<b>Official language</b>	Spanish

### Major Economic Indicators 2004-2008<sup>4</sup>

	2004	2005	2006	2007	2008
<b>Annual GDP growth rate</b>	5.0%	7.5%	4.6%	7.6%	8.9%
<b>GDP (PPP), USD millions</b>	28,930	32,048	34,602	38,235	42,543
<b>GDP, USD millions (current)</b>	13,740	17,478	20,001	24,432	32,262
<b>Exports (USD millions), goods and services</b>	4,257	5,085	5,787	6,936	9,334
<b>Imports (USD millions), goods and services</b>	3,778	4,693	5,877	6,770	10,083
<b>Trade Surplus / Deficit (USD millions)</b>	478	393	(90)	166	(749)
<b>Trade Surplus / Deficit (% of GDP)</b>	3.5%	2.3%	(0.5)%	0.7%	(2.3)%
<b>Current Account Surplus / Deficit (USD millions)</b>	3	42	(392)	(212)	(1,225)
<b>Current Account Surplus / Deficit (% of GDP)</b>	0.0%	0.2%	(2.0)%	(0.9)%	(3.8)%
<b>Overall fiscal balance (% of GDP)</b>	(1.8)%	(0.4)%	(0.5)%	0.0%	(1.4)%
<b>Gross capital formation (% of GDP at current prices)</b>	17.5%	17.7%	20.3%	21.0%	23.0%
<b>Gross national savings (% of GDP)</b>	16.7%	17.6%	16.9%	19.0%	17.9%
<b>Foreign direct investment (USD millions)</b>	332	847	1,493	1,329	2,205
<b>Foreign direct investment (% of GDP)</b>	2.4%	4.8%	7.5%	5.4%	6.8%
<b>Exchange rate Peso / USD</b>	28.7	24.5	24.1	23.5	20.9
<b>Reserve assets (USD millions)</b>	2,512	3,071	3,097	4,121	6,360
<b>Unemployment rate (% of EAP)</b>	13.1%	12.2%	11.4%	9.1%	7.6%
<b>Annual inflation rate</b>	7.6%	4.9%	6.4%	8.5%	9.2%
<b>Net Foreign Debt (USD millions)</b>	8,624	7,531	6,959	6,448	4,537

<sup>4</sup> GDP data was taken from the IMF; data on foreign trade, FDI, exchange rate, international reserves and foreign debt was provided by the Central Bank of Uruguay (BCU); population growth, literacy, unemployment and inflation data comes from the National Statistics Institute (INE).

### Investor Services

#### About Us

Uruguay XXI is the country's investment and export promotion agency. Among other functions, Uruguay XXI provides no-cost support to foreign investors, both those who are evaluating where to make investments as well as those currently operating in Uruguay.

#### Our Investor Services

Uruguay XXI is the first point of contact for foreign investors. Services we provide include:

- Macroeconomic and industry information. Uruguay XXI regularly prepares reports on Uruguay and on various sectors of the economy.
- Tailored information. We prepare customized information to answer specific questions, such as macroeconomic data, labor market information, tax and legal aspects, incentive programs for investments, location and costs.
- Contact with key players. We provide contacts with government agencies, industry players, financial institutions, R&D centers and potential partners, among others.
- Promotion. We promote investment opportunities at strategic events, business missions and round tables.
- Facilitation of foreign investor visits, including meeting organization with public authorities, suppliers, potential partners and business chambers.
- Publication of investment opportunities. On our website, we periodically publish information on investment projects by public entities and private companies.