2000 Country Reports on Economic Policy and Trade Practices
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VENEZUELA

Key Economic Indicators

(Billions of U.S. dollars unless otherwise indicated)

	1998	1999	2000 1/
Income, Production and Employment:			
Nominal GDP 2/	95.0	102.0	107.1
Real GDP Growth (pct) 3/	-0.1	-7.2	3.0
GDP by Sector:			
Agriculture	-0.6	-2.0	2.0
Manufacturing	-5.6	-10.0	3.0
Services	0.1	-6.0	5.0
Government	0.9	1.5	4.5
Per Capita GDP (US$)	4,087	4,302	4,427
Labor Force (000s)	9,907	10,225	10,188
Unemployment Rate (pct)	11.0	14.5	13.5
Money and Prices (annual percentage growth):			
Money Supply Growth (M2)	18.6	19.9	23.2
Consumer Price Inflation	29.9	20.0	15.9
Exchange Rate (BS/US$ annual average)			
Official	549.0	607.06	682.0
Parallel	549.0	607.06	682.0
Balance of Payments and Trade:			
Total Exports FOB 4/	17.6	20.8	31.6
Exports to United States 5/	9.3	11.3	17.9
Total Imports CIF 4/	14.8	13.2	14.7
Imports from United States 5/	6.5	5.4	5.3
Trade Balance 4/	2.8	7.6	16.9
Balance with United States 5/	2.8	5.9	12.6
External Public Debt	22.9	22.2	20.9
Fiscal Surplus (Deficit)/GDP (pct)	-4.1	-2.6	-1.7
Current Account Surplus (Deficit)/GDP (pct)	-1.8	3.6	12.4
Debt Service Payments/GDP (pct)	7.8	5.8	5.6
Gold and Foreign Exchange Reserves	14.8	15.4	17.6
Aid from United States	N/A	N/A	N/A
Aid from All Other Sources	N/A	N/A	N/A

1/ 2000 figures are all estimates based on data available as of October.
2/ GDP at market value.
3/ Percentage changes calculated in local currency.
4/ Merchandise trade.
5/ Source: U.S. Department of Commerce; exports FAS, imports customs basis; 2000 figures are estimates based on data available as of October

. 1. *General Policy Framework*

Over the past twelve months, the Venezuelan economy has experienced significant volatility due to a series of major political and economic events. In December 1999 the electorate approved a constitution with several radical elements, producing uncertainty about the orientation of the economy. Precisely as the country voted, torrential rains ravaged Venezuela's north coast, resulting in massive mudslides with substantial loss of life and property. On the positive side, as the year 2000 progressed, Venezuela enjoyed a windfall in state revenue from the rapid rise in oil prices. As of September 30, the average price for Venezuelan oil stood at $26.31/bbl, a rise of $10.27/bbl from the 1999 average. This substantial price increase has produced revenues of $14.1 billion for the government treasury and has set the stage for significantly higher government expenditures.

In the political sphere, on July 30 the country re-elected President Hugo Chavez Frias for a new six-year term in country-wide elections. This election introduced major changes in the government structure from the federal to the municipal level. President Chavez's strong populist credentials were reflected in his proposed 2001 federal budget ($31.6 billion) which anticipates a 15 percent growth in expenditures, principally for social programs and government-financed infrastructure projects. Surging oil revenues have raised the country's gross foreign reserves to more than $19.5 billion as of September 30. Economic growth increased to 1.5 percent for the first six months (after a decline of 7.2 percent in 1999) and could reach 3.0 percent with government spending leading the way.

The National Assembly is currently considering a so-called "Enabling Law," an often-used mechanism that would grant expansive legislative authority to President Chavez for a period of one year. Whether this process will improve or complicate the trade environment is unclear. It does give the Chavez government the mechanism to make rapid, sweeping changes to investment and tax framework, but the Enabling Law, as presently written, is short on specifics. Despite his strong populist positions, Chavez has consistently called for increases in foreign investment, and has opened several economic sectors previously closed to foreign participation, notably the telecommunications and energy sectors. Additional progress was made late last year when the United States and Venezuela signed and ratified the Bilateral Tax Treaty, which will facilitate trade through standardized tax treatment of corporate earnings. The long-discussed Bilateral Investment Treaty between the two countries is still in negotiations, but progress on this important issue could occur this year.

Overall, Venezuela is making steady progress in the development of an economic environment characterized by transparency and free-market principles. Although some important economic sectors remain under state control (i.e. petroleum, and to a large degree mining), more and more of the Venezuelan economy is being opened to foreign participation. There is cause for concern regarding the concentration of power in the country's executive branch, particularly in view of the strong populist rhetoric put forth by President Chavez. But within the realm of law, Venezuela is slowly but steadily creating an economic climate that promotes foreign trade and investments. These conditions could produce significant trade opportunities for U.S. firms in the coming year.

2. Exchange Rate Policy

Exchange controls on the Venezuelan bolivar were eliminated in 1996 when the Ministry of Finance returned control of the currency to the Central Bank of Venezuela. The bank has maintained the bolivar within a band of 7.5 percent centered on a gradually depreciating target exchange rate. The target rate had been allowed to depreciate at a rate of 1.3 percent per month. This rate was initially set in January 1998. In June 2000 the central bank modified the target to 1.0 percent per month. Over the past two years, depreciation of the bolivar has not kept up with the rate of inflation, but convergence is occurring as the core inflation rate gradually dissipates. Despite the negative impact that the strong bolivar has on non-oil exports, the government is expected to keep the band system for the foreseeable future. Central bank foreign reserves are sizable and growing due to rising oil prices, and are more than adequate to support the gradually devaluing currency. The central bank has discussed adopting a fixed exchange rate, but no near-term action is expected.

3. Structural policies

Pricing Policies: The government in recent years has lifted price controls on basic goods and services. Now only gasoline and those pharmaceuticals with fewer than four competitive products remain subject to price controls. The government eliminated its subsidy on gasoline in 1997.

Tax Policies: Venezuela's National Assembly approved the U.S.-Venezuelan Bilateral Tax Treaty in August 1999. The U.S. Senate followed suit in November 1999, and the treaty entered into effect. This treaty eliminates double tax withholding and standardizes information sharing between the tax authorities of the two countries. Venezuela still experiences difficulty with the collection and reconciliation of taxes; nevertheless, its system is gradually making the progress needed to support a growing economy and increased international trade.

The maximum income tax rate in Venezuela for individuals and corporations is 34 percent. Venezuelan law does not differentiate between foreign and Venezuelan-owned companies, except in the petroleum and mining sectors. Hydrocarbon revenues are subject to a 67.7 percent income tax, in addition to a 16.7 percent royalty payment on production. In 1998, in a move criticized by some Petroleos de Venezuela, S.A. (PDVSA) executives, the government required PDVSA to pay a one-time "dividend" of $1.4 billion to help the Venezuelan government fund its fiscal deficit. Most joint ventures with PDVSA are subject to the same tax rates, except for those involved in the development and refining of heavy and extra heavy crudes and off shore natural gas, which are subject to a reduced income tax rate of 34 percent. The government announced in September 1996 that current and future projects involving extra heavy crude oil would also be entitled, on a case by case basis, to temporary reductions in the 16.7 percent royalty payment to as low as 1.5 percent. These reductions are granted for the development phase of the heavy crude projects.

Since 1993, the government has imposed a one-percent corporate assets tax, assessed on the gross value of assets (with no deduction for liabilities) after adjustment for depreciation. The Chavez administration began making important changes to the tax system in an effort to raise revenues in 1999. Last year, the government imposed a 0.5 percent bank debit tax and replaced its wholesale tax (ICVSM) with a value-added tax (IVA). The bank debit tax was eliminated early this year, and the value-added tax rate was lowered to 14.5 percent, 2 percent lower than the rate of the wholesale tax it replaced. The IVA also eliminated several exemptions to broaden the tax base and increase revenues.

4. Debt Management Policies

Venezuela's public sector's external debt stood at $22.2 billion at the end of 1999 and is expected to fall slightly to 20.9 billion by the end of 2000. External debt will be equal to approximately 19 percent of GDP by the end of 2000. Venezuela's external debt service totaled 5.8 percent of GDP in 1999, a fall from the previous year's level of 7.8 percent. This figure is expected to drop to 5.6 percent this year. Venezuela continues to carry the domestic debt burden incurred during its 1994-95 banking crisis, despite the recent large increase in oil revenues. The government, however, has made the political decision to greatly expand social and infrastructure spending in 2000-01 in an effort to revitalize the economy and meet numerous pressing social demands in education, health and social welfare. To pay for the higher government expenditures in 2001, the government is planning to draw down savings from its Macroeconomic Investment and Stabilization Fund, which accrues excess oil revenues. Several economists have criticized this policy, but the government is committed to it.

5. Aid

In FY2000, the United States will provide approximately $800,000 in counter-narcotics assistance to Venezuelan law enforcement agencies from international narcotics control funds. This represents a slight increase from FY1999 levels. The United States will also give the Venezuelan government approximately $400,000 in aid under the International Military Education and Training Program (IMET) to strengthen counter-narcotics capabilities. No other forms of U.S. aid are given to the Venezuelan government. In 2000 the United States provided a disaster assistance package of approximately $13 million for humanitarian relief from devastating floods and mudslides.

6. Significant Barriers to U.S. Exports

Venezuela began to liberalize its trade regime with its accession to the General Agreement on Tariffs and Trade (GATT) in 1990, and the World Trade Organization in 1995. Venezuela implemented the Andean Community's Common External Tariff (CET) in 1995, along with Colombia and Ecuador. The CET has a five-tier tariff structure of zero, 5, 10, 15, and 20 percent. Venezuela's average import tariff on a trade-weighted basis is approximately 10 percent. With the exception of automobiles, this rate structure represents a significant tariff reduction for imported goods. Under the Andean Community's Common Automotive Policy (CAP), assembled passenger vehicles constitute an exception to the 20 percent maximum tariff and are subject to 35 percent import duties.

Venezuela implemented the Andean Community's price band system in 1995 for certain agricultural products, including feed grains, oilseeds, oilseed products, sugar, rice, wheat, milk, pork and poultry. Yellow corn was added to the price band system in 1996. Ad valorem rates for these products are adjusted according to the relationship between market commodity reference prices and established floor and ceiling prices. When the reference price for a particular market commodity falls below the established floor price, the compensatory tariff for that commodity and related products is adjusted upward. Conversely, when the reference price exceeds the established ceiling, the compensatory tariff is eliminated. Floor and ceiling prices are set once a year based on average CIF prices during the past five years. Venezuela publishes these prices each April.

Import Licenses: Venezuela requires that importers obtain sanitary and phytosanitary (SPS) certificates from the Ministries of Health and Agriculture for most pharmaceutical and agricultural imports. The government has been known to use this requirement to restrict agricultural and food imports.

On November 1, 1999 the government established a new requirement for importers of agricultural goods. Importers must now register with the Ministry of Production and Commerce (MPC). They must provide the MPC with a list of their purchases, a list of the clients to whom they sell and copies of invoices for those sales. Ostensibly, this is to allow the MPC to investigate charges that imports damage the domestic agricultural sector. Importers have complained that this practice establishes an unnecessary bureaucratic barrier to imports.

Services Barriers: Professionals working in disciplines covered by national licensing legislation (e.g. law, architecture, engineering, medicine, veterinary practice, economics, business administration/management, accounting, and security services) must revalidate their qualifications at a Venezuelan university and pass the Associated Professional Exam. Exceptions may be granted to foreign service companies and their professional staff for limited periods of time and for specific projects or contracts. Foreign journalists who intend to work in the domestic Spanish language media must meet similar revalidation requirements.

Standards, Testing, Labeling and Certification: The Venezuelan Commission of Industrial Standards (COVENIN) requires certification from COVENIN-approved laboratories for imports of over 300 agricultural and industrial products. U.S. exporters have experienced difficulties in complying with the documentary requirements for the issuance of COVENIN certificates. Some Venezuelan importers of U.S. products have alleged that COVENIN applies these standards more strictly to imports than to domestic products.

The government started to require certificates of origin for imports in March 1996 that are "similar to goods which currently have anti-dumping or compensatory measures applied to them." Importers have complained that the new requirement, which primarily affects textiles and garments, is burdensome and time-consuming to fulfill. Tariff and non-tariff barriers also inhibit the importation of milk, some cereals and certain live animals.

Investment Barriers: Foreign investment is restricted in the petroleum sector, with the exploration, production, refining, transportation, storage, and foreign and domestic sale of hydrocarbons reserved to the government and its entities under the 1975 Hydrocarbon Law. However, private companies may engage in hydrocarbons-related activities through operating contracts or through equity joint ventures as long as the following conditions are met: 1) the joint ventures guarantee state control of the operation; 2) they are of limited duration; and 3) they have the prior authorization of Congress. PDVSA has opened the oil sector to increasing amounts of foreign investment since 1993 through both operating contracts and joint ventures.

During 1999 the Venezuelan government passed significant legislation under the Enabling Law in the mining, electric, gas, and telecommunications sectors. The executive branch also passed a new investment law. All of these proposals are generally pro-investment, assuming full implementation and adequate enforcement of their provisions. These laws should result in reduced barriers to foreign investment in these sectors. The exploitation of iron ore remains reserved to the state. One area that is rapidly changing is telecommunications. Under the new Telecommunications Law, the fixed-line telephone monopoly will be deregulated in November 2000. This will permit extensive participation by U.S. firms in both the supply and operations sectors of the industry.

Venezuelan law incorporates performance requirements and quotas for certain industries. Under the Andean Community's Common Automotive Policy (CAP), all car assemblers in Venezuela must incorporate a minimum amount of regional content in their finished vehicles. The local content requirement for passenger vehicles was 34 percent in 1999. In the media sector, the government enforces a "one for one" policy for performers giving concerts in Venezuela. This requires foreign artists featured in these events to give stage time to national performers. There is also an annual quota regarding the distribution and exhibition of Venezuelan films. At least half of the television programming must be dedicated to national programs. Finally, at least half of the FM radio broadcasting from 7 a.m. to 10 p.m. is dedicated to Venezuelan music. Venezuela limits foreign equity participation (except that from other Andean Community countries) to 19.9 percent in companies engaged in television and radio broadcasting, in the Spanish-language press, and in professional services subject to national licensing legislation.

Venezuela's Organic Labor Law places quantitative and financial restrictions on the employment decisions made by foreign investors. Article 20 of the law requires that industrial relations managers, personnel managers, captains of ships and airplanes, and foremen are Venezuelan. Article 27 limits foreign employment in companies with ten or more employees to 10 percent of the work force and restricts remuneration for foreign workers to 20 percent of the payroll. The shortage of skilled Venezuelan workers in the oil sector sometimes makes it difficult for foreign oil companies to meet this requirement. Article 28 allows temporary exceptions to Article 27 and outlines the requirements to hire technical experts when equivalent Venezuelan personnel are not available. Article 19 requires that all orders and instructions to workers are given in Spanish.

Government Procurement Practices: Venezuela's new Government Procurement Law, passed in October 1999, provides details on required information for solicitations to bid on government contracts, and stipulates that there will be no discrimination in the award of contracts. The law grants the Executive Branch significant discretionary power in granting contracts. For example, the President may promote domestic production or offset unfavorable conditions for domestic industry and may set criteria for preferences to Venezuelan nationals. Finally, in September 1999 the Ministry of Energy and Mines issued a directive to PDVSA instructing the company to favor national providers in its purchases of supplies, reversing a long-standing policy that excluded PDVSA from this practice.

Customs Procedures: In response to widespread complaints regarding the extent of corruption in Venezuela's Customs Service, President Chavez has embarked on a public campaign to modernize and restore confidence in the service. In early October the federal police arrested the chief of the Customs Service on corruption charges. Although the government passed a customs law in 1998 that made private customs agents criminally responsible for illegal or undervalued shipments that enter the country, the problem remains significant and its resolution will require a concerted effort by the government. Customs officials have long regarded it their right to extract illicit profit from the processing of customs, particularly in the seaports of La Guaria and Puerto Cabello. The new Enabling Law addresses the problems facing the Customs Service, but it will be some time before results can be evaluated.

7. Export Subsidies Policies

Venezuela has a duty drawback system that provides exporters with a customs rebate paid on imported inputs. Exporters can also get a rebate of the 16.5 percent wholesale tax levied on imported inputs. Foreign, as well as domestic companies, are eligible for these rebates. Exporters of selected agricultural products, including coffee, cocoa, some fruits and certain seafood products, receive a tax credit equal to 10 percent of the export's FOB value.

8. Protection of U.S. Intellectual Property

Venezuela belongs to the World Trade Organization (WTO) and the World Intellectual Property Organization (WIPO). It is also a signatory to the Paris Convention, Bern Convention, Rome Convention, Phonograms Convention, and the Universal Copyright Convention. In 2000 the U.S. Trade Representative maintained Venezuela on the "Special 301" Watch List because it does not yet provide sufficient protection for U.S. intellectual property rights (IPR).

In recent years, Venezuela has improved its protection of intellectual property rights, however, U.S. companies continue to criticize the lack of protection for their patents, trademarks, and copyrights. The Venezuelan court system is not responsive to claims of violations of IPR.

To its credit, the government formed a special anti-piracy unit (COMANPI) in 1996 to enforce copyright law, including efforts to counter the piracy of satellite signals and cable television. In 1998 COMANPI expanded its mandate to include enforcement of patents and trademarks. In 1997 the government created a new Intellectual Property and Trademark Office

(SAPI) by merging the existing Industrial Property Office (SARPI) with the National Copyright Office. SAPI became operational in May 1998. SAPI is gradually building its authority and effectiveness in enforcing IPR standards. The organization, however, continues to face significant technical limitations and a large backlog of cases.

Patents: Prior to this year, patents and trademarks were protected by the Andean Community Decisions 344 and 345, which took effect in 1994. Although these laws were an improvement over prior standards, they were not TRIPS consistent. This year, the Andean Pact adopted Decision 846, which when enforced, will offer further protection and bring the country closer to U.S. standards. However, Decision 486 appears to have shortcomings with respect to protection of data confidentiality and protection for second use patents.

Trademarks: Decision 846 improves protection for trademarks, prohibits the coexistence of similar marks, and provides for the cancellation of trademark registrations based on “bad faith.” However, problems remain with Venezuela’s trademark application process. Trademark piracy is common in the clothing, toy, and sporting goods sectors; enforcement remains uneven.

Copyrights: Andean Community Decision 351 and Venezuela’s 1993 Copyright Law are modern and comprehensive. These laws provide adequate legal protection of copyrighted products in Venezuela. The Copyright Law extends protection to a wide range of creative works, including computer software, satellite signals, and cable television. Despite these legal protections, however, computer software and video piracy remain widespread.

New Technologies: Decision 351 and Venezuela’s Copyright Law protect a broad scope of products in the computer and broadcasting fields. Nevertheless, Decision 344 excludes diagnostic procedures, animals, experiments with genetic material obtained from humans, and many natural products from patent protection. It does contain provisions for the protection of industrial secrets, particularly testing data submitted in support of patent applications.

9. Worker Rights

a. *The Right of Association:* Both the 1999 Constitution and local labor law recognize and encourage the right of unions to organize. The comprehensive 1990 Labor Code extends to all private and public sector employees, except members of the armed forces, the right to form and join unions. One major union umbrella organization, the Venezuelan Confederation of Workers (CTV), three smaller unions affiliated with CTV, and a number of independent unions all operate freely. It is estimated that 35 percent of the labor force belongs to unions.

b. *The Right to Organize and Bargain Collectively:* The labor code protects and encourages collective bargaining, which is actively practiced in the Venezuelan economy, even in critical economic sectors such as oil production. Employers must negotiate a collective contract with the union that represents the majority of their workers. The labor code states that wages may be raised by administrative decree, provided that the National Assembly approves the decree. The law prohibits employers from interfering with the formation of unions or their activities. Employers may not stipulate as a condition of employment that new workers refrain from union activity.

c. *Prohibition of Forced or Compulsory Labor:* The labor code states that no one may obligate others to work against their will.

d. *Minimum Age for Employment of Children:* The labor code allows children between the ages of 12 and 14 years to work only if the National Institute for Minors or the Labor Ministry grants special permission. However, children between the ages of 14 and 16 only require the permission of their legal guardians. Minors may not work in mines or smelters, in occupations "that risk life or health," in jobs that could damage their intellectual or moral development, or in "public spectacles." Those under 16 years of age cannot work more than 6 hours a day, or 30 hours a week. Minors under the age of 18 years may work only between 6 a.m. and 7 p.m.

e. *Acceptable Conditions of Work:* Effective May 1999, the monthly minimum wage for the private sector is $190 (BS 120,000) for urban workers and $170 (BS 108,000) for rural workers. The law excludes only domestic workers and concierges from coverage under the minimum wage decrees. The Ministry of Labor enforces minimum wage rates effectively in the formal sector of the economy, but generally does not enforce them in the informal sector. The new Constitution reduces the standard workweek to a maximum of 40 hours and requires "two complete days of rest each week." The code states that employers are obligated to pay specific amounts (up to a maximum of 25 times the minimum monthly salary) to workers for accidents or occupational illnesses, regardless of who is responsible for the injury.

f. *Rights in Sectors with U.S. Investment:* People who work in sectors that receive high levels of U.S. investment receive the same protection as other workers. The wages and working conditions for those in U.S.-affiliated industries are usually better than those found in wholly owned domestic enterprises.

Extent of U.S. Investment in Selected Industries—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1999

(Millions of U.S. dollars)

Category		Amount
Petroleum		2,048
Total Manufacturing		1,538
Food & Kindred Products	414	
Chemicals & Allied Products	230	
Primary & Fabricated Metals	104	
Industrial Machinery and Equipment	21	
Electric & Electronic Equipment	122	
Transportation Equipment	214	
Other Manufacturing	434	
Wholesale Trade		149
Banking		50

Finance/Insurance/Real Estate	434
Services	428
Other Industries	2,104
TOTAL ALL INDUSTRIES	6,750

Source: U.S. Department of Commerce, Bureau of Economic Analysis