

FREE TRADE ZONES IN URUGUAY – WHAT ARE THEY GOOD FOR?

PART II - CASE STUDIES

Introduction:

In our previous article we set out the basic framework under which Free Trade Zones (FTZs) work and their main advantages and some (smaller) disadvantages.

We thought it would be useful to provide some further practical information about use of FTZs and also some specific examples of companies operating out of these areas.

Overall Importance of FTZs:

FTZ's are used for all kinds of activities. In practice the largest manufacturing industries in our country are installed in the publically owned FTZ's, specifically created for them by the government

Investment

The 2015 statistics show that investment in FTZs was U\$720 million and that it has continued to rise even whilst investment in the rest of the Uruguayan economy has stagnated (although the economy has never entered into recession even in in 2008/9). The 2015 figure represented 5.86% of total (national and foreign) investment in the Uruguayan economy.

The major part of this investment was in the Montes del Plata cellulose plant near Colonia in the Punta Pereira FTZ. To put the importance of this plant in perspective, now that it is fully operational it contributes more than 2% to Uruguay's GDP on its own.



A new plant is now being negotiated between the owners of the Montes del Plata and the government, for which a fundamental requirement of the owners is that the government create a new FTZ for location of the plant in the Rio Negro region.

Exports

Exports from the FTZs represented 24% of all Uruguayan exports in 2014. 60% of this total is made up of exports of services, which in turn represent approx. 70% of all Uruguayan service exports. So the moral is, if you are a Uruguayan company which exports services, you need to be located in a FTZ.

Employment

The latest published information is from 2015 and shows that in that year the total number of employees was 13,420 of whom 8.75% are non-Uruguayan nationals. Thus the 25% limit set by the law for foreign nationals does not appear to be an issue in practice.

Average salaries are U\$2900, which is well above the national average.

By far the biggest employer is Zonamerica, located on the outskirts of Montevideo, with 6900 employees.



Case studies in different sectors:

1. Manufacturing: Mega Pharma



The latest FTZ is called the Science Park ("Parque de las Ciencias") located near the Montevideo airport. It is aimed particularly at the biotech and pharmaceutical industry. The Mega Pharma (part of the Roemmers group from Argentina) plant

opened in March 2016 and required an investment of U\$S110 million. It is said to be the most modern plant in the whole of South America. It has 350 employees. Although the great majority of the plant is dedicated to manufacture of medicines to be exported to the region there is also an R&D facility. Traditionally Roemmers has been a generic manufacturer, but it is to be hoped that with this new plant they will be creating their own products.

In 2017 it is estimated that production from the plant will exceed U\$S250 million, with sales throughout Latin America.

2. Commerce: Costa Oriental



Costa Oriental is the largest Uruguayan logistics company, which has now established itself in the Zonamerica zone to act as a regional hub for distribution of goods for a variety of multinational companies. Products brought into the DTZ do not pay any import duty and can be kept there for as long as is necessary. Import duties are only paid when the goods are exported at the rates applicable in the country to which the goods are sent. In the case of exports going on to another Mercosur country this means payment of the Common External Tariff (A.E.C.) on entry.

Costa Oriental has recently signed a distribution agreement with L’Oreal for example. In order to obtain this contract Costa had to invest in special warehousing for pharmaceutical and cosmetic products, which conform to GMP (Good Manufacturing Practice) norms.

Costa has also been certified by the Uruguayan Customs Authority as a qualified operator, which means that its internal control systems have been fully checked and provides advantages for the company in its customs transactions.

3. Services: Trafigura



Trafigura describes itself as “one of the world’s leading independent commodity trading and logistics houses”. It is a multinational company with offices in 36 different countries. In 2013 it opened a regional hub in Zonamerica. This office carries out all group activities, but with a focus on North and South America. The office has been so successful that additional teams are being moved to Uruguay. Likewise the company represents a very attractive opportunity to many young Uruguayan graduates. At the time of writing it employs over 400 people, having started with only 70 in 2013.

Conclusion:

These examples are intended to give an idea of how some companies have successfully set up operations in Uruguay, with regional or even worldwide activities. As mentioned in our previous article there are many other companies operating in the software, telecommunications (particularly call centres) and financial sectors.

If the Mercosur could actually get its act together and start really operating as at least a customs union, then these FTZs could increase in size substantially. As many readers will be aware, over the last 10 years the Argentine economy has been virtually closed to imports and the Brazilian government has always been very protective of its own

industries. Argentina seems to be on a gradual path towards opening its economy, which will lead to significant opportunities in Uruguay and the FTZs in particular – hopefully!

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