U.S. Department of State
FY 2001 Country Commercial Guide: Venezuela

The Country Commercial Guide for Venezuela was prepared by U.S. Embassy Caracas and released by the Bureau of Economic and Business in July 2000 for Fiscal Year 2001.

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I. EXECUTIVE SUMMARY

This Country Commercial Guide (CCG) represents a comprehensive look at Venezuela's commercial environment, using economic political and market analysis. The CCGs were established by recommendation of the Trade Promotion Coordination Committee (TPCC), a multi-agency taskforce, to consolidate various reporting documents prepared for the U.S. business community. Country Commercial Guides are prepared annually at U.S. Embassies through the combined efforts of several U.S. government agencies.

Venezuela and the United States have traditionally enjoyed strong trading ties. Given Venezuela's current economic difficulties, U.S. exports will continue to fall and most likely only hit the USD 4.9 billion mark in 2000. The U.S. is both Venezuela's largest trading partner and largest single investor.

During the 1990's, changing policies, a severe drop in crude oil prices, inflation, capital flight, and an overvalued currency, as well as high unemployment, brought about uncertainty in the investment climate. The presidential and congressional elections in 1998 resulted in a dramatic change in the political climate. The current government has announced various reforms to take effect over the next few years, which will affect the economy and thus the market. While it appears that the country will remain a democracy with the promise of continuing reforms, many variables on both the economic and political fronts have caused a wait-and-see attitude among many investors. A new constitution was passed in December of 1999. At the same time the country is dealing with an overvalued currency and a still evolving economic policy with many stopgap measures. The Chavez government also faces continuing economic complications as a result of the December 1999 floods and mudslides, in which tens of thousands of Venezuelans were killed or left homeless.

Analysts see a generally depressed market for the balance of 2000 and possibly part of 2001. However, given Venezuela's vast natural resources and the current peaceful and democratic changes undertaken by the electorate over the past one-and-a-half years, there is cautious optimism for the future.

Imports will most likely continue to be high while investments, both domestic and foreign, will continue to be low with the exception of a few key industries. Telecommunications, the petroleum-related industries, public works such as ports, airports and transportation systems remain potential areas of growth. Indicators would seem to point to imports consisting mainly of durable and non-durable consumer goods due to the overvalued currency, which makes prices of most imported goods lower than those of domestic products. Because of extremely high prices in relation to income, the sale of automobiles and appliances will most likely continue to be depressed. Clothing, foods, hardware, tools and small appliances should present good sales opportunities. While industrial equipment in general will continue to be in little demand, franchising should present many solid opportunities.

Despite the current economic difficulties, U.S. investors should continue to be on the lookout for future opportunities and projects, and should lay the groundwork so that they are prepared when such opportunities arise. Appointing a local agent or consultant should be considered essential for U.S. companies seriously considering entrance into this market, even if only to keep them informed of changes and potential projects.

Country Commercial Guides are available for U.S. exporters from the National Trade Data Bank's CD-ROM or via the Internet. Please contact STAT-USA at 1-800-STAT-USA for more information. Country Commercial Guides can be accessed via the World Wide Web at HTTP://WWW.STAT-USA.GOV, HTTP://WWW.STATE.GOV, and HTTP://WWW.MAC.DOC.GOV. They can also be ordered in hard copy or on a diskette from the National Technical Information Service (NTIS) at 1-800-553-NTIS. U.S. exporters seeking general export information/assistance and country-specific commercial information should contact the U.S. Department of Commerce, Trade Information Center by phone at 1-800-USA-TRAD(E) or by Fax at 202-482-4473.

II. ECONOMIC TRENDS AND OUTLOOK

Major Trends

The Asian economic crisis and a drastic drop in world petroleum prices threw the Venezuelan economy into a deep recession that began in the second quarter of 1998. The domestic economy remains depressed due in part to continuing uncertainty over the constitutional reform process initiated by President Chavez after his election in December 1998. Since that time, Venezuela has undergone three different national plebiscites through which it has completely replaced its constitution. This lengthy process of political overhaul was to come to an end on May 28, 2000, with the so-called "mega-elections," a nationwide vote that would have compelled all elected officials in the country, from national to local, to submit themselves to another popular vote under the auspices of the new constitution. For technical reasons, the mega-elections could not be held on time. The contest will now be split, with national and state races expected to be held at the end of July 2000 and local offices subject to a vote in October 2000.

The continued delays in the political reform process and the polarizing atmosphere of a seemingly never-ending series of political campaigns have fed investors' doubts about the economy. Strong rises in oil prices, which began in the middle of 1999 and continue to the present, have eased the Government's financial problems. The additional revenues have not, however, translated into a traditional Venezuelan petroleum-financed boom, in part due to the continued political uncertainties outlined above. At the end of the second quarter of 2000, the Venezuelan economy was showing some signs of recovery. It remains to be seen, however, whether these hopeful indicators mark the beginning of a sustained period of economic growth or not.

Real GDP declined by .1 percent in 1998 and by 7.2 percent in 1999. The government has responded to the recession by dramatically increasing discretionary spending, reforming tax laws, and seeking loans from the World Bank and Inter-American Development Bank. Venezuela continues to address economic reform issues that began as far back as1989. With the continued recession, inflation has fallen dramatically. Consumer prices rose 30 percent in 1998 and are projected to rise by 20 percent in 1999. As the economy recovers and the Government comes through on plans for social spending as well as wage increases, this victory over inflation could be a short lived one.

The sheer volume of U.S. exports to Venezuela, at USD 5.37 billion in 1999, and the relative ease with which U.S. products penetrate this neighboring market make Venezuela a market that U.S. exporters cannot ignore. For the last several years, Venezuela has figured consistently among the top twenty U.S. export markets. U.S. exports to Venezuela fell from USD 6.52 billion in 1998 to USD 5.37 billion in 1999, a drop of almost 18 percent. The fall in exports results from the ongoing Venezuelan recession. Nonetheless, the need for capital goods in the development of extractive industries will continue to result in sales to Venezuela. Efforts to encourage greater regional integration within the Andean Community and negotiations to create a free trade area with Mercosur seem to be stagnant, but if revitalized, could potentially lead into the creation of a Free Trade Area of the Americas, which could, in turn, drive trade flows higher in the next decade.

Principal Growth Sectors

The major near-term growth prospects remain in the extractive and infrastructure-related areas. The growth industries are petroleum (production, refining, marketing) and other hydrocarbons, mining, telecommunications and power generation. Telecommunications show particular promise with the passage of a new Telecommunications Law in June 2000 and the pending end of CANTV's monopoly over traditional telephone service slated for November 2000.

Venezuela is also attempting to insulate the economy from volatility in world oil markets by developing "non-traditional" sectors, especially manufacturing and export-oriented industries. The Government of Venezuela has also established a "Macroeconomic Stabilization Fund," an institution that will hold excess revenues from high oil prices to make them available to the Government in leaner times when oil prices fall. This, too, should help smooth out gyrations in government spending.

Government Role in the Economy

Despite the current recession, the tremendous natural resource wealth and geographic location possessed by Venezuela provide fundamental strengths upon which the country can build. The government has moved forward incrementally to deregulate important industries and privatize state companies. The government has taken steps to reduce inflation, strengthen the financial sector, reform labor laws, and adopt a framework for Social Security reform. The Chavez administration has, for the most part, stated that it will continue these policies and has emphasized its eagerness to attract foreign investors. In April 1999, Congress gave President Chavez vast powers to rule by decree in areas affecting the economy, which he continues to exercise. In October of that same year, the GOV passed a new Investment Law that gives the GOV the power to offer incentives to foreign investors.

Fiscal Policy and Taxation: Venezuela's fiscal balances are strongly influenced by the health of the oil sector, which contributes over half of government revenues. The fall in crude oil prices since the end of 1997 severely affected government revenues. The Chavez administration inherited a worsening fiscal situation in 1999, one that has been alleviated by a rise in oil prices that began in the winter of 1999 and carried through to the spring of 2000. The rise in oil prices has come at the cost of production cuts, which have had a recessionary effect on the economy. In July 2000, the annual deficit was projected to be USD 4.1 billion or 3.7 percent of GDP. However, if oil revenues remain strong, government accounts may close the year with a slight surplus.

All non-oil taxes are collected by SENIAT, the national tax authority. However, tax evasion is a serious problem that the government is attempting to address. In 1999, Congress passed customs reform legislation and revamped the value-added tax as measures to ameliorate the current fiscal crisis and to increase future revenues. President Chavez also cut some positions in government bureaucracies and consolidated ministries as he had promised. However, government downsizing has been difficult to accomplish because of high unemployment in the private sector. Reduced employment in the central government has also been more than offset by increases in employment by state and local governments.

Exchange Rate Policy: The Ministry of Finance returned control of the currency to the Central Bank of Venezuela (BCV) in 1996, effectively ending exchange controls. The BCV has used the exchange rate as an anchor against inflation since 1996, when prices rose by 103 percent. The bolivar is allowed to fluctuate plus or minus 7.5 percent around a central parity. The parity depreciates by a pre-determined rate of 1.28 percent each month to compensate for the large inflation differential between Venezuela and its main trading partner, the United States. This rate was most recently established by the BCV in January 1998 and it has not been readjusted.

Price Controls: The government lifted most price controls instituted during the 1994-95 financial crisis in 1996. Price controls remain on gasoline and pharmaceutical products with less than four competitors. The domestic retail gasoline market was opened to competition in November 1997. However, gas prices are still fixed by the government.

Privatization: Venezuela's drive to privatize state-owned industries has generated USD 4.8 billion for the government since 1990. Foreign investors have purchased stakes in the telecommunications, steel, sugar, refining, tourism, dairy, cement, aviation, banking and insurance sectors. The most important privatizations were of state telephone monopoly CANTV in 1991 and steel complex SIDOR. The government has also privatized most of the financial institutions taken over by the state during the 1994-95 financial crisis. Major sales in the aluminum and electricity industries are to be completed by the end of 2000.

Balance of Payments

A large increase in oil sector income led to a current account surplus of USD 5.4 billion for 1999. However, in the capital account, an increase in private short-term capital outflows resulted in a capital and financial account deficit of USD 2.9 billion for the year. Continued political uncertainty throughout 1999 led to this increased private capital outflow and is represented in the capital outflows registered in the other investment (USD 6,045 million), and errors and omissions (USD 1,398 million). Despite these outflows, high oil prices led to an overall balance of payments surplus of USD 1,034 million. During the first quarter of 2000, capital outflows increased to USD 3.3 billion (USD 13.2 billion for annualized 2000) for an increase of 69.2 percent from 1999. It should be noted that political uncertainty surrounding postponed elections (originally scheduled for May 28, but postponed until July 30) might have produced a large portion of the increase. However, economic fundamentals such as negative real deposit rates and lack of attractive investment options have also contributed to the capital outflow. Foreign exchange reserves were USD 17.3 billion at the end of June 2000, up from USD 15.4 billion at the end of 1999.

Infrastructure

Infrastructure is generally adequate (though deteriorating) in urban areas and thin in the interior of the country. Under the 1994 Concessions Law, the government gave priority to infrastructure spending, particularly for transportation projects. The government has developed a project strategy to generate USD 4.6 billion of investment in infrastructure by 2002. The December 1999 floods have added several more and indeed urgent infrastructure projects to the GOV list.

Roads: Transport is mostly by road. The country has a total of 95,795 km of roads, of which 32,800 are paved, 28,100 gravel-covered and the remainder compacted earth. A USD 250 million concession for the Caracas-La Guaira Expressway, a major artery between Caracas and Simon Bolivar Airport, was awarded to a group of private companies at the end of 1996. The government also plans to spend over USD 600 million to complete the Romulo Betancourt Freeway connecting Caracas to tourist and oil regions in the east.

Railroads: Venezuela has few railroads, with the exception of a line from Puerto Cabello to Barquisimeto (173 km) and from Yaritagua to Acarigua (75 km). State-owned railroad development agency FERROCAR announced a plan several years ago to construct a 4,800 km national railroad network. A 28 km line between Caracas and Cumana has been under construction since 1997 by a consortium from Italy, Yugoslavia and Japan. FERROCAR is looking to award a second concession for a 128 km line between Cumana and Valencia to the same group. Lines from Puerto Ordaz to Cumana, from Caracas to Barcelona, and from Barquisimeto to Maracaibo and Tachira State are also planned. Most of these projects, however, are currently on hold until the economic situation can justify their renewal.

Airports: Venezuela has 280 authorized airports and landing strips. However, only about 40 have scheduled commercial service, some by small regional airlines flying airplanes of less than 20-passenger capacity. The airports are under central government control, with the exception of two privately owned international general aviation airports and one, on Margarita Island, managed under a concession. The air traffic control system and navigational aids are operated by the Ministry of Transport and Communications.

Rivers: The only navigable river with significant traffic is the Orinoco, mainly for bauxite and (in the delta) for outgoing iron ore shipments. A project for an Orinoco-Apure river transportation system to open the flatlands, connect Colombia, and transport coal from Andean calmness to the steel plants on the lower Orinoco has been proposed, but is not likely to proceed anytime soon. An older project, which still merits mention, intends to connect the Orinoco via the Rio Negro with the Amazon, in connection with a long-range development plan for the areas south of the Orinoco river, which are rich in timber, bauxite, gold, diamonds and tourism possibilities.

Sea and River Ports: Sea and river ports are controlled by the states in which they are located. Some states have chosen to turn their ports over to private companies for their operation, maintenance and further development, while others are operating them as commercial companies.

Electricity: Electric power is supplied by seven privately owned and five government utilities.

Public companies provide electricity to two-thirds of consumers and account for over 80 percent of generating capacity. Installed generating capacity is 19.4 million megawatts; 77.6 billion gigawatts were generated in 1998. The electricity network, through a distribution system, which is integrated and controlled by a central load control center, serves over 90 percent of the population. Several of the state-owned electric utilities require significant capital improvements.

Natural Gas Distribution: The transportation system for natural gas for industrial and domestic use via pipelines is constantly being enlarged and at present most industrial concentrations of the country are being supplied. State oil company PDVSA is planning to expand gas networks to Maturin, Barcelona, Maracaibo, Barquisimeto, Puerto la Cruz, Valencia, Puerto Ordaz and parts of Caracas with the help of private investors.

Telecommunications: The government hopes to meet rapidly increasing demand for fixed and mobile phone service by opening up the sector to competition in 2000. The cellular telephone market has boomed in recent years, and is expected to expand to more than 5 million lines by the end of 2000. Investment in the sector is expected to reach USD 10 billion over the next six years.

III. POLITICAL ENVIRONMENT

Nature of Political Relationship with the United States

Venezuela and the United States have long shared a cordial bilateral relationship. As one of the hemisphere's longest-running democracies, Venezuela has been a key ally in our efforts to consolidate democracy in the region. President Chávez, elected in December 1998, has expressed his commitment to a number of goals that the U.S. shares—fighting drug trafficking, implementing judicial reform, promoting respect for human rights, and creating an atmosphere conducive to international investment that will allow the economy to grow. Chávez's administration has stressed the need for regional integration with other Latin American states. Various bilateral treaty negotiations with the United States have not progressed for the time being.

Major Political Issues Affecting Business Climate

Hugo Chávez Frias, leader of a February 1992 coup attempt, won the presidency in December 1998 after campaigning for far-reaching reform, constitutional change, and a crackdown on corruption. His election resulted from deep popular dissatisfaction with the traditional parties, unbalanced income distribution, and the country's continued economic crisis. The centerpiece of Chávez's program was the calling of a National Constituent Assembly to write a new constitution. That Assembly began work in August 1999, and the new Constitution was approved in a referendum held December 15, 1999. In addition to drafting the Constitution, the National Constituent Assembly engaged in a highly publicized, but short-lived confrontation with the then Congress, in the fall of 1999.

The Chávez administration inherited an economy that was battered by a combination of external and internal factors. Until recently, low international oil prices and voluntary production cuts resulted in greatly reduced government revenues and expenditures. Uncertainty over the government's economic policies has caused domestic and foreign investors to postpone investments. Budget cuts, new taxes, and delayed private sector investment have contributed to a decline in domestic demand.

The result was a deepening economic recession in 1999 yet at the end of the second quarter of 2000, the Venezuelan economy was showing some signs of recovery.

Political System, Schedule for Elections, and Major Political Parties

Venezuela is a republic with an active multiparty democratic system, a soon-to-be-elected unicameral National Assembly and a popularly elected president. It has a long-standing commitment to democracy. Pending election of the new National Assembly, a 21-member National Legislative Committee popularly known as the “congresillo” carries out the national legislative functions.

Venezuela held regional and presidential elections in November and December 1998, respectively, and President Chávez began his term in February 1999. The new constitution established the presidential term as six years with the possibility of re-election to one immediately succeeding term. Following adoption of the new constitution in December 1999, elections for all offices, (president, National Assembly deputies, governors, mayors, and municipal and parish councils) were scheduled for May 28. The National Electoral Council postponed those elections until technical problems related to the electronic vote counting could be corrected. New split elections are to be held on July 30 and October 1, 2000.

From 1958 until the election of Rafael Caldera in 1993, Venezuelan politics was dominated by two large parties: the Democratic Action party (AD), and the Social Christian Party (COPEI). President Caldera represented a coalition of political factions, breaking the two-party domination of Venezuela’s 40-year democratic history. In the November 1998 regional elections, the traditional Democratic Action (AD) Party remained the largest party in the National Congress, but Chávez’s Fifth Republic Movement (MVR) Party became the second largest. In July 1999 elections for the National Constituent Assembly, Chávez’s political alliance, the Patriotic Pole, which included MVR, the Homeland for All Party (PPT), and the Movement towards Socialism Party (MAS) won all but six of the 131 seats. PPT has subsequently left the Patriotic Pole. The composition of the future National Assembly remains to be determined by the pending elections. Other parties on the political scene in addition to those mentioned above include the Project Venezuela Party (PV), the Radical Cause Party (Causa R), and the Convergence Party (Convergencia).

IV. MARKETING U.S. PRODUCTS AND SERVICES

Distribution and Sales Channels

There are no existing laws or regulations that limit distribution. All channels are possible: manufacturer’s representative or commission agent; wholesale importing distributor; importing retailer; or direct sale to end-user. It is quite common to find Venezuelan companies undertaking several of these functions simultaneously. No specific business license is required for a local company or individual to be an importer. Many retailers administer their own imports, sometimes placing orders through commission agents or purchasing directly from foreign suppliers.

Government agencies, usually require that a seller of specific types of equipment is an authorized seller for the foreign manufacturer and multiple bids by the same manufacturer may result in disqualification. Authorization to resell is especially important where after-sale support might be needed.

Use of Agents/Distributors - Finding a Partner

A commission sales agent, or manufacturer's representative, finds customers, passes the order to the foreign company and receives a commission on the sale. The amount of commission will vary between 5 percent and 30 percent depending on the nature of the product and the amount of work or time required by the agent. The use of agents where there are multiple levels of customers may be the most practical and efficient means of covering the market. Wholesalers or stocking distributors often have minimal outside sales forces, relying on advertising and on walk-in customers or buyers. Distributors may be important where there is strong after-sale support needed on the product. Venezuelan companies at any step in the distribution chain tend to place repeated small orders. Foreign company requirements as to minimum orders, or even minimum annual sales, may meet with strong resistance from prospective distributors or agents.

There are numerous ways to find a business partner. The various US&FCS services, such as the Agent/Distributor Service, Gold Key Service, Trade Missions, Catalog Shows and USDOC-Certified trade shows are commonly used. No service or list of potential leads can replace a visit to the country to study and interview prospects. Venezuela has no set of laws or regulations that protect a local agent. Regardless of what the written agreement calls for, there are no legally binding indemnification requirements. The written agreement in all principal-agent, supplier-distributors arrangements is binding. It is common practice to have medium-term trial agreements with clear performance objectives when entering new business relationships.

On the other hand, placing a Venezuelan citizen on the company's payroll can be unexpectedly costly in case of separation, since in that case he is entitled to all benefits of the very generous labor laws. Absent unusual circumstances, commission agents are not considered employees.

Franchising

Franchising is allowed under the existing foreign investment laws. Franchise payments, royalties, patent or technical assistance agreements must be registered -, but are not subject to re-negotiation or other controls - with the Superintendent of Foreign Investment (SIEX). Certain payments for the use of franchised rights may be subject to withholding taxes. Decree 2095 guarantees the ability to remit funds for franchising rights.

From a marketing standpoint franchises will most likely only be successful if they bring technology, services or systems that are not generally available in the country. Franchising currently provides some of the best investment opportunities.

Between 1998 and 1999 the growth rate in the franchise sector was 20% and continued to grow at the 20% rate in 1999 and 2000. The estimated growth rate for 2000–2001 is between 25% and 30%. Franchising was one of the few sectors that had growth last year. U.S. franchises are popular with more than 60% of the existing brands in Venezuela coming from North America. It is interesting to note that the present economic crisis seems to have spurred investments in the franchising sector, as many unemployed young professionals have used their severance pay to invest in franchise operations.

Direct Marketing

Marketing, through TV commercials, newspaper inserts, house visits or street vendors, is common. Mail orders are not an option because of low reliability of the postal system. Placing orders by phone with delivery by messenger is becoming popular, and several such companies have been successful by placing their catalogs in newspapers as weekend-issue inserts. As the telephone system continues to improve, direct marketing by phone will become more common. Almost all businesses now use fax in their day-to-day business and many utilize e-mail. E-commerce is in the very early stages, and could be a promising area for growth.

Joint Ventures / Licensing

Joint ventures formed by establishing a new company with local and foreign capital or by buying into an existing local company are quite common. The only requirement is registration of the venture with SIEX. The law imposes no limit on the amount of dividends, reinvestment, or repatriation. Similarly, manufacturing under license is permitted, but to pay license fees, royalties or trademark and patent fees the license must first be registered with SIEX. See Investment Climate (Chapter VII) in this CCG for more information.

Joint ventures and wholly-owned subsidiaries of foreign companies are treated the same as Venezuelan firms. Such enterprises as security companies (guard services, armored cars, etc.), TV and radio broadcasting and the publication of Spanish language newspapers are restricted from foreign investment of more than 20 percent of the capital. Professional services (attorneys, medical services, CPAs, architects, etc.) are also restricted, falling under the Law of Professions. Foreign professionals wishing to work in Venezuela must revalidate their title at a Venezuelan university. This, however, does not eliminate consulting services under contract for a specific project. Banking, insurance and brokerage services and companies have recently been opened to foreign investment.

Steps to Establish an Office

A business must first be registered with the Venezuelan “Commercial Registry” to be legally established. The opening and operating of a coordinating or reporting office is not considered foreign investment or a business activity as long as the office does not sell and is being financed from the home office. Any other more detailed activity would fall under the Commercial Code. Business enterprises can be registered as corporations, as limited liability companies, as partnerships or as sole proprietorships.

It is advisable to have a local attorney draft the registration documents. Registration itself is fast and inexpensive. After that, a municipal business license has to be obtained, which also requires the payment of a small quarterly tax. The final step is to obtain the income tax registration number (RIF) from the Ministry of Finance. The RIF must be shown on all fiscal documents and serves generally as an identification number for the entity.

Office space is widely available for rental or purchase, although prices, especially in the capital, can be very expensive. Foreign companies without restriction can purchase real estate. Standard lease contracts do not cover utilities. While telephone lines are becoming more available, there can still be a long wait depending on the area of town and the exchange being used. Some office buildings do lease office space with at least one phone line. Cellular telephone service is available from two competitive US-backed firms.

Selling Factors / Techniques

U.S. companies often make the mistake of providing sales literature in English when selling to their agents or distributors. While many businessmen speak English, much of their staff and customers will not. Consequently, failure to prepare materials in Spanish eliminates a key selling tool.

In most cases, support has to be given to new agents or distributors in the form of technical information on applications, especially if a product is new or entails new technologies. The average Venezuelan business does not have sales engineers or specialists, and some form of training is required. The same situation exists for maintenance or repair technicians, and the agent might request that his personnel be trained in the United States. Venezuelan end users of any type of machinery or equipment require that spare parts, repair service and after-sale support is available. Sales at the retail level are not much different from those in the United States. Price haggling in established stores is not common. Special offers are frequent, but are specifically seasonal in nature. There are numerous malls, but few department stores.

Advertising and Trade Promotion

While there are some specialized publications, daily newspapers are the most common forms of advertising. This holds true with regards to machinery or industrial equipment as well. TV and radio commercials are used heavily to promote durable and non-durable consumer goods. Billboards are common as are leaflets, newspaper inserts, and in-store promotions. There are numerous advertising agencies, some being subsidiaries of well-known U.S. companies.

There are many trade shows and expositions (see listing in Chapter X, Appendix G of this CCG), some organized on behalf of trade or industrial associations by capable local show organizers. U.S. companies also have organized trade shows in Venezuela directly. Normally they are widely advertised and, even if specialized, visited by the public in general. These shows have proven to be an excellent vehicle to promote a new product, or to find an agent or distributor. Off-the-floor sales are not common, however, except for pre-Christmas gift shows and toy and furniture shows.

Premiums are not widely used for trade promotion purposes, but are often available in companies for their customers or business associates. Business gifts are common around Christmas for steady customers, and can be expensive.

MAJOR DAILY NEWSPAPERS

El Universal
Av. Urdaneta
Caracas, Venezuela
Tel: 58-2-563-75-11
Fax: 58-2-561-96-39

El Nacional

Puente Nuevo a Puerto Escondido
Caracas, Venezuela
Tel: 58-2-408-33-33
Fax: 58-2-483-13-96

Economia Hoy
Edf. Di Mase
Alcabala a Urapal
Caracas, Venezuela
Tel: 58-2-576-62-11
Fax: 58-2-572-54-70

Reporte
Edf. El Telar
Av. Urdaneta
Caracas, Venezuela
Tel: 58-2-781-34-45
Fax: 58-2-482-52-75

The Daily Journal (the only English-language newspaper published in Venezuela)
Av. Fuerzas Armadas
Crucecita a San Ramon
Caracas, Venezuela
Tel: 58-2-237-96-44
Fax: 58-2-232-68-31

MAJOR MAGAZINES

Automotriz (Automotive Trade)
Av. Los Mangos
No.86, La Florida
Caracas, Venezuela
Tel: 58-2-383-48-87
Fax: 58-2-383-48-27

Business Venezuela (published by The Venezuelan-American Chamber of Commerce)
Edf. Credival
2da. Av. De Campo Alegre, Planta Libre
Caracas, Venezuela
Tel: 58-2-263-08-33/267-64-81
Fax: 58-2-263-18-29/05-86/20-60

Computer News
Edf. Tajamar
Piso 4, Parque Central
Caracas, Venezuela
Tel: 58-2-574-33-13

Fax: 58-2-576-88-58

Dinero (Finance, Business)
Edf. ACO
Av. Principal de las Mercedes c/calle Orinoco
Entrada A, Pios 7
Caracas, Venezuela
Tel: 58-2-993-56-33
Fax: 58-2-993-06-44

El Mundo de la Seguridad (Safety and Security Market)
Edf. Cipriano Morales
Piso 1 Of.13
Av. Urdaneta
Caracas, Venezuela
Tel: 58-2-864-73-10/860-57-06
Fax: 58-2-862-44-48

Pricing Products

Outside of a few price controls -- specifically those for a wide range of pharmaceuticals and some basic foods as well as gasoline -- pricing is left to market and competitive forces. High mark-ups of 100 percent or more are not uncommon if the market can bear it. Price fixing among manufacturers or dealers is prohibited by law, and heavy fines can be levied on violators.

Although nominal labor costs are inexpensive, the real cost of doing business in Venezuela is relatively high, because of very steep labor fringe benefits, and the high price of quality labor where English language ability or technical know-how is needed.

Basically, prices are calculated on the basis of: cost of product in Venezuela port (CIF), plus import duties, plus value added tax, plus local transportation, plus warehousing costs, plus promotion, advertising or marketing cost, plus sales commissions, plus mark-up for profit and possible additional taxes. This can lead to a product costing USD 100 CIF having a price tag of two to three times that when sold to the end-user. In the past few years, discount stores have appeared for the first time in Venezuela.

Sales Service / Customer Support

It is not normally possible to sell equipment, whether industrial or durable consumer goods, without offering sales support, spare parts or service. It is therefore extremely important that prospective agents or distributors are able to provide this support or are able to contract for it. Maintaining an adequate stock of spare parts may well be considered essential.

Selling to the Government

The purchase of goods and services by government agencies is ruled by a complex system of laws, decrees and regulations. The law of procurement (Ley de Licitaciones) of July 20, 1990, establishes the basic framework and a revised law has been passed this year.

Venezuelan government officials are not permitted to conduct official business in any language except Spanish. Correspondence in English is unlikely to get a response.

There is no specific Venezuelan agency in charge of government procurement or which provides guidance to foreign bidders or sellers. The purchasing agency within the government unit buying the goods or services may be the best source of assistance, especially to foreign companies with no previous experience in Venezuela.

Anyone wanting to sell to a Venezuelan governmental agency must be registered in the National Register of Contractors, which is maintained by the Central Office of Statistics and Informatics. This National Register can open sub-registers, normally found in all ministries and governmental agencies that regularly purchase goods or services.

Although it is acceptable practice to pay commissions, these cannot be an additional item over the final sales price to the government (since they are considered a part of the seller's cost of doing business and, therefore, should not be charged to the buyer). Government comptrollers frequently check the quoted price against the published export price list to make sure that commissions are not added. The Venezuelan Controller General maintains offices in the United States to assist in verifying pricing used in international bids.

Exporters are advised to proceed with caution if they are requested to make changes in a contract after it has been signed. If such a request is made, the agency's request, and the change in contract language or terms, must be in writing. There have been occasions where changes were requested by a governmental agency, but these were not put into writing. Later, it was difficult to collect payment, as the excuse was that the terms of the contract were not followed. Litigation against the government is most difficult and enforceability of any judgment precarious at best.

Government Tenders

A new law covering the procedure for government tenders has been passed, but represents no significant changes to the process.

NOTE: As of July 2000 the exchange rate was 684 Bolivars = 1 USD. Though the exchange rate fluctuates, the Bolivar devaluation is controlled by a government set band of 1-2% per month.

Tenders may be opened in one of three ways:
a) Only to domestic companies
b) To domestic and foreign companies
c) Exclusively to foreign companies

In the case of public tenders open to foreign bidders, it is sometimes stipulated that the foreign company must form a consortium with a domestic firm or have a local representative.

Registration exemptions: If tenders are opened on an international level with only foreign companies expected to participate, these are exempt from prior registration, but must register once preselected (short-listed). Companies that expect to sell goods or services costing less than 100,000 Bolivars are exempt from having to register.

Types of Tenders

Purchases of up to 100,000 Bolivars are not subject to tenders. All others fall under one of these three classifications:
A) General tender
B) Selective tender
C) Direct purchase

A) General Tenders (Licitacion General) are for:
- Purchase of goods or the contracting of services valued at over 10 million Bolivars.
- For construction projects of over 30 million Bolivars.

B) Selective Tenders (Licitacion Selectiva) are used:
- For services or goods valued between one and ten million Bolivars.
- For construction projects valued between ten and thirty million Bolivars.
- When there are less than ten qualified suppliers listed in the National Register of Contractors.
- If the goods are only available outside of the country.
- For goods and services related to state security.

For all selective tenders, at least five suppliers must be
invited to bid with a minimum of three offers actually submitted, or the process will be declared null and void.

C) Direct Purchase (Adjudicacion directa) is used:
- For purchases of less than 1 million Bolivars.
- For construction projects of less than 10 million Bolivars.
- If needed for the completion of a project in process
- For purchasing artistic or scientific works
- When there is only one supplier
- In emergencies
- When determined that no other purchase methods are possible

The Bidding Process

Bid proposals usually must be separated into two parts: The first part consists of legal documentation regarding the supplier, description of experience, list of prior clients, etc. The second part provides information on the actual technical offer and price.

The bids are usually reviewed by a commission established by the buyer and in the presence of a representative of the national Comptroller. The review of the technical part may necessitate outside opinions, such as from the College of Engineers, The National Council of Science and Technology, or a Congressional Committee established for this purpose. In all cases, the National Comptroller has the final word and may stop a bidding process at any time if he feels that procedures are flawed.

The tender publication usually contains a time schedule for pre-selection, submission of the final offer, and the date of the final selection. When several organizations are involved in the final selection, the deadline frequently slips and bidders are asked to provide a date up to which they will hold their prices. If that date passes, price increases may be accepted.

If a U.S. company feels that the bidding process of a foreign tender in which it is participating is flawed or unfair, contact the U.S. Embassy's Commercial Section for assistance.

Protecting Your Product from Intellectual Property Right Infringement

Please refer to Chapter VII of the CCG, which covers Intellectual Property Rights, Patents and Trademarks and Copyright information.

Need for a Local Attorney

Contracting a reputable local law firm is advisable for any U.S. company wishing to establish a presence in Venezuela, form joint ventures, register a trademark, or enter into any type of business relationship. Local lawyers can provide essential start-up information on labor laws, tax regulations, purchase of real estate and drafting by-laws of the local subsidiary. Venezuelan laws are complicated, even more so since many activities are regulated, not only by laws, but also by presidential decrees or specific regulations. The bureaucracy and paperwork are often complicated. A number of large law firms have attorneys who have also studied in the United States and are familiar with matching an American company's requirements to the local law.

A list of Venezuelan law firms which specialize in various aspects of commercial and investment law can be requested from the U.S. Embassy in Caracas (See Chapter X, Appendix E of this CCG for contact information).

V. LEADING SECTORS FOR U.S. EXPORTS AND INVESTMENT

Best Prospects for Non-Agricultural Goods and Services

Rank	Name of Sector	ITA Code
1	Telecommunications Services	TES

Market Data (USD millions)	1998	1999	2000
A. Total Market Sales	4,680	7,020	10,050
B. Total Local Production	0	0	0
C. Total Service Exports	0	0	0
D. Total Service Imports	4,680	7,020	10,050
E. Total U.S. Service Imports	3,250	4,875	7,279

Investments in telecommunications continue at a high level. The Venezuelan telecommunications sector was one of a few that avoided what has been described as the worst economic recession in a decade in 1999. While the overall economy retracted by some 7.2 percent, the telecommunications sector grew by around 20 percent. The telecommunications market is serviced by approximately 100 companies in the areas of basic and cellular telephones, trunking, community and two way systems, private and switched data networks, radio messages and other services. Almost all of these companies have some U.S. relationship, either through full or partial ownership or carrier and satellite contracts thereby contributing to sales by U.S. companies in this market. Venezuela's President Hugo Chavez signed the long-awaited organic telecommunications law on June 12, 2000, setting the stage for an estimated two billion dollars in much needed new investment this year alone. Analysts predict the sector will receive an additional ten billion dollars in the next five years. The law, coupled with the national telecommunications plan developed by the national telecommunications commission (CONATEL), and the November 27, 2000, expiration of the monopoly held on basic telephony positions Venezuela favorably for investors interested in capitalizing on upcoming telecommunications opportunities.

2 Telecommunications Equipment TEL

Market Data (USD millions)	1998	1999	2000
A. Total Market	2,042	3,063	5,975
B. Total Local Production	90	104	79
C. Total Exports	6	7	6
D. Total Imports	1,958	2952	5,896
E. Total Imports from U.S.	980	1,764	3042

Investments in telecommunications equipment will continue at a high level as companies continue to upgrade their existing equipment or purchase the latest technologies available. Local and foreign companies are gearing up for the November 27, 2000, expiration of the monopoly on basic telephony. The three rural telephone operators reportedly are also preparing to enter into nationwide competition utilizing GSM technology. The U.S. dominates the market, but faces aggressive competition from European suppliers. Venezuela was the first country in Latin America to offer cellular phone service. There are currently 3.9 million users and that number is expected to increase to 5 million by the end of 2000. Cellular telephone penetration in Venezuela is currently 13 percent, which in this continent follows only the US (with 27 percent) and Canada. The penetration rate is predicted to reach 20 percent by the year 2000, which will place Venezuela on par with countries such as Belgium and Germany. Both of Venezuela's cellular operators (Bellsouth's Telcel and GTE's Movilnet) have experienced phenomenal success with pre-paid calling cards, in one case, this segment represents 80 percent of the customer base. Movilnet reportedly increased the number of subscribers last year by 84 percent while Telcel roughly doubled the number of subscribers in 1999. Telcel has predicted 70 percent growth in 2000. CANTV will reportedly soon begin offering prepaid cards and in so doing will become one of the first fixed line operators offering pre-paid calling cards worldwide.

3 Oil & Gas Field Machinery and Services OGM

Market Data (USD millions)	1998	1999	2000
A. Total Market Size	945	844	1013

B. Total Local Production	576	467	494
C. Total Exports	046	030	030
D. Total Imports	415	407	549
E. Total Imports from U.S.	224	231	306

Purchases of Oil and Gas Machinery will increase at least by 20% at the end of 2000 due to the development of PDVSA's upstream and dowstream projects. The projected investment in oil and gas projects for the next 10 years will average more than USD 800 million a year. Higher probabilities of success, and therefore the more likely source of demand for equipment, are the so-called strategic associations aimed at developing the Orinoco Oil Belt. These are: Petrozuata, Sincor, Hamaca and Cerro Negro. State participation in these projects has been reduced to an average of 38% per year.

The Venezuelan Ministry of Energy and Mines has instructed the local state oil company PDVSA to increase local participation in engineering projects. Accordingly, PDVSA estimates that by the end of 2009 local engineering content will be 98% in production, 65% in refining, 60% in compression and 75% in gas processing. Nevertheless, in the near future, foreign contractors and, especially equipment suppliers are expected to maintain or increase their market shares. Venezuela lacks the financial resources to acomplish PDVSA's investment program, therefore foreign capital and technology will be in demand. Foreign companies could capitalize on the "local content" rule by signing joint ventures with Venezuelan companies.

Within the next 2 or 3 years foreign suppliers could see an increase in the demand of drilling machinery (and services), gas compression machinery, and refinery equipment.

4 Electrical Power Systems ELP

Market Data (USD millions)	1998	1999	2000
A. Total Market Size	680	675	700
B. Total Local Production	375	365	360
C. Total Exports	25	15	10
D. Total Imports	330	325	350
E. Total Imports from U.S.	165	162	175

Venezuela's power sector is in the process of deregulation by means of a new legal framework. The Power Generation Park is made up by 8 private and 5 government owned utilities, while supply is 63 percent hydro and 37 percent thermal-power (steam 23 percent and gas 14 percent). Venezuela's generation blocks are located mainly in the southeast and are connected by the National Interconnection System through various regional grids at voltages ranging from 230 kV to 765 kV serving 98 percent of the population.

The Venezuelan government through the Venezuelan Investment Fund (Fondo de Inversiones de Venezuela) began to privatize companies from the electrical power sector in 1998, with the sale of Sistema Eléctrico de Nueva Esparta, C.A. (SENECA). This privatization process of power utilities was set back due to the re-organization of the sector by the new local government administration.

To continue this privatization process and sale of assets, the new National Government passed the Electric Power Law in 1999. The Law is intended to regulate the national electrical power supply and establish a regulatory framework to protect potential investor capital. The regulations to this Law, which will dictate pricing and appointment of board directors at regulating body, are expected to be passed anytime.

The Venezuelan government has recently re-started the privatization of power utilities by re-opening the pre-qualification process for ENELVEN, ENELCO, and SEMDA, which are expected to be partially privatized by the end of the year under a strategic association's scheme. Under this scheme the government will keep a maximum of 49% participation in the companies, allowing the private capitals to participate up to 51%.

The recent hostile takeover of Electricidad de Caracas (EDC), Venezuela's largest private utility, by U.S. AES Corporation has generated great interest among investors. AES acquired over 80 percent of EDC by paying more than USD 1.2 billion, the biggest takeover in Venezuela's history.

Other assets being sold since July 1999 are: Energía Electrica de Barquisimeto (ENELBAR), Sistema Electrico de los Estados Monagas y Delta Amacuro, C.A. (SEMDA) y Energía Electrica de Venezuela, C.A. (ENELVEN), Energía Electrica de la Costa Oriental (ENELCO), Planta Centro, Desarrollo Uribante Caparo and CADAFE regional companies, the Monagas and Delta Amacuro States Electric Power Systems.

5 Pumps, Valves and Compressors PVC

Market Data (USD millions)	1998	1999	2000
A. Total Market Size	393	372	447
B. Total Local Production	158	145	160
C. Total Exports	010	010	010
D. Total Imports	245	237	297
E. Total Imports from U.S.	142	143	179

PDVSA and foreign partners continue tapping into Venezuela's vast heavy and extra heavy oil reserves in the Orinoco Belt. Investment and procurement in the four ventures established for this purpose are far from complete. Investment in 2000 will amount to USD 158 and USD 387 in 2002. Participation of U.S. firms in these ventures mean increased sales opportunities for U.S. suppliers of pumps, valves and compressors.

In addition to investments in heavy oil, the oil industry plans to expand capacity and promote the petrochemical and hydroelectric industries that offer additional sales potential. The most requested equipment types are centrifugal multi-stage pumps API, rotary positive displacement stationary air compressors and automatic control valves. U.S. equipment faces strong competition from Japanese and European suppliers.

6 Travel and Tourism TRA

Market Data (USD millions)	1998	1999	2000

A. Total Market Sales*	820	700	400
B. Total Local Production	N/A	N/A	N/A
C. Total Exports **	1,600	1,400	1.200
D. Total Imports	N/A	N/A	N/A
E. Total Imports from U.S.***	246	210	140

* Total income from foreign tourists in Venezuela
** Expenditures by Venezuelan tourists going abroad
*** Income from U.S. tourists in Venezuela

The travel and tourism sector in Venezuela continues to generate a significant volume of visitors to the U.S. and, as a developing destination, to offer increasing opportunities for U.S. exporters of products and services for tourism infrastructure. Venezuelans have a long and favorable history of travel to the U.S. Statistics released by the Department of Commerce in April 2000 indicate that in 1999 Venezuela maintained its ranking as the 7th largest overseas travel market for the USA, representing a 2.1% increase in arrivals over the previous year. This is due, to a great extent, to a highly successful and long-term partnership between U.S. destinations and suppliers and their customers - the travel trade and travel consumers in Venezuela.

The Chávez government has acknowledged the importance of tourism and has elevated the head of the state-run tourism agency to the level of Vice-Minister. The government has also created the Tourism Promotion and Training Fund (Fondo de Promoción y Capacitación Turística, otherwise known as Fondoturismo), with members from the private, public and regional sectors. All tourism destinations and services currently charge an extra 1% fee on every transaction, which goes to the fund intended to develop tourism in Venezuela through training and promotion abroad.

The December 1999 floods, however, caused many tourists with reservations to visit Venezuela to cancel their trips, as they believed that the entire country was affected by the tragedy. This further impacted the economy as a whole and the bleak tourism sector in particular. The tourism law is being reformed again, although the current law was passed as recently as November 1998. The Vice-Minister of Tourism along with tourism experts are writing a draft of the law, and plan to consult the private sector. The private sector, however, remains skeptical that a new law will result in any significant changes, which would spur foreign investment.

7 Water Resources Equipment WRE

Market Data (USD millions)	1998	1999	2000
A. Total Market Size	49	42	243
B. Total local production	08	06	08
C. Total Exports	01	01	00
D. Total Imports	42	38	235
E. Total Imports from U.S.	25	21	123

The floods of December 1999 caused severe damage to the water and sewage systems in the Federal District and in the states of Miranda, Falcón, Zulia, Sucre, Táchira, Yaracuy and Vargas. A recent study performed by the Economic Commission for Latin America (ECLA) estimates that the damage to aqueducts alone amounted to USD 179.1 million. The same study assessed the damage to sanitary sewerage systems at USD 37.4 million, the damage to rain drainage at USD 9.1 million, and loss of output and income at USD 17.3. The total of USD 242.9 million needed to rebuild the water systems destroyed by the floods will almost certainly be financed with multilateral loans and with direct investment.

Real investment needs exceed the USD 242.9 million in losses caused by the floods as Venezuela's water systems were already in need of a general overhaul before the floods. For example, the Ministry of Natural Resources and Environment is developing a program to build sewage systems along Venezuela's coast with imported machinery and infrastructure. Best prospects are water pipelines, water treatment equipment, sewage technology, pipe-pigging technology and water system management.

8 Pollution Control Equipment POL

Market Data (USD millions)	1998	1999	2000
A. Total Market Size	88	84	109
B. Total Local Production	12	10	15
C. Total Exports	08	05	05
D. Total Imports	84	79	99
E. Total Imports for U.S.	70	64	80

The damage caused by the massive floods of December 1999, together with PDVSA's efforts to reduce emissions of pollutants, should foster the market for environmental equipment. Venezuelan authorities remain interested in developing services and facilities that could provide comprehensive waste management systems with ISO 14000 compliance.

The demand for environmental consulting and engineering services, such as feasibility studies and environmental impact assessments, has increased due mostly to expansion of state oil facilities and US Trade and Development Agency-sponsored projects. Excellent business opportunities exist in the interior where local governments are experiencing difficulty in developing their own systems for trash collection and handling. Domestic trash collection companies report excellent profit margins, but lack the technical knowledge required to fulfill demand and are willing to form joint partnerships with foreign companies with expertise in the area.

9 Airport and Ground Support Equipment APG

	1998	1999	2000	2001*	Growth/Year
A. Total Market	0	6.0	50.0	60.0	10%
B. Total Local Production	0	0	0	0	
C. Total Exports	0	0	0	0	
D. Total Imports	0	6.0	50.0	60.0	
E. Total Imports From U.S.	0	4.0	30.0	50.0	

*Projected

Venezuelan airports, while needing significant improvement, have seen little investment over the last few years, due largely to the fact that most of the airports have been turned over to the individual states for ownership and management. The states, in turn, did not have sufficient funds to invest and were futher hampered by decreasing traffic, which left them unable to generate enough revenue to make the necessary investments. An exception is the principal airport of Caracas, Maiquetia, which is operated by a semi-autonomous agency and which has embarked on a $200 million improvement plan for its terminal. This venture, however, is mostly civil engineering with few imported components. A company from the U.S. has won the concession to build a hotel with their own financing for a minimum 20-year operating contract. At this time projects at other airports have little chance of being realized. There will be some acquisitions of baggage screening equipment. Airlines will probably make some minor investments in aircraft ground handling equipment and there might be some purchases of fire and crash trucks. The aeronautical authority intends to upgrade some of the control towers with new radios and more modern meteorological equipment. However, the Directorate of Airports of the Ministry of Infrastructure estimates that needed airport improvements, civil works as well as equipment, over the next three years would require an investment of over $500 million. What is unclear at this time is how this would be financed. The door is open, however, at most state governments for eventual concession regimes.

10 Franchising FRA

Market Data (USD millions)	1998	1999	2000
A. Total Market Size *	18	24	35
B. Total Local Production **	8	10	15
C. Total Exports ***	2	3	4
D. Total Imports ****	8	17	30
E. Total Imports from the U.S.	6	12	16

* Monthly billing by 24 franchise operations which reported of the 62 total existing
** Local franchise operations without any foreign tie-in
*** Local franchise operations which have established franchisees abroad
**** Payments made to foreign master franchises

In spite of the absence of reliable statistics from any official or unofficial source, we have included franchising as a best prospect because it is one of the few industries that can be called “booming.” This is primarily due to the proliferation of malls throughout the country, which are deemed to be ideal locations for franchise operations.

The Franchising Association, founded only about two years ago, reports that there are now 150 franchise operations in the country with a total of over 1200 outlets/stores. This is in sharp contrast to 1997, when there were only 20 franchise operations, illustrating the rapid growth in this sector. During a recent local franchising fair, over 120 inquiries were recorded. The system has also caught on at the local level without any connections to international franchise operations. U.S. franchises hold the majority among foreign franchises. The Association reports that 24.7 percent of all franchises are fast food, 13.8 percent are clothing and the remainder representing a variety of services such as computer training and dry cleaning services. A few of the local franchise operations have begun to look for franchisees abroad and several have been established in the Dominican Republic, Puerto Rico, Miami and Colombia. Analysts see no lessening of interest and U.S. franchises offering specialty services, such as in the automotive sector, household services, data processing and personal services should meet with success.

Best Prospects for Agricultural Products (note: latest available data used)

The U.S. share of the Venezuelan food and agricultural market has been consistently eroding over the past two decades. Falling from outright domination of the market in 1980 to providing just over 30 percent of Venezuela's agricultural imports in recent years, the United States continues to face tough competition from emerging suppliers like Argentina, Brazil and Colombia that have established trade agreements which have helped integrate trade throughout South America. Bulk commodities from the United States, like wheat and corn, which have been the mainstay of U.S. exports to Venezuela, are struggling to compete with other origins.

U.S. sales of bulk commodities to Venezuela have leveled off in recent years; however, a strong consumer preference exists for practically anything associated with the United States which gives an advantage to U.S. consumer-ready food products. In fact, in percentage terms, value-added, consumer-ready imports are the fastest growing sector for U.S. agricultural exports to Venezuela. Venezuela was the leading overall agricultural market in South America for the United States in 1997, a close contender in 1998 and 1999. Most importantly, Venezuela broke away in 1999 as the number one U.S. export market in South America for consumer-ready agricultural products, this despite a recession that cut into overall food consumption.

The potential growth for 2000 and beyond is encouraging as non-tariff trade barriers seem to be coming down for some select products after many years of delayed access. Specifically, since January of 2000, Venezuela has re-opened access for imports of U.S. citrus products and processed poultry products. Contact (fax: 58-2-975-7615) for more details.

The following is an illustrative list of traditional and a few other emerging export opportunities for U.S. agricultural products to Venezuela:

Wheat (PSD Code: 0410000)

1000 Metric Tons	1996	1997	1998
A. Total market Size	1110	1110	1200
B. Total Local Production	0	0	0
C. Total Exports	0	0	0
D.Total Imports	1110	1110	1200
E. Imports from the U.S.	630	630	720

Venezuela produces almost no wheat, but consumes large quantities of bread, crackers, pastries and pasta (Venezuela is the second highest per capita consumer of pasta in the world). Wheat for these products must be imported. The United States is a natural supplier due to its proximity and the year-around availability of several wheat varieties. Despite these advantages, the United States faces stiff competition in this market from suppliers such as Canada whose prices are sometimes lower than

U.S. prices.

The outlook for 2000 and beyond is uncertain because the Venezuelan government is trying to implement new policies for substituting wheat consumption and promoting rice consumption. Due to the strong preference of Venezuelans for wheat-based products it seems that this policy will not be successful.

Corn (Yellow) (PSD Code: 0410000)

1000 Metric Tons	1996	1997	1998
A. Total Market Size	1275	1300	1360
B. Total Local Production	115	115	100
C. Total Exports	0	0	0
D. Total Imports	1000	1000	1260
E. Imports from the U.S.	558	600	1060

Venezuela produces about 80 percent of its white corn needs and imports the remaining 20 percent. Yellow corn for animal feed is mostly imported, very little is produced in the country, only 10 percent of the needs. The demand for animal feed is steady because Venezuela imports very little animal protein and domestic production is heavily dependent on imported feed stuff. The United States is a natural supplier due to proximity and year-round availability. The major suppliers are the United States and Argentina.

Imports of yellow corn are subject to the Government of Venezuela's import licenses regime for corn and sorghum. Proof of domestic sorghum purchases is required in order to obtain corn import permits. Certification issued by the Venezuelan Agricultural Board of Trade, BOLPRIAVEN, is now mandatory to demonstrate proof of grain purchases.

Milk Powder (PSD Code: 0224400)

1000 Metric Tons	1996	1997	1998
A. Total Market Size	82	90	100
B. Total Local Production	52	45	40
C. Total Exports	2	2	2
D. Total Imports	50	45	60
E. Imports from the U.S.	7	10	7

Venezuela is a milk deficit country. Dry milk imports provide almost 50 percent of total consumption needs. Although the United States has an advantage due to its proximity and lack of competition from other countries with trade preferences, the bulk of Venezuela's milk powder imports come from New Zealand. The source of imports depends more on the existence of longstanding business relations than on price. New Zealand powdered milk competes favorably with U.S. products, not only because it tends to cost less, but because the New Zealand Dairy Board has a very strong presence in the market with offices in Venezuela and it has invested directly in one of Venezuela's two largest dairy companies. Nonetheless, potential U.S. exporters can match New Zealand prices through the USDA’s Dairy Export Incentive Program and could take advantage of this market if they strengthen their presence in the country by establishing direct contact with leading supermarkets, advertising heavily and locating a reliable distributor.

Soybeans (PSD Code: 2222000)

1000 Metric Tons	1996	1997	1998
A. Total Market Size	304	329	394
B. Total Local production	10	10	9
C. Total Exports	0	0	0
D. Total Imports	300	320	365
E. Imports from the U.S.	167	172	288

During the last five years between 80 and 90 percent of Venezuela’s oilseed needs have been supplied by imports. The GOV has developed a long term agricultural plan which includes African palm as the leading oilseed commodity targeted growth in Venezuela. The plan forecasts that oilseed imports will be reduced by as much as 20 percent by the year 2010. Currently, oilseed imports are supplied by the United States and Argentina. Soybeans are the principal oilseed consumed in Venezuela and they are mostly all imported.

Venezuela is a member of the Andean Community, along with Colombia, Ecuador, Bolivia and Peru. Pact members have negotiated common external tariffs. Venezuela adopted the Andean Community agricultural price band system in May 1995. This is a system of variable ad valorem tariffs that are applied to certain agricultural imports from countries other than those of the Andean Community, basically bulk commodities. The system is designed to raise tariffs when world prices are low and to lower tariffs when world prices are high.

Oilseeds and oilseed products are included in the price band system. For the most current tariff rates, check the following web-site at: www.comunidadandina.org

In addition to being a member of the Andean Community, Venezuela has bilateral trade agreements with Argentina, Brazil and Paraguay. These agreements provide preferential tariffs for vegetable oils and oilseeds.

Soybean Meal (PSD Code: 0813100)

1000 Metric Tons	1996	1997	1998	
A. Total Market Size	407	422	450	
B. Total Local production		239	259	280
C. Total Exports	220	238	250	
D. Total Imports	394	401	440	
E. Imports from the U.S.	248	249	350	

More than 75 percent of the meal consumed in Venezuela is imported and of that total around 85 percent of all meal is soybean meal. Imports of soybean meal have increased steadily over the last two years, resulting in a decline in the amount of imported soybeans needed to be processed into meal. Considering the high costs of production (including power, labor, security expenses and others), it is more cost-effective to import soybean meal than to crush it domestically.

Venezuela imported 360,000 MT of soybean meal and cake from the United States for marketing year 1998/99, while current imports (before the end of marketing year 1999/00) account for 360,000 MT of soybean meal and cake. In the near-term, however, U.S. imports of soybeans will increase in the next two years because a) the sole competitor to U.S. soybeans is Bolivia, which is not a reliable source of beans, and b) the import licensing system requires purchasing the domestic production of oilseed meals as a prerequisite to obtain import licenses for the rest of the oilseed complex.

Venezuela exports soybean meal to northern Colombia basically because that country lacks adequate port facilities for handling soybean meal shipments. It is expected that this exporting trend will continue in the near future.

Soybean Oil (PSD Code: 4232000)

1000 Metric Tons	1996	1997	1998
A. Total Market Size	154	178	180
B. Total Local production	39	54	70
C. Total Exports	0	0	0
D. Total Imports	119	121	155
E. Imports from the U.S.	5	6	3

About 80 percent of all vegetable oil consumed in Venezuela is imported. About 60 percent of all vegetable oil consumption is soybean oil. Soybean oil imports come mainly from Argentina, Brazil and Paraguay. Less than 1 percent of imported vegetable oil comes from the United States. Soybean oil imports are forecast to increase because of the import license regime for the oilseed complex. The current tariff structure that exists has limited the demand for U.S. soybean oil imports, while leaving the door open for the South American market. U.S. soybean oil imports must pay a 20 percent duty under the current tariff structure; meanwhile, the tariff for Argentine soybean oil is 8 percent, Brazilian soybean oil must pay 10 percent, and Paraguayan soybean oil is assessed 0.1 percent duty.

Cotton (PSD Code: 2631000)

1000 Metric Tons	1996	1997	1998
A. Total Market Size	45	45	45
B. Total Local production	12	25	20
C. Total Exports	0	5	4
D. Total Imports	33	25	25
E. Imports from the U.S. *	71	90	60

* 1000 Bales

Venezuela's production of cotton does not keep pace with its requirements. The United States is a natural supplier due to its proximity and the fact that it is an important exporter of cotton. Once again, the main competitor, in this case Colombia, receives a preferential tariff that is not accorded the United States. Colombian cotton enters duty free due to Colombia's status as an Andean Community country. U.S. cotton is assessed a duty of 10 percent.

Apples, Pears, Grapes (PSD Codes: 0574000,0579220, 0575100)

1000 Metric Tons	1996	1997	1998
A. Total Market Size	38,500	45,000	0
B. Total Local production	10,450	11,000	0
C. Total Exports	0	200	0
D. Total Imports	22,000	35,000	0
E. Imports from the U.S.	5,000	12,000	0

Venezuela does not produce fresh deciduous fruit. Apples, pears and grapes are the major imported fruits in the market. Apples are the most widely consumed imported fruit in Venezuela, followed by pears and grapes. Both Chile and the United States are major suppliers of imported fruit to Venezuela. These two suppliers provide nearly all of Venezuela's fresh deciduous fruit, with Chile shipping about 60 percent and the United States selling 40 percent. Preferential trade agreements signed between Chile and Venezuela give the Chilean exporters considerable advantage over U.S. fruit suppliers. Also, Chilean exporters are reportedly offering flexible payment terms and conditions to the Venezuela importers, which result in more sales to this market.

U.S. fresh fruit exports to Venezuela were back up to more than $15 million in 1998 thanks primarily to strong demand for deciduous fruit. Stone fruit also played a key role in improving U.S. exports to Venezuela, accounting for $1.4 million. Import figures for 1999 are not yet available.

Processed Fruit* (PSD Code: 0589900)

1000 Metric Tons	1996	1997	1998
A. Total Market Size	0	0	15
B. Total Local production	0	0	2
C. Total Exports	0	0	n.a.
D. Total Imports	8	8	12
E. Imports from the U.S.	.6	1	1.5

*Crystallized fruit, jam, marmalades, fruit pulp, canned fruit, fruit & vegetable juices

The data shown above includes a number of different products, all of which are imported by wholesalers that supply supermarkets, other food retailers, and industrial processed food end-users. The market for these products should reflect healthy growth as the economy emerges from a four year recession. Competition comes from a strong domestic processing industry and from imports from other South American countries, notably Colombia, and Europe. The U.S. has an advantage in this market because many Venezuelans are familiar with U.S. brands and product presentation from vacations spent in the U.S. and through exposure to commercials on U.S. cable TV channels. Imports of fruit pulp and juices, jams, and preserved fruit from countries that are not parties to the Andean Community agreement are subject to a 20 percent ad valorem duty, except bulk imports of preserved fruit that requires further processing, which are subject to a 15 percent ad valorem duty. An exception is grape juice, concentrate, and must with a 10 percent ad valorem duty. Imports from active Andean Community countries (Colombia, Ecuador, and Bolivia) and from Peru are duty-free. Imports of preserved fruit requiring further processing from Mexico are subject to a 9.2 percent duty instead of 15 percent - a preference granted under the G-3 trade agreement (Mexico, Colombia, Venezuela).

Wine (PSD Code: N/A)

Note - PSD data for Wine not available at the time of this writing.

Consumption of high-quality domestic and imported wine is restricted to higher income groups, whereas vermouths and lower quality table and cooking wines are consumed by other sectors of the population which have been affected to a greater extent by the recession. Although production of Venezuelan premium wines and champagne has been increasing both in volume and quality in the last ten years, well-known brands of foreign wine are still preferred by a majority of the more sophisticated wine consumers.

Significant Investment Opportunities

Natural Gas – Venezuela’s opening of the Natural Gas sector to domestic and foreign investment will generate investment opportunities in all phases of the industry including exploration and production, transmission, storage and transportation systems. PDVSA projects over $5 billion in new investment over the next ten-year period.

Petrochemicals – Venezuela has placed special emphasis on developing the petrochemicals industry, more than doubling the country’s capacity. Total projected investment in fertilizer, olefins and aromatic plants for the period 1999-1009 exceeds $8.5 billion.

Electricity – The new electricity law is designed to promote competition and more efficient delivery of services. The Ministry of Energy and Mines estimates that some USD 5 billion is needed in the next several years to meet increasing demand to serve the energy and mining industries and to improve quality of service.

Mining – Venezuela has vast mining opportunities in gold, diamonds, coal and other resources. The new mining law is designed to promote such investment. However, existing investors are awaiting the adoption of implementing regulations before making new commitments.

Privatization - The Venezuelan Government continues to promote private sector participation in state-owned enterprises with the exception of the national oil company and investment in hydroelectric generation. The Chavez Government has moved away from asset sales as a model for private sector participation in certain sectors, but continues to welcome domestic and foreign investment in the form of strategic associations. In the case of the aluminum sector, the government has announced a new initiative to sell controlling shares of segments of the industrial complex. Over $5 billion in new investment will be required. In the case of the electricity sector, Venezuela has announced that it will sell off a controlling share (51%) of two state-owned systems to domestic and/or foreign investors. The two systems will require an estimated $660 million in new investment.

Vargas Reconstruction – The tragic flooding of the Venezuelan coast destroyed or severely damaged water pipeline systems, roads and other infrastructure. The Government has been slow to provide detailed re-development plans, but many opportunities exist in rebuilding the infrastructure of the State.

VI. TRADE REGULATIONS AND STANDARDS

Trade Barriers, Including Tariffs, Non-Tariff Barriers and Import Taxes

All imports are assessed a one percent customs handling charge. The import duties are calculated on the CIF value of the shipment. Venezuela has adopted the harmonized tariff schedule. Since 1995, Venezuela has generally adhered to the Andean Pact's Common External Tariff, which has four tariff levels: 5, 10, 15 and 20 percent. Automobiles carry a duty of 35 percent, and motor oil bears a surcharge of 60 Bolivars per kilogram. Effective June 14, 1999 Congress did away with the 16.5 percent wholesale tax and replaced it with a 14.5 percent value added tax. The June 1, 1999 a 0.5 percent bank debit tax levied on all banking transactions was phased out earlier this year.

Venezuela implemented the Andean Pact Price Band system for certain agricultural products (including wheat, grains, rice, pork, poultry, oilseeds, edible oils, oilseed meals, and milk) in April 1995. This system tracks the estimated landed price of certain "marker" commodities. If marker prices fall outside the established price band the ad valorem tariff for the marker product and the specified related products is adjusted upward or downward. Customs authorities have recently begun requesting the Venezuelan Certificate of Standards Compliance, COVENIN. This information can be found in this CCG under the Standards heading.

The Venezuelan Ministry of Production and Commerce (MPC) has used its authority to issue sanitary and phytosanitary import permits to unfairly prohibit the importation of certain agricultural products (most notably fruit, poultry and pork) which compete with domestic products. This has not occurred for processed food products.

Customs Valuation

Customs calculates duties on the landed (CIF) cost of the product and on the gross weight of the import, thus including the weight or value of the packaging. Venezuela has recently established procedures for imposing countervailing duties to avoid dumping and counteract subsidies. Such duties have been levied on products, such as blue jeans coming from Asia and some plastics and cheeses.

Typically customs authorities accept the value of the shipment as indicated on the documents, but recent regulations allow them to reference a base price in order to determine minimum price for purposes of customs value. Government officials have indicated that this base price system is WTO-compliant. Under invoicing in any event can result in heavy fines to the importer as well as forfeiture of the goods in question. Complaints by importers of inconsistency in customs treatment in various ports of entry have led to an effort by the National Tax Authority (SENIAT) to build a common data base of information and otherwise coordinate and ensure uniform valuation principles by customs offices throughout the country.

Import Licenses

Import licenses are rarely required, but there are a number of products that still require permits, including products with negotiated WTO tariff rate quotas. These include arms and explosives, which require an import permit from the Ministry of the Interior and the Ministry of Defense. Import certificates are required for certain products subject to special supervision. Almost all agricultural imports must have sanitary or phytosanitary import certificates, issued by the Ministry of Agriculture, to be allowed entry. Medicines, foods and cosmetics require registration with the Ministry of Health. Customs will admit products without a label showing the registration number if the importer produces the appropriate documentation from the relevant Ministry. Stickers are allowed and can be affixed on the retail package before distribution and sale.

In the case of imported alcoholic beverages, the tax “band” must be affixed across the bottle closure before the shipment can leave the customs premises. Imported cigarettes are also subject to this type of measure and adhesive labels are not allowed.

In February 1997 the government announced a new requirement for import licenses for corn and sorghum. During the last quarter of 1999, the government of Venezuela announced a list of prerequisites that must be completed prior to receipt of import licenses for certain commodities, which included milk and milk products, cheese, oilseeds and oilseed products and sugar. Most significantly, the import licensing system calls for purchasing of domestically produced commodities before granting licenses to importers - an item under WTO review. To obtain import licenses importers must: (1) apply for an import license from the Ministry of Production and Commerce (MPC); (2) provide MPC with proof of registration as a traditional importer; (3) provide MPC with a record of all purchases of domestic production of the commodity listed during the last two years; (4) identify intended buyers if the commodity or its derived products are to be resold; and (5) Provide MPC with a record of the volume of imports for the last two years.

Export Controls

In rare cases the government can apply controls. These are usually applied to avoid domestic shortages. Certain mineral resources are also subject to export controls. The re-export of capital goods is normally not allowed, unless the owner has made prior arrangements (BEFORE importing) to the effect that the equipment is to be used in Venezuela only for a specific project and will not stay in country (see Temporary Entry).

Import / Export Documentation

Venezuelan Customs requires that all documents be in Spanish. The invoice must be typewritten; a photocopy will not be accepted. The manifest of importation and declaration of value must be in quadruplicate. The following documents may be required: commercial invoice; bill of lading; packing list; certificate of origin (if required); special certificates or permits when required (such as phytosanitary or quality standards certificates or Ministry of Interior permit for firearms). Exporters should consult with the Venezuelan importer regarding what documentation is required in addition to the invoice.

Exporters should quote CIF prices for Venezuela (not FOB) since import duties are calculated on the CIF price. Insurance and freight must be listed separately on the invoice.

The invoice must be in duplicate and list both the value per unit and the total value of the shipment. Shipping and insurance costs are to be listed separately. The description for the merchandise must include the appropriate tariff number, which the importer can supply.

To simplify the import process for a large amount of cargo for one project, there should be a single declaration for all items, and each item then listed separately with its respective tariff number.

For new products, particularly those whose tariff number cannot be readily identified, it is important to obtain a specific tariff number, which the importer can obtain from customs.

More details on special requirements and documentation are available in publications such as the following:

Shipper’s Export Manual
Bureau of National Affairs
1231 25th Street N.W.
Washington, D.C. 20037
Phone: (202)452-4200
Fax: (202)452-4610
WWW:http://www:bna.com

Exporter’s Encyclopedia

Dun & Bradstreet International
1 Diamond Hill Rd.
Murray Hill, N.J. 07974
Phone: (908)665-5000
Fax: (908)665-5803
WWW:http://www.dnb.com

All shipments must be made on a direct consignment basis. Customs regulations stipulate that the consignee is the owner of the shipment and is responsible for all customs payments. Thus, a consignee may make the required payments and remove the merchandise from customs. It is important to have a reliable and known consignee as the ownership status allows the consignee to have complete control over the imported product. Similarly, some

U.S. companies have had difficulties with sight draft transactions. When Venezuelan companies either delay or refuse to claim merchandise arriving in Venezuelan ports Customs will impounds goods not claimed, and, if steep fines and storage fees are not promptly paid, sell the goods at auction. In some instances, the original consignees have successfully bid on the same goods at auction and obtained them for far less than the CIF value. For this reason, exporters are advised to investigate Venezuelan companies thoroughly and carefully evaluate the advantages and risks of sight drafts versus irrevocable letters of credit.

Since Venezuelan customs procedures are cumbersome and involve many steps, most importers use the services of a customs agent. The Commercial Section of the U.S. Embassy can provide names of reputable agents.

Venezuelan customs brokers typically charge one percent of the CIF value, or less on regular orders. There are additional charges for document preparation and incidentals. The importer normally pays these expenses.

Importers Registry

Another time-consuming paperwork prerequisite that went into effect at the end of last year is the Importers Registry before the MPC. All importers of agricultural commodities and by-products must be registered at the MPC, and must demonstrate their importing history (volume, value, country of origin, final sales and final destinations, among other items). This prerequisite is a must before an importer applies for import permits.

The Importers Registry was established according to Official Gazette number 36,817, dated 10-28-99. The process should not take more than five working days to obtain the importers registration number.

Temporary Entry

The customs law and its regulations allow the import of merchandise on a temporary basis for exhibitions, cultural purposes, demonstrations, scientific purposes or specific contracts. The importer must request permission for temporary entry, providing an exact description of the merchandise, its number or volume, its value and its expected date of re-export. Temporary entry forms may be requested from the Gerente de Aduanas del SENIAT at phone (58 2) 274-4101/4508 and fax number (58 2) 274-4128. A bond covering the full value of the duty payable in case the products stay in the country must be obtained which will be returned once the products have left the country. Normally, temporary entry permits are granted for a maximum stay of up to six months. The two percent customs handling charge must be paid and is not reimbursable. In some cases a reimbursable collateral is requested for temporary imports.

Temporary entry of samples by visiting businessmen is allowed, but the determination of what is a sample is left to the customs agent at the port of entry. Samples arriving unaccompanied as freight are never considered as such, unless declared as having no commercial value and prepared in such a form that they cannot be sold commercially.

Labeling, Marking Requirements

Spanish is the official language of Venezuela, and the only official measuring system is metric. Labels must list all ingredients, the contents of the package in the metric system or in units, and the registration number of the Ministry of Health or the Ministry Production and Commerce in the case of animal feeds or veterinary medicines. Stickers are allowed in the case of imported products. These stickers must also identify the importer. Operating instructions or owners manuals must be in Spanish.

Prohibited Imports

At this time, imports of used autos, buses and trucks, used clothing and used tires are prohibited. Pork from most countries and raw poultry from the United States are banned. Some products can only be imported by government agencies, such as cigarette paper (tax authorities calculate cigarette tax on the volume of cigarette paper imported by the manufacturers), bank notes, weapons of war and certain explosives. The government can delegate authority to import on its behalf, and can place orders for such products with the local sales agents of the foreign manufacturers. Weapons for private use, such as shotguns, sporting rifles, air rifles, non-military pistols and commercial explosives can only be imported with authorization of the Ministry of Defense and a company owned by the Ministry of Defense named CAVIM (the latter can be delegated to established stores and users of commercial explosives).

Standards

The Venezuelan standards agency COVENIN has established over 300 obligatory standards that apply to both domestic and imported products. These standards are not necessarily in conformity with or based on U.S. standards. In all cases involving products falling under such standards, customs authorities require a Venezuelan certificate of compliance. The certificate can on occasion be obtained with a letter of certification confirming compliance issued by a recognized standards institute in the country of origin. Importers have experienced some difficulty where no recognized foreign standards exist and Venezuela requires such a certificate of compliance. Exporters should consult with their customers, since it is the responsibility of the importer to provide such certificates.

COVENIN has compiled a list of recognized foreign private certification institutes for customs to consult. Recently, some products with UL listing from the United States have qualified for entry. Where no qualifying certificate can be obtained, COVENIN will in some cases arrange for local testing at the cost of the importer, although this can present difficulties when, for example, the tester is a local competitor of the imported product. Cost may also be prohibitive in the case of small or mixed shipments. Use of ISO 9000 guidelines most often is acceptable in place of a standards compliance certificate.

For updates and clarifications of COVENIN standards, contact either the Foreign Commercial Service at the U.S. Embassy in Caracas or COVENIN (See Chapter X, Appendix E of this CCG).

Free Trade Zones / Warehouses

Venezuela has four free trade zones. The Paraguana Peninsula Free Trade Zone is for industrial purposes only, is very small, and is being used by only a few enterprises. Another is the duty-free area comprised of the entire island of Margarita. The sale of duty-free merchandise from the island to the mainland is subject to quotas. In December of 1998 Merida was declared a free trade zone to the producers of goods and services within the cultural, scientific and technological areas. The most recent addition to the list is Santa Elena de Uairen in the State of Bolivar, which became a free trade zone in May of 1999.

Duty-free bonded warehouses are available at ports, airports and in most major towns. Industrial establishments can also be declared in-bond if these are used for assembly, completion or improvement of products for re-export, as is the case with Puerto Cabello.

Special Import Provisions

There are no special requirements except those discussed above. It should be noted that freight handling in ports and airports is somewhat rudimentary and that damage might occur unless the products are well packed. Containers are handled efficiently, but will not pass customs as such unless their contents fall under one single tariff classification number. If they contain consolidated mixed cargo, customs will separate their contents to check each single item. In order to alleviate congestion at ports and airports, Customs will authorize this procedure to take place in a bonded warehouse or under special arrangements at extra cost at the recipient's warehouse. The containers must be sealed during the transfer.

Courier services such as UPS, Federal Express and DHL should not be used to transport merchandise if packages exceed two kilograms in weight. In those cases, the shipments are treated as air freight and could be subject to delays in customs. These facilities should be used primarily for the shipment of documents. Likewise, parcel post shipment using the mail should be avoided. Venezuelan mail is very unreliable. If such a parcel arrives, customs will send a notification by mail to the recipient, who then has to reply by mail that he is willing to accept the package. The recipient then has to go, in person, to the central post office, where in the presence of a customs official the package is opened. This entire procedure can take several weeks or even months. In short, the speediest procedure is air freight, or in the case of very heavy shipments, sea freight.

Membership in Free Trade Agreements

Venezuela is a member of the Andean Pact with Colombia, Ecuador, Bolivia and Peru, and as such is a member of the group's free-trade zone. The Pact negotiated a common external tariff (CET) which entered into effect in February of 1995, for Venezuela, Colombia and Ecuador.

Bilateral commerce with Colombia has increased substantially as a result of Venezuela's free trade arrangement with its neighbor. A recent change in the trade policy with Columbia, which went into effect in July of 1999, has resulted in the requirement that all goods in transit to Venezuela be transferred to local transportation companies. Venezuela is also expanding its relations with Mexico and Colombia through the Group of Three Free Trade Agreement, which became effective January 1, 1995. Venezuela has partial free- trade agreements with Chile, countries of Central America and CARICOM.

Together with other Andean pact members, Venezuela is involved in talks to establish a free-trade zone with MERCOSUR countries, replacing partial free-trade agreements. It has expressed some interest in eventual membership in NAFTA, but discussions on this are not likely to be advanced in the next few years.

VII: INVESTMENT CLIMATE

Openness to Foreign Investment

Venezuela encourages foreign investment in most sectors. The government of President Hugo Chavez, which took power in February 1999 after an historic round of elections, has promoted foreign investment to reactivate the economy. The climate for foreign investment took a turn for the worse during the second half of 1998 and the first half of 1999 when the economy fell into a deep and continuing recession due largely to a drastic drop in crude oil prices. The domestic recession has continued, despite a strong rise in crude oil prices during the last half of 1999 and the first half of 2000 (during which prices more than tripled). Many investors, both domestic and foreign, have kept their plans on hold pending the completion of the constitutional reform process begun by the Chavez government in 1999, a project that has been prolonged by a delay in scheduled elections. Venezuela adopted a new constitution in December 1999, but then was unable for technical reasons to hold nationwide “mega elections,” electoral contests that would have re-legitimized all publicly elected officials under the new constitution, as planned on May 28, 2000. The mega-elections are now to be split into national and state contests, to be held at the end of July, and local races, to be held in October.

Real GDP decreased by 7.2 percent in 1999. The economy is expected to begin a recovery in the second half of 2000 and estimates are that it will grow by 2 percent during calendar year 2000. Inflation for 1999 was 20 percent and is expected to be 17 percent in 2000. Much of the improvement in the inflation rate is due to the effects of the recession that began in 1998, which has cut consumers’ purchasing power and reduced the demand for goods despite mandated wage increases.

Legal Framework: Decree 2095

Presidential Decree 2095 establishes the legal framework for foreign investment in Venezuela (Official Gazette No. 34,930 dated February 13, 1992). The Decree implemented Andean Pact Decisions 291 and 292 and significantly expanded foreign investment opportunities in Venezuela by lifting most restrictions on foreign participation in the economy. It also took away the President’s power to reserve “basic” industries to national companies. All sectors of Venezuela’s economy, except those specifically noted, are open to 100 percent foreign participation. Article 13 of the Decree explicitly guarantees that foreign investors will have the same rights and obligations as national investors “except as provided for in special laws and limitations contained in this Decree.” (These “special laws” and “limitations” are detailed below.)

Decree 2095 simplified the process for making a foreign investment. It eliminated the requirement to obtain prior government authorization for foreign investments in the sectors it covers. Foreign investors need only register with the Superintendent of Foreign Investment (SIEX) within 60 days of the date a new investment is realized. (The exception to this general rule is the Organic Security and Defense Law, which provides that foreigners cannot own property in certain border regions or near military installations and basic industries without written authorization of the President through the Ministry of Defense.) Foreign companies may also establish branch operations without prior authorization from SIEX. Proposals to use new technology need only be registered as well. No prior authorization is required for technical assistance, transfer of technology, or trademark-use agreements, provided they are not contrary to existing legal provisions. Intangible technological contributions are now accepted as foreign direct investments. Shares of foreign companies may be sold publicly.

Decree 2095 guarantees foreign investors the right to repatriate 100 percent of profits and capital, including proceeds from the sale of shares or liquidation of the company, and allows for unrestricted reinvestment of profits. Royalty payments to foreign companies — to a parent company or to some other entity — are also guaranteed without limit or prior official authorization. Subsequent registration must be made with SIEX when profits, capital, and royalty payments are repatriated.

Joint ventures and wholly owned subsidiaries of foreign companies are treated the same as Venezuelan firms. It is quite common to form a joint venture by forming a new company with local capital or by buying into an existing local company. Only registration of the venture with SIEX is required. Law imposes no limit on the amount of dividends, reinvestment, or repatriation.

In October 1999, the Chavez government issued a Presidential Decree with the force of law for the protection and promotion of foreign investment. This decree reinforced several of the pro-investment aspects of Decree 2095, with some qualifications and ambiguities. It guaranteed that foreign investors would receive treatment equal to that of national investors in sectors not reserved for the state or for nationals. It said that the state could offer “conditioned incentives” to foreign investors to encourage them to invest in Venezuela. Finally, it offered foreign investors from countries that have signed bilateral investment treaties (BITs) with Venezuela access to international arbitration in investor-state disputes. At present, the United States does not have a BIT with Venezuela.

Sectoral Limitations Under Decree 2095

Decree 2095 reserves three areas of economic activity to “national companies”: television and radio broadcasting, Spanish-language newspapers, and professional services that are regulated by national laws. A “national company” (as defined in Article 1 of Andean Pact Decision 291) is a company in which Venezuelan nationals hold more than 80 percent of the equity. Foreign capital is therefore restricted to a maximum of 19.9 percent in enterprises engaged in radio, television, Spanish-language newspapers, and professional services subject to licensing legislation (e.g., law, architecture, engineering, medicine, veterinary medicine, odontology, bioanalysis, economics, public accounting, psychology, pharmacy, and management). Foreign professionals are free to work in Venezuela without restriction, but must first revalidate their title at a Venezuelan university. This is not required for consulting services under contract for a specific project. The Investment Promotion and Protection Law of October 1999 maintained these exceptions and reserved sectors.

Areas Covered by Special Laws

The sectors that are regulated by "special laws" that supplement Decree 2095 include hydrocarbons, natural gas, iron ore, mining, telecommunications, banking and insurance. Hydrocarbons and iron ore continue to be regulated by "special laws" that date back to the 1970s, when these sectors were nationalized and reserved to the state. The new "special laws" for mining and telecommunications were adopted in 1999 and 2000, respectively, while those for the banking and insurance sectors were adopted in the early 1990s.

Hydrocarbons

The 1975 Hydrocarbons Law (Extraordinary Official Gazette No. 1,769 dated August 29, 1975) reserves exploration, production, refining, transport, storage, and marketing of hydrocarbons to state oil company PDVSA (Petroleos de Venezuela, S.A.). However, Article V of the Hydrocarbons Law states that private companies may engage in hydrocarbons-related activities through operating contracts or, when found to be in the public interest, through equity joint ventures ("strategic associations") as long as the state controls the project, the contract is for a set time, and Congress has granted its approval.

Since 1992, the government has opened the oil sector to foreign investment through the provisions of Article V. PDVSA plans to increase oil production over the next ten years, from 3.4 million barrels per day in 1997 to more than 4.8 million barrels per day in the year 2007. PDVSA claims that some USD 60 billion in investment will be required, the bulk of which will come from joint ventures with foreign firms. A drastic fall in oil prices and associated production cuts agreed by OPEC countries during the first half of 1998 and expanded in April 1999 led PDVSA to revise its investment timetable and have delayed some major projects.

The Ministry of Energy and Mines has tasked PDVSA with the development of national capital, therefore the oil opening will likely proceed through transnational joint ventures involving domestic partners. Article V is soon to be irrelevant due to a new hydrocarbons law that will probably be approved by the National Asambly in late 2000. The Ministry of Energy and Mines has expressed on several occasions that the new law will reserve most oil activities to the state, but allow private participation through the above referred joint ventures. A new disposition of the law could rule out any international arbitration in joint ventures and could increase royalties.

Foreign participation in Venezuela's oil opening falls into three main categories: 1) operating contracts for "marginal" or inactive oil fields; 2) exploration and production (E&P) profit-sharing agreements for developing new fields of light, medium and heavy crudes; and 3) strategic associations for the extraction and production of extra-heavy oil. As of the summer of 2000 an appraisal of the operating and exploration contracts has revealed that only one company has discovered deposits of crude. The profitability of the reserves has not yet been assessed.

PDVSA will promote further investments in the four strategic associations designed to develop the heavy oil crude reserves of the Orinoco Oil Belt. The consortiums Petrozuata, Cerro Negro, Hamaca and Sincor will invest more than USD 200 million this year alone, and are expected to invest more than USD 600 million by the end of this decade. PDVSA also has expressed interest in promoting upstream and downstream projects under the new law. Best business prospects are: drilling services, gas compression, retailing lubricants and refinery maintenance.

In another major initiative to open the country to greater foreign investment, the government issued a resolution in November 1997 allowing foreign companies to operate gas stations in Venezuela for the first time since the early 1970's. In the closing session of the 1998 legislative year, the Congress passed a law that opened the domestic retail fuels market to competition. It was thought that this would deregulate the market and improve profitability. However, under that law prices remain controlled by the state. Mobil, Shell, Texaco, British Petroleum, and five Venezuelan firms have already entered or plan to enter the domestic market. The potential for growth remains strong since PDVSA currently operates only 1,600 gas stations throughout the country, which is several hundred less than existed at the time of nationalization. Private companies, which had planned to invest $2.2 billion in the sector from 1999-2004, have put those plans on hold pending a move to free up prices.

Natural Gas

The Chavez government is revising the country's petroleum sector development strategy, reducing the emphasis on developing the country's oil production capacity and promoting its downstream development, especially natural gas. The natural gas law, published in the Official Gazette on September 23, 1999, opens the entire natural gas sector to private investment, both domestic and foreign. The new law promotes national economic development through the greater use of natural gas for energy and as feedstock. Among the most important provisions is the creation of a licensing system for the exploration of non-associated gas, the establishment of a regulatory entity to serve as a regulatory watchdog, and a pricing scheme designed to promote the efficient development of the industry. A number of transitional and constitutional issues remain to be addressed, including the treatment of a project when oil is discovered alongside a non-associated gas reservoir. Industry welcomed the law as a step forward in opening up the sector, but believes that the GOV is overly optimistic about prospects for the sector. The industry will not develop unless many areas, including the tax treatment for activities under the law, are clarified.

The Chavez government has placed a priority on developing Venezuela's vast natural gas reserves, the largest in South America and sixth largest in the world. Petroleos de Venezuela, S.A. (PDVSA) announced a projected Venezuelan gas production of roughly 14.5 billion cubic feet (BCF) in 2010, which represents an increase of approximately 2 BCF over the prior expansion plans. Venezuela currently produces about 6 BCF. The government envisions a modern, environmentally sound industrial base through plentiful cheap gas and cheap electricity. In keeping with its efforts to develop its domestic industry, the GOV will seek to ensure that Venezuelan businesses individuals and capital will have a role and benefit from the gasification process. This ambitious plan will also encourage gas exports, whether by pipeline or LNG, and to foster Venezuela's petrochemical industry.

The natural gas law creates a legal regime that would liberalize the exploration and production of non-assorted gas and that would govern the pricing, transportation, storage, distribution, commercialization, and exporting of gas, whether such gas is to be produced in free or associated form. The production of associated gas will continue to be governed by the hydrocarbons law.

The new gas law creates a new license system for the exploration and production (E&P) of non-associated gas reservoirs. The Ministry of Energy and Mines (MEM) will regulate upstream operations. There will be no required national oil company involvement. However, the MEM is required to adopt specific measures which will encourage participation of national capital in gas activities, and which will encourage the use of national contractors. The sector will be open to international private, domestic private and state participation. The state will retain ownership in the place of all gas in situ. Vertical integration of the gas business from the wellhead to burnertip is discouraged. The natural gas law is unclear as to applicable jurisdiction for dispute settlement. Article 24 appears to rule out foreign arbitration, but seems to envision the possibility of parties agreeing to domestic arbitration.

Fiscal terms for activities under the law are not addressed. The enabling law authorizes the president to cut taxes for all players operating under the natural gas law, generally to a 34 percent income tax rate and arguable to introduce partial or total exemptions of regular income tax rates. However, this rate will effectively be lowered in many areas because tax credits will be available in respect to new investments. In addition, the administration will reserve the right to partially or totally exonerate income tax on gas projects where it can "be justified."

The natural gas law imposes a flat royalty of 20 percent on all gas (associated or not) which is not re-injected. The MEM can request the royalty in cash or in kind. If no preference is stated, the operating assumption is that the royalty must be paid in kind.

The new legislation establishes generally clear, fixed rules for the various kinds of players, such as producers, transporters, distributors, gas brokers, and exporters. There is a prohibition against vertical integration. The MEM will exercise principal authority over the gas activities, including the power to plan, police, inspect, and impose taxes on the sector. While the MEM will regulate upstream operations, a new body, "the National Gas Agency", will operate under the auspices of the MEM and will enjoy functional autonomy. It will be managed by a board of directors composed of five members, all of which will be nominated by the MEM. The National Gas Entity was created to encourage the sector's development and the competence in all stages of the gaseous hydrocarbons industry related with transport and distribution activities. The government can and will possibly intervene in the area of prices and tariffs, but certainly, the mechanisms designed are standard when compared with the laws of countries undergoing similar openings.

Iron Ore

A 1974 presidential decree (Official Gazette No. 30,577 dated December 16, 1974) reserved the exploitation of iron ore to the state. This was to be undertaken by the Venezuelan Corporation of Guayana (CVG)-controlled company Ferrominera. However, iron ore processing and other mining activities remain open to private investment under the terms of the 1944 Mining Law (below).

Mining

The new mining law published in the Official Gazette on September 28, 1999, seeks to consolidate the provisions of the 1945 mining law with subsequent mining decrees and encourage greater private sector participation in mining activities. The new law attempts to streamline the previous system. It also creates a series of new institutions, like the Inter-Ministerial commission to coordinate the sector's development, and creates a position for a vice-minister of mining. The law maintains the basic concessions terms of the 1945 law – mineral-specific with a limited duration –, but makes some structural changes to the concessions authorization process. It drops the distinction between alluvial and veins or strata deposits; consolidates the exploration and exploitation concessions into one concession; provides a new tax structure; and makes provisions for the types of eligible mining concessionaires.

The new mining law creates a series of new institutions. First, it creates a position for a Vice-Minister of Mining in the Ministry of Energy and Mines (MEM). It also creates the National Institute for Geology and Mining (INGEOMIN), which will serve as a national information center to gather and disseminate technical and scientific data for the mining industry. The law establishes an inter-ministerial commission to coordinate the mining sector's development between the Ministries of Energy and Mines, Environment, Defense, Finance, and Planning. It also calls for a "taquilla unica" to be created within that commission to be a one-stop shop to expedite concessions authorizations procedures. Finally, the law creates a national mining guard to enforce mining regulations, and guarantee that the "fundamental rights of the national territory are respected where mining is being conducted."

The new mining law maintains the basic concession terms as the 1945 law. Under the new law, Venezuela's concessions remain mineral-specific, and have a maximum 20-year authorization, which could be extended for an equivalent amount of time (totaling 40 years maximum). The new law slightly lengthens the exploration period from 3 years to 4 years, and the development period from 4 to 7 years.

The new mining law dramatically changes the mining sector's tax structure. The 1945 mining law required a small one-time exploration tax: a surface tax of 40 centimos per hectare for alluvial deposits and one Bolivar (Bs.) per hectare on veins and strata deposits and a layered royalty rate. (Note: the surface tax could not be adjusted for inflation because a fixed amount was written into the 1945 law. The taxes were extremely low considering USD 1 = Bs. 627 in 1999. End note.)

The legalization of small and medium size mining has been viewed as a positive step toward the modernization of the sector; especially as a way to enforce environmental standards often violated by illegal small miners. Nevertheless, the law has been highly criticized by the provision of high (variable) royalties. A critical issue is a provision of Title VII that allows an exploitation tax (royalty) of anywhere in between 1% and 3%.

Private sector representatives have voiced their concern for the effects the proposed environmental and mining codes that accompany the law could have on investment returns. The codes allow Venezuelan authorities to order the ceasing of operations while a mining company processes permits with The Ministries of Energy and Mines and Environment.

Telecommunications

President Hugo Chavez signed the long-awaited organic Telecommunications Law on June 12, 2000 replacing the antiquated 1940s law and setting the stage for an estimated two billion dollars in much needed investment this year alone. Analysts predict the sector will receive an additional ten billion dollars in investments over the next five years.

The law, coupled with the national telecommunications plan developed by the national telecommunications commission (Conatel) and the November 27, 2000 expiration of the monopoly held on basic telephony positions Venezuela favorably for investors interested in capitalizing on upcoming telecommunications opportunities. The law is the culmination of almost a year's worth of work in an unprecedented effort on the part of a committee consisting of private and public sector representatives. It is reportedly the eleventh version of the law and underwent some 50 changes in the past year based primarily on observations put forth by the private sector.

Though telecommunications experts have lauded the new legislation, some international and local media organizations have criticized provisions in the law that give the Executive the authority to limit or suspend public broadcasts in the name of public order or national security, Articles 208 and 209.

The Venezuelan telecommunications sector was one of a few that avoided what has been described as the worst economic recession in a decade in 1999. While the overall economy retracted by some 7.2 percent, the telecommunications sector grew by around 20 percent.

Banking

Venezuela's Banking Law (Extraordinary Official Gazette No. 4,641 dated November 2, 1993) opened the banking and financial services sectors to 100 percent foreign ownership at the beginning of 1994. Foreign banks may now enter the Venezuelan market in one of three ways: acquisition of shares of existing commercial banks or other financial institutions; creation of a new bank or other financial institution wholly-owned by foreign banks or investors; establishment of a branch of a foreign bank or financial institution. Applications for entry into the sector are submitted to the Bank Superintendency, which must seek an opinion from the Central Bank before granting authorization. The government can take into account "economic and financial conditions, general and local" (Article 11 of the Banking Law) and insist on reciprocity (Article 106 of the Banking Law) when deciding on an application for entry, but it has generally not used those powers. As of March 31, 2000, foreign participation in the banking sector totaled 39 percent in terms of equity.

Insurance

Venezuela's Insurance Reform Law (Extraordinary Official Gazette No. 4,822 dated December 23, 1994) opened the insurance and reinsurance sectors to 100 percent foreign ownership at the end of 1994. Foreign investors may now acquire shares of an existing insurance or reinsurance company or create an entirely new company. Rules on equity effectively prohibit the establishment of a branch of a foreign insurance or reinsurance company. Applications for entry into the sector are submitted to the Insurance Superintendency for authorization. The law still requires that a majority of the executives of an insurance company be Venezuelan citizens resident in the country. Foreign insurance companies are also prohibited from offering insurance contracts realized outside of Venezuela, unless the premiums become part of the net worth of an insurance company operating within Venezuela.

Privatization

Foreign participation in privatizations is only limited to the extent provided for by "special laws" regulating the sector in question (see above for information on sectors covered by special laws).

However, Article 13 of the Privatization Law requires that between 10 and 20 percent of the shares of a firm being privatized be reserved to the current and retired workers of that firm. The law also allows the government to set aside a certain percentage of shares to be offered in local capital markets for Venezuelan investors. The Congress approved an amendment to the Privatization Law in the fall of 1996 (Official Gazette No. 36,075 dated October 30, 1996) that allows the government to offer financial assistance to Venezuelan citizens wishing to purchase shares in firms undergoing privatization. The Organic Law of Concessions on Public Works and Services (Extraordinary Official Gazette No. 4,719 dated April 26, 1994) has opened investment opportunities for infrastructure and other public works projects. Under this law, the state guarantees up to 90 percent of the investment under certain circumstances.

The government's privatization of state-owned entities is coordinated and administered by the Venezuelan Investment Fund (FIV). FIV has transferred 44 entities to the private sector and generated cash receipts of nearly $4.8 billion since 1990. Foreign investors have purchased stakes in the telecommunications, electricity, steel, sugar refining, tourism, dairy, cement and aviation sectors. The most successful privatizations have been in telecommunications and steel. In 1991, FIV sold a 40 percent stake in CANTV, the national telephone monopoly. In 1996, FIV sold its remaining stake in CANTV through domestic and international capital markets. A 70 percent stake in steel giant Sidor, which accounts for almost one-third of Latin America's steel production, was sold for $2.31 billion in December 1997. The complex was sold on schedule and well above the base price to a consortium from Argentina, Brazil, Mexico, Panama and Venezuela.

Since 1996, the government has also successfully "re-privatized" most of the banks, insurance companies and other financial institutions that collapsed and were taken over by the state during the 1994-95 financial crisis. The government has reportedly recovered 57 percent of the capital it provided to the sector during the crisis (the capital recovered was reported in current Bolivars while the capital provided was in 1994-95 Bolivars). Finally, FIV completed the auction of a 30-year concession to operate and manage the historic Humboldt Hotel in Caracas in March 1998. The auction marked the end of the privatization process for FIV's holdings in the tourist industry.

A four-company aluminum complex (Alcasa, Bauxilum, Carbonorca and Venalum) is in the process of privatization. In March 1998, the government cancelled the auction when the four qualified bidders declined to submit bids, claiming the base price set by FIV was too high. Several months later, a second bid attempt with only one qualified bidder — a consortium from the U.S., UK, and Venezuela — was also cancelled. A third attempt at the aluminum privatization in December 1998 also failed. The Chavez government initially announced that it would proceed with privatization plans, this time breaking up the aluminum complex and selling the most attractive component, Venalum. Since then, it has announced that it will seek joint equity ventures, or "strategic associations," for the different elements of the company. The government expects to complete this process before the end of 2000.

The government passed legislation in August 1998 allowing 49 percent of PEQUIVEN, the state petrochemical company, to be sold to private investors through domestic and international capital markets. The government also sold a 70 percent interest in the Nueva Esparta Electric System and an 80 percent interest in the Venezuelan Ferrosilicon Company (FESILVEN) to private investors in November 1998. Two other electric companies — the Delta Amacuro Electric System (SEMDA) and the Venezuelan Electric Company (ENELVEN) — are slated for privatization under a new scheme that allows the sale of up to 51 percent of the shares of those companies. The ENELVEN and SEMDA facilities are scheduled to be offered to private bidders in November 2000. In addition, the government plans to sell concessions for horse race tracks.

These privatization initiatives reflect the GOV's move away from asset sales as a model for privatization and the adoption of strategic alliances with a majority stake sold off to the private sector.

Capital Outflow Policy

Venezuela currently offers no incentives for investment outside the country. However, PDVSA is the sole owner of its U.S. subsidiary CITGO, a petroleum refining, marketing and transportation company based in Tulsa, Oklahoma, that has over 16,000 gasoline outlets throughout the U.S. PDVSA also has full ownership of PDVMR (formerly UNO-VEN), a refining and distribution company which has signed operating and commercial agreements with CITGO. The current value of PDVSA's U.S. assets is $5.6 billion. Led by investments in the oil industry, Venezuela ranked seventh largest of all countries with investments in the United States in 1997.

PDVSA also owns subsidiaries in Europe: PDV Europa is a 50-50 partner with VEBA Oel AG, a refining and distribution company in Germany, and a 50-50 partner with Neste Oy (Finland) in Swedish-based AB Nynas Petroleum. Nynas refines and distributes heavy oil in Sweden, Belgium, and the UK. In the Caribbean, PDVSA has a long-term contract to operate the Refineria Isla refinery and storage terminal in Curacao from the Curacao government. PDVSA subsidiaries Bonaire Petroleum Corporation, N.V. (BOPEC) and Bahamas Oil Refining Company (BORCO), operate storage facilities in Bonaire and the Bahamas, respectively.

Conversion and Transfer Policies

Foreign investors in capital markets and foreign direct investment projects are guaranteed the right to repatriate dividends and capital under Decree 2095. However, the Law Governing the Foreign Exchange System (Extraordinary Official Gazette No. 4,897 dated May 17, 1995) permits the executive branch to intervene in the foreign exchange market "when national interests so dictate." The government exercised this option during the 1994-95 financial crisis and placed restrictions on foreign exchange conversion or repatriation for investors. These restrictions were eliminated with the end of foreign exchange controls on April 22, 1996. The government has repeatedly stated that it has no intention of reinstating exchange controls.

Expropriation and Compensation

There have been no expropriations in the recent past. Expropriations, particularly of foreign-owned property, are not expected.

Dispute Settlement

Decree 2095 allows for the arbitration of disputes as "provided by domestic law." In April 1998, Congress passed the Commercial Arbitration Law (Official Gazette No. 36,430 dated April 7, 1998), which eliminates the previous requirement for a judge, in the first instance, to validate an arbitration clause in a commercial contract, and then, at the end of the process, to approve the ruling of the arbitrage panel. These requirements had severely limited the use of arbitration because of the delays and legal uncertainty involved. Under the new law, arbitration agreements involving national or international firms are automatically binding, eliminating the need for judicial mediation. With the new system in place, arbitration shows great promise as a dispute settlement mechanism.

The Commercial Arbitration Law also allows state enterprises to subject themselves to arbitration in contracts with private commercial entities, but requires that they first obtain the approval of the "competent statutory body," as well as the "written authorization" of the responsible minister. "Competent statutory body" is understood to mean the decision-making body of the state entity responsible for such issues. This had been considered a setback since before the new law, state entities were completely free to include arbitrage clauses in their contracts. However, the practical impact of the new restrictions seems to have been minimal. In the case of PDVSA, for example, the Ministry of Energy and Mines has issued a blanket written authorization (dated April 13, 1998) which allows the company to enter into such arbitration agreements as it deems convenient or necessary.

Venezuela has ratified a series of international agreements on arbitration. Venezuela is a member of the New York Convention on the Recognition and Enforcement of Foreign Arbitrage Awards, and all of Venezuela's bilateral investment treaties provide for international arbitration of investment disputes under the auspices of the World Bank's International Center for the Settlement of Investment Disputes (ICSID).

Contractual arbitration clauses notwithstanding, Venezuela's legal system permits the filing of criminal charges in a situation that a U.S. investor might see as a strictly commercial dispute. Investment disputes are not common, but criminal charges have been filed on several occasions.

Investment Incentives and Performance Requirements

Investment Incentives

Investment incentives take the form of tax credits, income and wholesale tax exemptions, exemption from customs duties, and some tax rebates for selected sectors in the economy. Incentives to encourage production for the export market are available to both domestic and foreign companies.

— Investments in the agricultural, agro-industrial, fisheries, fish-breeding, construction, electricity, telecommunications, science and technology, certain hydrocarbon-related industries, livestock, and tourism sectors are granted an income tax credit equivalent to 10 percent of the sum of new investments made in the five year period ending July 1, 2004, under provision of the Income Tax Law. Such tax credits are usually for five years from the date of the investment and exclude land. Investors must return tax rebates to the government if an investment is withdrawn before its fourth anniversary.

— Article 45 of the new Value-Added Tax Law (Official Gazette No. 5341, dated May 5, 1999) gives the tax office the authority to grant investors exoneration from VAT levies if they are engaged in new industrial projects in the pre-operative stages of development. The exoneration can last up to five years or until the pre-operating period terminates, with the possibility of extensions.

— Article 49 of the Organic Law of Concessions on Public Works and Services (Extraordinary Official Gazette No. 4719 dated April 26, 1994) allows companies holding concessions for public works and services to be exempt from payment of income taxes.

— Exporters may make use of special customs procedures aimed principally at raising the competitiveness of non-traditional exports by suspension or refund of duties on imports that local producers incorporate into their export production. Mechanisms include temporary admission for inward processing, drawback, and replenishment of inventories, in-bond warehousing, and refund of the wholesale tax.

Decree 1217 (Official Gazette No. 35,907 dated February 26, 1996) updated the norms for debt-for-equity swaps to provide incentives for new direct foreign investment entities and reduce Venezuela's external debt stock. The decree expanded the use of this instrument for a wide range of sectors: agriculture; industrial production or high technology services; petrochemical, coal, processed wood, wood pulp and its byproducts production; production and acquisition of capital goods and services; tourism; and construction of houses, medical facilities, or other structures related to social welfare interests.

Performance Requirements

Venezuela adopted a common automotive policy with Colombia and Ecuador on September 13, 1993, which established the Andean Auto Regime, a plan that set up local content "goals" for cars assembled within these three countries. The tariff on the locally assembled cars was far lower than that on imported vehicles. This tariff regime, combined with a ban on the importation of used cars, encouraged foreign auto companies, including General Motors, Ford and Chrysler-Daimler, to set up assembly plants in Venezuela. The Andean Auto Regime lasted until January 1, 2000, when the Venezuela, Colombia and Ecuador Governments were forced to abandon local content requirements as part of their obligations to the WTO. The three countries have proposed a new, unspecified scheme that they say complies with the WTO.

The Venezuelan Government also enforces a "one-for-one" policy that requires foreign musical performers giving concerts in Venezuela to share stage time with national entertainers. There is also an annual quota regarding the distribution and exhibition of Venezuelan films; a requirement that at least half of television programming be dedicated to national programs; and a requirement that a least half of the FM radio broadcasting from 7 a.m. to 10 p.m. be dedicated to Venezuelan music.

Right to Private Ownership and Establishment

There are no limits on foreign ownership, except as noted in Decree 2095 and in "special laws" (see above).

Protection of Property Rights

Foreign investors may pursue property claims through Venezuela's legal system, but procedures are lengthy and judgments are uneven. The Chavez Government has begun a thorough judicial reform, but it is too early to say how great a difference this effort will have on foreign investors.

Intellectual Property Rights

Intellectual Property Rights protection in Venezuela has improved significantly over the past few years, but U.S. companies continue to express concern about inadequacies in the enforcement of patents, trademarks and copyrights. There is still widespread piracy of well-known trademarks, videos, software and other protected works. Venezuela remained on USTR's Special 301 "Watch List" for the annual review completed in April 2000.

Venezuela is an active member of the World Intellectual Property Organization (WIPO) and a signatory to the Bern Convention for the Protection of Literary and Artistic Works, the Geneva Phonograms Convention, the Universal Copyright Convention and the Paris Convention for the Protection of Industrial Property. Venezuela has ratified and is still in the process of implementing the provisions of the WTO Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS).

Patents and Trademarks

Venezuela's legal framework for patent and trademark protection is currently provided by Andean Pact Decision 344 and, to a lesser extent, the 1955 National Industrial Property Law. Decision 344, which came into effect on January 1, 1994, specifically provides for the patentability of pharmaceutical products, except those listed on the World Health Organization list of essential medicines, and expressly protects the rights of the holders of famous trademarks. Andean Community Decision 345 covers patent protection for plant varieties. The government introduced legislation in early 1996 to update the 1955 Industrial Property Law to bring Venezuela into compliance with TRIPS. The draft legislation has been prepared, but was sidelined by President Chavez' constitutional reform process, which replaced the old Congress with a new, interim "Little Congress" in December 1999. The new Industrial Property Law should be on the agenda of the new Congress to be elected in late July 2000.

In recent years, the protection of trademarks has improved. In May 1999, the Trademark Office (SAPI) received a new director who has updated the agency's computer systems and significantly modernized its procedures. Nonetheless, significant resource limits and continuing problems remain. SAPI has significant resource limits and a number of U.S. companies — Home Depot and Pfizer, for example, — remain locked in lengthy disputes in the courts over their trade names or patents. In addition, the legal environment is problematic. For example, the new Venezuelan constitution approved in December 1999 guarantees intellectual property rights. At the same time, it also forbids the patenting of the genes or genome of any living being, a provision that could hinder medical research. It also protects the knowledge of indigenous peoples from patenting.

A new customs law, which includes provisions for TRIPS-consistent border controls to impede the importation of pirated goods, became law in November 1998. Reportedly, there are still gaps in the law's enforcement. At the initiative of Venezuela, the Andean Community began meeting in January 1998 to negotiate a modification of Decision 344 to bring it into compliance with TRIPS. As of June 2000, these negotiations are continuing. Andean Community members still have to settle their differences over patents of second use and patents for plants and genetic substances.

Copyrights

The legal framework for the protection of copyrights is provided by Andean Pact Decision 351 and Venezuela's 1993 Copyright Law. The 1993 Copyright Law is modern and comprehensive and extends copyright protection to all creative works, including computer software. A National Copyright Office was established in October 1995 and given responsibility for registering copyrights, as well as for controlling, overseeing and ensuring compliance with the rights of authors and other copyright holders. The government formed a special anti-piracy unit (COMANPI) in July 1996 to act as an enforcement arm of the National Copyright Office. This five-officer police unit has the power to seize goods, make arrests and close establishments for violations of the law. However, it can only act based on a complaint by a copyright holder; it cannot carry out an arrest or seizure on its own initiative. COMANPI works closely with private sector representatives of the U.S. copyright industry, who provide the unit with intelligence information, financial backing and training.

On March 25, 1997, President Caldera issued a decree (Official Gazette No. 36,192 dated April 24, 1997) creating a new Intellectual Property Office (SAPI), merging the Industrial Property Office (SARPI) with the National Copyright Office. SAPI began operations in May 1998 and has improved patent and copyright protection, particularly in those cases covered by Andean Decision 344.

Venezuela does not automatically recognize foreign patents, trademarks or logos, so foreign investors should be sure to register patents and trademarks appropriately and in as many categories as are applicable. It is advisable not to have agents or distributors do this in their name because the agent can claim that he/she is the registered owner of the trademark in question.

Transparency of the Regulatory System

Legal Environment

The Government of Venezuela adopted three new laws in the early 1990s to promote free market competition and prevent unfair trade practices: an Anti-Trust Law (Official Gazette No. 34,880 dated January 13, 1992), an Antidumping Decree (Official Gazette No. 34,230 dated May 30, 1989), and a Consumer Protection Law (Extraordinary Official Gazette No. 4898 dated May 17, 1995). The Consumer Protection Law strengthens criminal penalties for ill-defined offenses involving profiteering or manipulation of markets.

Venezuela passed a new government procurement law that came into effect on November 1, 1999. The law increases transparency in the competitive bidding process for contracts offered by the central government, national universities, and autonomous state and municipal institutions. The law requires a contracting agency to prepare a budget estimate for a given purchase based on reference prices maintained by the Ministry of Production and Commerce. This estimate is to be used in the bidding process. Technically, the law forbids discrimination against tenders based on whether they are national or international. However, the law also states that the President can mandate temporary changes in the bidding process "under exceptional circumstances" or in accordance with "economic development plans" to promote national development or to offset adverse conditions for national tenders. These measures can include margins of preference in price, contracts reserved for nationals, and other requirements in areas of domestic content, technology transfer, the use of human resources, and incentives to purchase from companies domiciled in Venezuela. The full effects of the new law will not be felt until implementing legislation has been enacted and until it becomes clear how often the Executive intends to exercise the discretionary powers it has acquired.

Venezuela's Criminal Environmental Law (CEL) (Extraordinary Official Gazette No. 4358 dated January 3, 1992), which entered into force April 4, 1992, established regulations comparable to those in the United States and Europe. A major difference is that the CEL permits the court system to impose prison sentences for violations of the law. The CEL has been criticized as being too vague in certain sections and for extending overly broad criminal liabilities.

Decree 2289 (Extraordinary Official Gazette No. 5212 dated February 12, 1998) contains new rules and regulations governing the handling and disposal of toxic and hazardous waste, and defines a new set of environmental liabilities, especially for the petroleum sector. Some investors have expressed concern that Venezuela's infrastructure is inadequate to meet regulatory standards set by both the CEL and Decree 2289. Several U.S. subsidiaries have had to export their industrial and hazardous waste out of the country due to the lack of adequate disposal facilities in Venezuela.

Tax Treatment of Foreign-Owned Firms

There are several different corporate tax regimes to which foreign investors could be subject, depending upon the type of economic activity in which they are engaged. Venezuela has international double taxation agreements in the areas of air and sea transport with several countries, including the Unites States. A US/Venezuelan double taxation treaty was ratified in 1999.

All companies and individuals are required to register with the national tax authority (SENIAT). Income received from any economic activity carried out in Venezuela is subject to taxation. Except for the petroleum sector, the current Venezuelan income tax law does not differentiate between foreign-owned and Venezuelan-owned firms. The maximum and most widely applicable individual and corporate tax rate under the current income tax law (Extraordinary Official Gazette No. 4727 dated May 27, 1994) is 34 percent for tax years commencing on or after July 1, 1994. The capital gains tax is currently 1 percent, and dividends are free of tax. Numerous municipalities in Venezuela also apply taxes on gross revenue. These taxes have ranged from 0.1 percent to approximately 10 percent and are deductible from the corporate income tax.

A one- percent business assets tax is imposed by the Business Assets Law (Extraordinary Official Gazette No. 4654 dated December 1, 1993). The assets tax is assessed on the gross value of assets (with no deduction for liabilities) after adjustments for depreciation and inflation. The assets tax is deductible for income tax purposes.

With the passage of the Enabling Law in April 1999, the Chavez administration began making important changes to the tax system in an effort to raise revenues and close the government's budget deficit. On May 14, 1999, the government imposed a 0.5 percent bank debit tax, which was allowed to expire at the end of the first quarter of 2000 when surging petroleum revenues made the tax unnecessary. On June 1, 1999, the government replaced its wholesale tax (ICVSM) with a value-added tax (IVA). The value-added tax rate is 15.5 percent, one percent lower than the rate of the wholesale tax it replaces. The government reduced the tax to 14.5 percent. The new tax eliminates some exemptions, however, in an effort to broaden the tax base and raise revenues.

Companies with operating contracts for marginal fields under the oil opening pay the 34 percent income tax. Producers of light, medium and heavy crudes under exploration and production agreements are subject to a 16.67 percent royalty and a 67.7 percent income tax established for these activities. The government's share of profits (Participación del Estado en las Ganancias or "PEG") is calculated as a percentage of profits from the sale of production in each development area before income taxes and after deducting for operating (but not financing) costs, depreciation, and any applicable production taxes (primarily the royalty tax). Joint ventures with state oil company PDVSA in the development and refining of heavy and extra-heavy crudes and the processing of unassociated natural gas are subject to a 16.67 percent royalty payment and a reduced income tax rate of 34 percent.

Companies operating under mining concessions from the state are also covered by "special rules." The Mining Law stipulates that a Surface Tax be paid annually according to the number of hectares allocated.

Capital Markets and Credit Markets

Capital Markets

Access to the Venezuelan secondary capital market is relatively easy, and U.S. firms essentially enjoy national treatment. Foreign companies may issue common and preferred stock, bonds, and other securities in Venezuelan capital markets. Foreign investors may also buy shares directly in national or mixed companies or on the stock exchange.

The Caracas Stock Exchange (CSE) is a privately owned corporation in operation since 1947. The Venezuelan Futures and Options Clearinghouse (CACOFV), the first market of its kind in the country, started operations in Caracas in September 1997. Membership in local capital markets is open to both individuals and legal entities.

Trading on Venezuelan stock exchanges is thin and highly concentrated. In 1999, the value of trades on the Caracas Stock Exchange totaled $1.5 billion, representing a 49 percent fall from the previous year. Several factors affected the volume of transactions during 1999, including the financial transaction tax and the political uncertainty regarding the process of constitutional change inaugurated by President Chavez. In addition, some Venezuelan capital migrated to New York through American Depository Receipts (ADRs) issued by thirteen Venezuelan companies. Three quarters of the securities transactions of these thirteen companies were carried out in New York. For the first half of 2000, the CSE index was up 29 percent from its 1999 close. At the end of April 2000, US-based AES Corporation offered USD 851 million for 51 percent of Electricidad de Caracas (EDC) stock. EDC was then Venezuela's largest publicly traded company. (AES subsequently purchased EDC in June.) The AES offer and historically low stock prices led to an increased demand for stock in Venezuelan companies and a consequent rise in the CSE index. AES was ultimately successful in its bid, but the company purchase of 81 percent of the stock effectively removed one of the most traded stocks from the exchange rising concern about the health of the exchange itself.

The CSE index has been affected by continued political uncertainty associated with the approval of the Venezuela's new constitution, pushed by President Chavez, and by the delay of the "mega-elections," postponed from their original date (May 28, 2000) and now scheduled to take place in

July (for national and state offices) and October (for local offices.)

A new Capital Markets Law came into effect in September 1998 (Extraordinary Official Gazette No. 36,565 dated October 22, 1998). It improves the regulation of capital markets. It strengthens and gives greater autonomy to the National Securities Commission (CNV) and modernizes the archives of the National Securities Registrar. It also provides new regulations for intermediaries, establishes new conditions for public offerings, enhances the transparency of brokerage operations, and makes regulations more flexible for small firms that wish to issue stocks.

The Congress passed the Collective Investment Companies Law (Official Gazette No. 36,027 dated August 1996) to foster the development of Venezuela's capital market through the creation of collective investment companies. The law, which is designed to make capital market investments more attractive for small and medium investors, opened the door to the establishment of mutual funds, collective investment venture capital companies, and collective real estate investment companies. CNV issued new capital requirements for collective investment companies (Official Gazette No. 36,027 dated April 22, 1998) which took effect in October 1998.

State oil company PDVSA created the Oil Investment Development Group (SOFIP) in late 1996 based on the Collective Investment Law to finance its projects and to give individual Venezuelan investors a stake in the oil industry. SOFIP's first foray into the capital markets in February 1997 was the issuance of Bs. 20 billion ($35.7 million) worth of petrobonds, which opened up a new investment option for thousands of average Venezuelans. Almost 35,000 small investors bought bonds, spending an average of Bs. 530,000 ($946) each. PDVSA plans to issue another Bs. 40 billion ($71.4 million) worth of petrobonds over the next two years. The sale of the first petrobonds was limited to domestic investors, which included local banks and mutual funds. The first bonds also had a fixed rate of return, but future bonds will have variable rates of return tied to the performance of the individual project for which they are issued.

In addition to issuing bonds, SOFIP has created the Exploration and Production Fund (EPIC), whose shares will be listed on the CSE. The EPIC will be based on the operating contracts for "marginal" oil fields that were auctioned off in June and August 1997. Under the terms of the operating contracts, EPIC has the right to purchase up to a 10 percent stake in each operating contract. Minimum investment amounts will be Bs. 150,000 ($250); Venezuelan nationals investing more than $10 million are eligible for a 5 percent discount. The planned issue of $400 million in shares by EPIC would be the single largest placement on the CSE in history. However, the offering has been postponed for an indefinite period of time due to low oil prices and the weakness of the local stock market. EPIC also plans to offer shares from the Petrozuata Extra-Heavy Oil Association in the Orinoco Belt, Chevron's Boscan Field in Zulia and up to a 5 percent interest in any of the eight exploration and production agreements.

Credit Markets

The Venezuelan financial system has recovered from the 1994-95 financial crisis that affected over 50 percent of the deposit base. The crisis was the result of deregulation and lax supervision, which led to increased risk-taking and insider lending by commercial banks. There has been a trend toward consolidation and concentration in the sector, which is expected to continue. The purchase of several intervened banks by large foreign banks has also injected much needed capital, technology and competition into the sector. Foreign banks have also taken a minority interest in several other local banks. Consequently, foreign banks now control half of banking sector assets. Both foreign and local bank regulators now supervise these foreign-owned banks.

There are 39 banks currently operating in the country, but that number is expected to be reduced in the coming years. New banking legislation has reinforced the autonomy of the Central Bank and strengthened the powers of the Bank Superintendency. The Bank Superintendency can now require fuller disclosure, higher capitalization levels and larger provisions for non-performing loans.

Total financial system assets increased from $25.7 billion at the end of 1998 to $27.1billion at the end of 1999. Since late 1996, fifteen banks (Provincial, Mercantil, Citibank, Exterior, Interbank, Caroni, Banesco, Banco de Venezuela, Banco del Caribe, Banco Republica, Banco Caracas, Banco Confederado, Banco Bolivar, Corp Banca, and ABN AMRO Bank, N.V.) have received authorization to become universal banks. Citibank is currently the only U.S. bank operating branches in Venezuela. Chase Manhattan was authorized to establish a subsidiary by the Bank Superintendency in May 1998; it plans to focus on corporate customers. Bank of America also received permission to open a commercial branch in August 1998.

Financing is available from a variety of sources and does not discriminate against foreign investors seeking access to credit. Banks cannot lend more than 10 percent of their assets to any one borrower. Venezuela remains “under-banked” from a service point of view, but the entry of foreign banks and the return of relative financial stability have improved the quantity and quality of services offered.

Political Violence

There are no confirmed recent incidents of politically motivated damage to foreign-owned or -operated companies, projects or installations in Venezuela. Foreign interests, including some U.S. interests in mining, have been affected by vandalism, hostilities and thefts by small-scale local miners who oppose the granting of concessions to the larger foreign firms. In the petroleum sector, unrest generated by growing unemployment (brought about in part by OPEC-mandated production cuts) has led to periodic occupations of production facilities and the blocking of access roads. There is also a growing incidence of kidnapping for ransom of farmers, ranchers and businessmen along the Colombian border. One U.S. businessman was kidnapped in the summer of 1997 while on a fishing trip in Apure State near the western border of the country. He was later released.

Corruption

Corruption is a serious problem in Venezuela. Venezuela has a regulatory system to prevent and prosecute corruption; accepting a bribe is a criminal act. Penalties include fines and/or prison sentences. Historically, the country has lacked an effective judicial system to provide judicial security for either foreign or national residents. During the last year, the Chavez government has replaced many justices accused of corruption as part of its attempt to overhaul the Venezuelan political system. The new constitution also gives the central government enhanced powers to investigate cases of corruption and oversee the use of government funds.

Government tenders are the most vulnerable to corruption because the tender process frequently lacks transparency, a problem that may be lessened by the new procurement law. Dealing with PDVSA is considered transparent and fair by participating foreign oil companies. PDVSA, for example, was widely lauded for the way it handled the third round of bidding on Marginal Field operating contracts in 1997.

The Comptroller has primary investigative responsibilities for corruption cases involving public officials and entities. The Technical Judicial Police (PTJ) organization also has the power to open cases. Many cases of fraud and mismanagement are pending against fugitive private bankers for actions that helped cause or aggravate the 1994-95 financial crisis.

Bilateral Investment Agreements

Venezuela has bilateral agreements in force for the promotion and protection of investment with the following countries: Argentina, Brazil, Barbados, Canada, Chile, Costa Rica, the Czech Republic, Denmark, Ecuador, Germany, Lithuania, Netherlands, Paraguay, Peru, Portugal, Spain, Sweden, Switzerland, and the United Kingdom. Agreements have also been signed with Cuba, France, Italy and Uruguay, but are still awaiting Congressional approval. An agreement has been initialed with Belgium/Luxembourg, while negotiations have been held with Austria, Australia, Finland, Kuwait, Indonesia, Norway, Poland, Romania, Russia, Saudi Arabia, Trinidad and Tobago, Turkey and the United States.

Venezuela proposed to the U.S. in May 1997 that negotiations for a bilateral investment treaty (BIT), which had been suspended since 1993, be resumed. The two countries began working on the BIT with a preliminary round of consultations in July 1997, and negotiations continued until March 1998, when the Venezuelan side decided to undertake consultations at home. Consequently, talks became deadlocked as domestic opposition surfaced to several key provisions of the BIT, including technology transfer, investor access, and compensation for wanton destruction of investors’ facilities. After the Chavez government came to power in January 1999, informal contacts between the two sides resumed, and these contacts could lead to a resumption of formal negotiations sometime during 2000. The new Investment Promotion and Protection Law passed in October 1999 possesses some potentially BIT-friendly features, including guarantees of access to international arbitration for investors from countries that have BITs with Venezuela. The investment treaties that Venezuela has signed or is negotiating with other countries are not as comprehensive as the U.S. prototype agreement.

OPIC and Other Investment Insurance Programs

Venezuela participates in the Overseas Private Investment Corporation (OPIC) country program. The U.S. signed an Investment Incentive Agreement with Venezuela on June 22, 1990, thereby granting investment insurance and guarantees by OPIC. The Government of Venezuela approved Foreign Government Approval (FGA) procedures on January 17, 1991.

Venezuela has also joined the World Bank’s Multilateral Investment Guarantee Agency (MIGA). MIGA encourages foreign investment in developing countries by providing investment guarantees against risks of currency transfer, expropriation, war and civil disturbance, and breach of contract by the host government. It also provides advisory services to developing member countries on the means of improving their attractiveness to foreign investment.

Labor

Venezuela's total labor force (defined as all persons 15 years of age and older who are working or looking for work) was 10.15 million at the end of March 2000. According to the government's Central Office of Statistics, 1.6 million, or 15.3 percent, were unemployed. The true level of unemployment is probably higher since the government counts underemployed persons as employed in its statistics. Of the 8.6 million employed workers, an estimated 4.5 million work in the informal sector (i.e. as street vendors, domestics, small entrepreneurs, etc.). The government employs about 1.3 million of those who work in the formal sector. This number represents about 15 percent of formally employed workers.

The major labor organization in Venezuela is the Confederation of Venezuelan Workers (CTV), which represents most of the unionized workers in Venezuela. The CTV claims a membership of 3 million, and is especially strong in the public sector.

President Caldera signed landmark legislation in June 1997 (Extraordinary Official Gazette No. 5152 dated June 19, 1997) to reform the outdated and unworkable severance pay system in the Organic Labor Law. The legislation was based on a framework agreement negotiated among representatives from the government, private business and organized labor. Under the previous severance pay system, departing employees received one month's salary (two months if they left involuntarily) for each year worked based on their current pay, making it difficult for employers to forecast future costs and expensive to cut excess workers. The new system does away with "retroactivity" (i.e. basing the entire benefit on current salary) and requires employers to calculate their severance pay obligations annually and to make monthly deposits into a pension fund, an employer account, or an outside trust account. Employers are obliged to pay 45 days of salary for the first year of service, 60 days for the second year, and an additional two days for each subsequent year until 90 days of pay per year is reached.

As part of the transition to the new severance pay system, employees are paid for accumulated benefits at the rate of one month's current salary per year worked. Employees also receive a one-time "transfer compensation" payment, which is calculated on the basis of one month's current salary per year worked, but only up to a maximum of 10 years for those in the private sector and 13 years for those in the public sector. The law specifies that the total transfer compensation payment may be neither less than Bs. 45,000 ($80) nor more than Bs. 3,000,000 ($5,357).

As part of the severance pay reform, all bonuses were converted into salary. This "salarization" of bonuses removed a major distortion in wage policy because severance pay, social security benefits, overtime pay, etc. are based only on salary, not on bonuses. The Organic Labor Law also provides that the minimum wage will be reviewed at least once a year and may be adjusted based on considerations such as the "food basket." A minimum wage of Bs. 144,000 ($211) for urban workers and Bs. 129,600 ($189) for agricultural workers took effect in May 1999. In addition, in a statute passed in late 1998, employers with fifty or more employees must provide workers who earn less that twice the minimum wage (about USD 350 a month) with a meal during each work shift. Employers can do this by providing their own canteen, contracting with a food service or distributing lunch tickets that workers can redeem at food establishments. On May 1, 2000, the Chavez government called for a 20 percent increase in the wages of public sector employees and has recently strongly recommended an equivalent increase in the minimum wage for private sector employees.

In early March, the Chavez government suspended collective bargaining with public sector unions. The GOV proposed a firing freeze and periodic pay increases until new union leadership elections take place in the Fall 2000.

The Venezuelan government is now in the process of reforming the social security system. The Organic Law Pertaining to the Integral Social Security System (Extraordinary Official Gazette No. 5199 dated December 30, 1997) provides the general framework for the new social security structure. Congress passed a social security reform in 1998.

The new law reconstitutes Venezuela's social safety net into five separate subsystems: pensions, health, unemployment and workforce training, housing, and recreation. Among other reforms, Venezuela would create a system of individual savings accounts to replace most government pensions, modeled after similar schemes elsewhere in Latin America. Pension reform in other countries in the hemisphere has played an important role in increasing national savings rates. However, the final impact of the new system in Venezuela remains to be seen since less than 40 percent of the labor force (formal and informal) is contributing to the current system. There are also questions about how the government will finance the new system, as the transition is expected to cost an estimated $4 billion.

The Organic Labor Law places quantitative and total wage cost restrictions on the employment decisions made by foreign investors. Article 27 of the Labor Law requires that the number of foreigners hired by an investor not exceed 10 percent of a company's employees, while salaries paid to foreigners may not exceed 20 percent of the total company payroll. Article 28 allows for temporary exceptions to Article 27 and outlines the requirements for hiring technical expertise when equivalent Venezuelan personnel is not available. Article 20 of the law requires that industrial relations managers, personnel managers, captains of ships and airplanes, and foremen be Venezuelan. Article 19 requires that all orders and instructions to workers be given in Spanish.

The rapid expansion of the petroleum sector and the resulting shortage of qualified Venezuelan workers (i.e. geologists, petroleum engineers, etc.) has made it particularly difficult for U.S. oil companies to comply with the quantitative restriction on foreign employees. However, in general, most U.S. companies say they do not find the restriction to be onerous. In the long run, the much higher cost of employing U.S. workers (which involves moving them and their families to Venezuela and covering their housing and educational expenses) forces U.S. companies to maximize the use of local labor in order to stay competitive. In the short run, U.S. and other foreign companies can hire additional foreign workers on a contract basis as "consultants," which do not count against the 10 percent ceiling.

In early March 2000, the GOV suspended collective bargaining with petroleum unions, but decreed a firing freeze and periodic pay increases until new union leadership elections in the Fall 2000. The proposed period pay increases have been subject to information negotiations between the GOV and the petroleum unions.

Foreign Trade Zones/Free Ports

The Free-Trade Zone Law (Official Gazette No. 34,772 dated August 8, 1991) provides for free trade zones/free ports. The two existing free trade zones are the Paraguana Peninsula on Venezuela's northwest coast (industrial) and Margarita Island (commercial). Under the law, any investor in the Paraguana industrial free zone can receive a 10-year exoneration from income taxes on all profits earned from goods produced for export. The government may extend such benefits for an additional 10 years. Few investors have taken advantage of the tax breaks in Paraguana due to infrastructure problems in the region. Both the Paraguana and Nueva Esparta (Margarita Island) zones provide exemptions from most import and export duties and offer foreign-owned firms the same investment opportunities as host country firms. Venezuela has three free ports that also enjoy exemptions from most tariff duties: Margarita Island, Maracaibo and, the most recent addition to this list established in May 1999, Santa Elena de Uairén in the state of Bolivar. The last location is the site of important cross-border trade with Brazil.

Foreign Direct Investment Statistics

New foreign investment flows increased by 136 percent in 1998 to $1.55 billion, following a 76 percent rise in 1997 (See Table 2). Of the $1.57 billion, $1.2 billion came from the Cayman Islands. This sum represented almost 80 percent of the new investment registered during the period and resulted from an Argentine consortium's purchase of the state steel company SIDOR in 1997-1998. With the exception of large one-time inflows related to the privatization of the state telephone company (CANTV - 1992) and the state steel company, SIDOR, - 1998), direct foreign investment in Venezuela has been relatively stable during the last decade. The reason that the amount of foreign investment has not increased stems from investors concerns regarding a range of issues, including the country's rigid and costly labor code, the historical problems with judicial security, high crime, and uncertainty over the economic policies of various Venezuelan governments. In an effort to stimulate increased foreign investment, the GOV enacted the Investment Promotion and Protection Law on October 22, 1999. This legislation aims to increase security for investors by guaranteeing repatriation of profits, providing for protection in cases of expropriation and authorizing intentional arbitration in investor-state disputes, among other provisions.

Major U.S. Investors

The United States is the single largest foreign direct investor in Venezuela, representing 39.8 percent of the total stock. (See Table No. 3.) Major U.S. investors in consumer products, financial services, manufacturing, pharmaceuticals, and telecommunications include: AETNA, AT&T, American Cyanamid Co., Aluminum Company of America (ALCOA), A.V.C.O. International, Avon Product Corp., BellSouth Enterprises, Black & Decker, Bristol Myers Squibb, Chase Manhattan, Citibank, the Coca-Cola Company, Colgate-Palmolive Co., Continental Can Co., Chrysler, Dow Chemical Co., Eastman Kodak Co., Firestone Tire and Rubber Corp., Ford Motor Co., General Electric Co., General Motors Corp., Gold Reserve, GTE, Hylsa Latin LLC, Tamsider LLC, I.B.M., Kraft Inc., Liberty Mutual, Minnesota Mining & Manufacturing Inc., Pfizer Corp., Philip Morris, Proctor & Gamble Co., Ralston Purina Co., Revlon International Corp., Reynolds International Inc., SAIC, Warner Lambert & Company, and Westinghouse Electric Corp. Several U.S. franchise chains operate in Venezuela including: PepsiCo (Pizza Hut/Kentucky Fried Chicken), McDonalds, Burger King, Wendy's, Dunkin' Donuts, California Roasters, Domino's Pizza, and Blockbuster Video.

Liberalization of the electricity sector has generated significant investment by U.S. firms, including AES, CMS, and PSEG.

Energy Sector

The opening of the petroleum sector to public and private sector investment for operating contracts for marginal oil fields, for the exploration and production of light, medium and heavy crudes, and for natural gas and extra-heavy oil projects has attracted many U.S. petroleum companies to Venezuela including: Benton, Chevron, Coastal Petroleum, Conoco, Enron, Exxon, LL&E, Mobil, Pennzoil, Phillips, Samson Hydrocarbon, Texaco, and Williams International. Other petroleum and petroleum related investors include Astra, Amoco, China National Petroleum Corp., Nomeco, Elf-Aquitaine, Lasmo, Maxus, Norcen Energy Resources Ltd., Norsk Hydro, Nippon, PanCanadian, Perez Companc, Preusagg, Repsol, Shell, StatOil, Tecpetrol, Teikoku Oil, Total, Veba Oel AG, and Wascana.

Third-Country Investors

Major third-country investors in Venezuela include AGA A.B., Allied-Lyons Netherlands B.V., Anglo-American, Atlas Copco Venezuela, Bayer, Banco Bilbao Vizcaya, British American Tobacco, BHP, Ciba-Geigy, Citadel Corp., Fiat, Grupo Infisa, Grupo Santander, Guinness Distillers, Hitachi de Venezuela, Hoechst, Kobe Steel, Marubeni, Mitsubishi Corp., Nestle, Panasonic, Parmalat, Pfizer, Placer Dome, Shell, Showa Denko K.K., Siderar S.A., Siemens, Sony, Sumitomo Aluminum, Toyota, The Unilever Group, Usiminas, The Vestrey Group, and Wella. Dutch Banks ING and ABN-AMRO opened commercial banking operations in Venezuela in 1995 and Banco Ganadero of Colombia has a retail office in Caracas. The “re-privatization” of banks taken over by the state during the 1994-95 financial crisis has brought several new foreign investors to Venezuela. In December 1996, Grupo Santander of Spain bought Banco de Venezuela, the third largest bank in the country in terms of total assets, while Grupo Infisa of Chile bought Banco Consolidado (now CorpBanca), the country’s sixth largest bank. Also in December 1996, Banco Bilbao Vizcaya of Spain purchased a controlling interest in Banco Provincial, Venezuela’s largest bank.

VIII. TRADE AND PROJECT FINANCING

The Venezuelan Banking System

The Venezuelan banking sector continues to recover from a serious financial crisis in 1994 and 1995, which affected more than 50 percent of the deposit base and is estimated to have cost the country between 15 percent and 18 percent of GDP. The crisis was the result of an economic recession, along with deregulation, lax bank supervision, directed lending, and poor credit practices. In response, the bank supervisory authorities have taken steps to stabilize the banking sector. For example, new banking legislation strengthened the supervisory authority of the Superintendency of Banks (SUDEBAN), although the Financial Emergency Law - passed during the collapse of the financial system - remains in effect and restricts SUDEBAN from acting as a fully independent entity. Significant foreign penetration into Venezuela is also credited with helping to restore confidence in the banking sector. However, the banking sector presently is under renewed pressure because of the continuing domestic recession. Although there are some signs of economic growth, bankruptcies have become more noticeable. The collapse of a small investment bank, Cavendes, has drawn a lot of attention, but it seems to be an individual case and the larger banks appear able to handle a rising number of problem loans.

The market share of assets and deposits in the Venezuelan financial system is highly concentrated, with 39 commercial and universal banks accounting for 85.9 percent of financial sector assets as of March 31, 2000. The system remains segmented with specialized and legally distinct financial subsections. A new banking law, which became effective in 1994, opened the banking sector to foreign investment. Until January 1994, other than representative offices, foreign banks were only allowed to establish through a joint venture, in which they could a hold a maximum of 20 percent ownership interest. The banking law also lifted onerous operating restrictions on established foreign banks that prevented them from expanding or offering a competitive range of services. Foreign banks control almost 50 percent of the banking system's assets (up from 3 percent in 1993), a reflection of the government's massive bank reprivatization effort in 1996-97.

Foreign banks perceive Venezuela as an attractive market because of the country's low banking penetration (gross loans represent only 11 percent of GDP) relative to other Latin economies of similar size, and the opportunities associated with the investments taking place in the oil and petrochemical sectors. Additionally, the relatively small size of the banking system is an impediment to locally incorporated banks as their lending capacity is insufficient to meet the needs of large industrial customers. The latter represents a business opportunity for most foreign banks.

Although foreign banks maintain an important presence in Venezuela, Citibank is the only U.S. bank with banking operations in Venezuela other than a representative office. At the end of March 2000, Citibank held 2.9 percent of universal and commercial bank total assets, and operated through seven branches. Chase Manhattan and the Bank of America National Trust & Savings Association have received permission to open branches. There are no differences in the licensing requirements and permissible activities for locally incorporated and foreign banks. However, the local capital of the branch rather than the consolidated capital of the parent bank is used to compute the branch's legal lending limit and other capital driven thresholds, in effect eliminating many of the benefits of establishing in branch form.

General Financing Availability

Financing is currently expensive, but readily available. Current short-term borrowing rates are around 34 percent per annum. Longer-term financing is more difficult to obtain as the rate of inflation remains a concern, and financial institutions seek to interpret the Central Bank's exchange rate policy and the strength of the bolivar. Demand for short-term trade financing in US dollars has increased as foreign banks reopen credit lines to Venezuelan banks; once again borrowers are able to obtain confirmed letters of credit.

How to Finance Exports / Methods of Payment

The recommended methods of selling to Venezuelan buyers remain letters of credit or prepayment, although Venezuelan buyers may have difficulty using either of these because of residual economic uncertainty besetting Venezuela. Other methods, such as sight payment, may not provide sufficient legal protection in Venezuela to the exporter unless all parties to the transaction are well known to the exporter. Suppliers may also be able to use one of the several programs listed below.

Types of Available Export Financing and Insurance

Agriculture: Venezuela benefits from several USDA programs that assist U.S. agricultural exports. The primary such program is the Export Credit Guarantee Program, or GSM-102. This provides coverage of commercial credits extended to finance exports, for credit periods up to 3 years. The FY 2000 program provides for coverage of up to USD 450 million for U.S. exports to the Andean Region (including Venezuela) of wheat, feed grains, oilseeds, oil meals, and other products.

USDA also administers two other GSM programs to facilitate exports. The Supplier Credit Guarantee Program shares risk between the U.S. Government and the exporter and is generally focused on consumer-ready foods and beverages. The Facilities Credit Guarantee Program provides short-term guarantees to U.S. exporters of equipment and machinery used in food processing and handling.

Venezuela is also eligible to import milk and milk products at reduced costs with export assistance provided to U.S. exporters from USDA's Dairy Export Incentive Program (DEIP).

Merchandise: The U.S. Export-Import Bank (Eximbank) is active in Venezuela, providing guarantees and insurance for exports to Venezuela. Minimum transaction sizes, exposure fees charged based on the creditability of Venezuela and other requirements may limit the applicability of Eximbank support. The Export-Import Bank and the Venezuelan government signed a Memorandum of Understanding on June 22, 1999 to provide up to USD 1 billion in credit during the next two fiscal years. These loans are designed to support small and medium-sized enterprises that use U.S. products.

Project Financing

The International Bank for Reconstruction and Development (IBRD), Inter-American Development Bank (IDB), the Andean Development Corporation (CAF) and Eximbank all offer project financing in Venezuela. For information on multilateral bank related business opportunities, one should contact:

Office of Multilateral Development Banks
U.S. & Foreign Commercial Service
U.S. Department of Commerce, Room H-1107
Washington, DC 20230
Tel: (202) 482-3399
Fax: (202) 273-0927

The IBRD, a member of the World Bank group makes long-term loans at market-related rates primarily to developing countries. Loans are extended to promote broadly based economic growth and frequently focus on structural adjustment, sectoral reform and individual project lending. Typically, the World Bank does not finance the entire cost of a project, but instead covers components of a project purchased with foreign exchange, which on average is about 40 percent of the total project cost. Each project may cover a wide variety of sectors and can involve anywhere from one to hundreds of separate contracts providing export business opportunities for suppliers worldwide. For further information on IBRD business opportunities please contact:

U.S. Department of Commerce Liaison
Office of the U.S. Executive Director
International Bank for Reconstruction
and Development
1818 H Street, NW, Room D-13004
Washington, DC 20433
Tel: (202) 458-0118
Fax: (202) 477-2967

The Inter-American Development Bank (IDB) provides funding to primarily public sector entities for the design and execution of projects. IDB projects afford U.S. suppliers of goods and services significant export opportunities, mainly in the transportation, environment, health, education, urban development, tourism, agriculture, and energy sectors. U.S. firms seeking information on IDB-financed commercial opportunities should contact:

U.S. Department of Commerce Liaison Officer
Office of the U.S. Executive Director
Inter-American Development Bank
1250 H Street, NW, 10th Floor
Washington, DC. 20005
Tel: (202) 942-8265
Fax: (202) 942-8275

List of Venezuelan Commercial Banks

Banco Provincial
Banco Mercantil
Banco de Venezuela
Banco Union
Banco Industrial de Venezuela
Banco Caracas
Corp Banca
Banco del Caribe
Banesco
Interbank Banco Internacional
Banco Occidental de Descuento
Citibank
Banco Federal
Banco Venezolano de Credito
Bando Exterior
Banco de Lara
Banco Fivenez

IX. BUSINESS TRAVEL

Business Customs

U.S. companies interested in selling to the Venezuelan Government should note that, according to Venezuelan law, all correspondence must be in Spanish. Companies that write to a government agency in English will probably not receive a reply. Government officials are not permitted to conduct official business in any other language than Spanish.

Venezuelan importers prefer to buy directly from the manufacturer, instead of going through intermediaries. U.S. exporters that are not manufacturers should try to associate themselves closely with the U.S. manufacturer, whenever possible.

Weekends and holidays are generally off-limits for business meetings with Venezuelans; these times are reserved for family. Christmas holidays last from December 15 through January 15. No business travel should be attempted during this period.

Travel Advisory and Visas

U.S. travelers may obtain current information on crime, security, areas of instability and other details pertaining to conditions in Venezuela by calling the U.S. Department of State's Bureau of Consular Affairs at (202) 647-5225 from a touch-tone phone; or by fax to (202) 647-3000; or by internet at http://travel.state.gov.

To obtain a Venezuelan business visa you should contact the nearest Venezuelan Consulate. Visitors with business visas are required to pay local income taxes if their stay in the country extends beyond 180 days.

All visitors are required to pay an airport departure exit tax of USD 38.00 or the Bolivar equivalent (currently approximately 26,000 Bolivars) as of June 2000. If travelling on a diplomatic passport, the departure tax is USD 21.00 or the Bolivar equivalent.

Holidays

	Date	Holiday
2000:	Jan 1	New Year's Day
	Mar 6-7	Carnival
	April 19	Declaration of Independence
	April 20	Holy Thursday
	April 21	Good Friday
	May 1	Labor Day
	June 24	Battle of Carabobo
	July 5	Independence Day (Venezuela)
	July 24	Bolivar's Birthday
	Oct 12	Discovery of America
	Dec 25	Christmas Day

2001:	Jan 1	New Year's Day
	Feb 26-7	Carnival
	April 12	Holy Thursday
	April 13	Good Friday
	April 19	Declaration of Independence
	May 1	Labor Day
	June 24	Battle of Carabobo
	July 5	Independence Day (Venezuela)
	July 24	Bolivar's Birthday
	Oct 12	Discovery of America
	Dec 25	Christmas Day

Infrastructure

Transportation

Public transportation in Caracas consists of buses, the metro (subway), and taxis. Taxis are widely available in Caracas. Visitors should use licensed cabs belonging to established taxi companies (recognized by license plates with the word "libre"). Taxi service fees at hotels runs about 50 percent higher than street taxis. Several companies operate a radio-dispatched pick-up service. During the morning rush hour, at mid-day and again in the early evening, it can be extremely difficult to find a taxi.

The Metro is open Monday through Sunday from 5:30 a.m. to 11:00 p.m. and offers an affordable, efficient alternative to taxis. Existing lines are limited, primarily running east-west through the city.

U.S. airlines servicing Venezuela include Delta, United, American and Continental. Many foreign airlines also serve Venezuela, most through Caracas, and a few through Maracaibo. Domestic flights are available to almost all secondary cities of any size. Maiquetia, the international airport serving Caracas, is about 40 minutes from downtown. Expect to pay USD 25-30 in local currency for taxi service from Maiquetia to the city.

Language

Spanish is the official language of the country. Many executives speak English.

Communications

Local mail service is not dependable and important correspondence should not be sent by mail. International courier service should only be used for papers and documents and not include anything else or it will be delayed by Venezuelan customs. Most correspondence is done by fax or email.

Messenger delivery is frequently used within Caracas and other large cities in lieu of the mail (for correspondence, invitations to receptions, etc).

Important documents can be sent via international courier (such as DHL or Federal Express, and

UPS) and are usually received in Caracas within a few days.

U.S. companies should note that Venezuela does not have daylight savings time. The time is the same as U.S. eastern coast time from April 5 to October 25, and one hour ahead the rest of the year.

When attempting to contact someone in Venezuela, it is useful to know usual hours of operation:

a) Office… (Mon-Fri) 8:30-12:30 and 2:30-6:00
b) Stores… (Mon-Sat) 9:00-12:30 and 3:00-7:00
c) Factories…(Mon-Fri) 7:30-4:30 (often closed for holiday December 15–January 15)

Many stores and businesses, particularly in the larger cities, are changing to a continuous operating schedule, but it is still best to ask for the hours of operation.

Newspapers

Newspapers are a very effective medium for advertising a product and attracting an audience to an event (such as a trade show or trade mission).

Caracas has many daily newspapers. “El Universal” and “El Nacional” are the most widely read. There is an English language daily – “The Daily Journal,” which often carries ads for imported products that would appeal to foreigners residing in Venezuela as well as affluent Venezuelans.

Housing

There are only four “five star” hotels in Caracas. Stars are awarded by the Venezuelan Government, and do not correspond to any international standards. Four star hotels are available at much lower rates, but service is at a lower standard, although budget-minded travelers will find many reasonable alternatives. A Four Seasons hotel is under construction and has a tentative opening date of January, 2001.

Following is a list of the main hotels in Caracas:

Hotel Tamanaco Intercontinental
Urbanizacion Las Mercedes
Tel: (582) 909-7111
Fax: (582) 909-7116 /909-7004

Hotel Eurobuilding
Calle La Guairita
Urbanizacion Chuao
Tel: (582) 902-1111
Fax: (582) 902-2189

Hotel Caracas Hilton
Urbanizacion El Conde
Tel: (582) 503-5000

Fax: (582) 503-5003/04

Hotel Gran Melia Caracas
Avenida Casanova
Urbanizacion Sabana Grande
Tel: (582) 762-8111
Fax: (582) 762-7964 / 761.4612

Embassy Suites
Av. Francisco Miranda con Av. El Parque
Urbanizacion Campo Alegre
Tel (582) 266-7677
Fax (582) 266-6556

X: APPENDICES

A. COUNTRY DATA

Population (1999 est.):	23.8 Million
Population Growth Rate:	2.0 pct
Religion:	Roman Catholic
Government System:	Constitutional Republic
Language:	Spanish
Work Week:	44 Hours Max.

B. DOMESTIC ECONOMY

	1998	1999(1)	2000 (2)
GDP at Current Prices (USD Billion)	98.9	101.8	110
Real GDP growth rate (pct.)	(0.1)	(7.2)	2.2
GDP per capita (USD)	4,338	4,426	4,741
Government Spending (pct./GDP)	20.5	24.4	32.0
Inflation (pct.)	29.9	20.0	19.0
Unemployment (pct.)	11.0	14.5	13.5
International Reserves	14.8	15.4	20.0
Average Exchange Rate (Bs/USD)	547.6	605.7	697.0
Debt Service Ratio (pct./Exp.)	23.3	17.4	20.2

C. TRADE (USD Billion)

	1998	1999 (1)	2000 (2)
Total Venezuelan Exports	17.6	20.9	31.0
Total Venezuelan Imports	14.8	11.8	13.5
Exports to the U.S.	9.3	11.3	16.8
Imports from the U.S.	6.5	5.4	6.2

DEPENDENCE OF ECONOMY ON OIL (1999)

The petroleum industry is directly responsible for:

28 percent of GDP
79 percent of export earnings
50 percent of central government revenues

(1) Preliminary figures
(2) Projection

Sources: Central Bank of Venezuela, MetroEconomica, and Embassy estimates.

D. INVESTMENT STATISTICS

Table No. 1
New Foreign Direct Investment by Country of Origin

	(Millions of Dollars)			% of Total 1999
	1997	1998	1999	
Bahamas	2.0	0.2	75.3	14.3
United States	245.4	122.2	74.2	14.0
Netherlands	17.7	26.5	73.1	13.8
Colombia	9.8	61.4	55.9	10.6
San Martin	0.0	0.0	38.0	7.2
Cayman Islands	4.4	1,203.5	36.5	6.9
Korea	52.2	0.0	31.4	5.9
Sweden	10.0	0.0	25.1	4.8
Spain	118.3	14.9	19.7	3.7
Denmark	12.5	0.1	16.5	3.1
Panama	38.4	28.5	16.0	3.0
Switzerland	8.6	16.2	15.4	2.9
United Kingdom	17.9	8.8	10.6	2.0
Costa Rica	0.0	0.0	9.4	1.8
Chile	1.4	0.0	4.5	0.9
France	6.7	9.6	4.3	0.8
Germany	7.9	10.2	3.7	0.7
British Virgin Islands	26.1	0.0	3.2	0.6
Japan	8.6	13.3	3.1	0.6
Uruguay	0.0	18.7	2.6	0.5
Bermuda	4.9	7.3	2.3	0.4
Aruba	4.5	5.2	2.0	0.4
Mexico	10.7	10.8	1.4	0.3

Curacao	0.0	7.3	1.4	0.3
Argentina	0.7	0.1	0.8	0.2
Canada	30.6	0.0	0.4	0.1
Brazil	1.0	0.1	0.3	0.1
Ecuador	0.0	0.0	0.3	0.1
Barbados	0.2	0.0	0.2	0.0
Austria	8.1	0.0	0.1	0.0
Belgium-Luxemburg	4.3	2.6	0.0	0.0
Italy	1.6	0.2	0.0	0.0
Norway	1.8	0.0	0.0	0.0
Subtotal	656.3	1,567.7	527.7	100.0
Others	8.5	2.7	0.2	0.0
Total	664.8	1,570.4	527.9	100.0

Note: Data does not include petroleum, mining, and banking and insurance sectors
Source: Venezuelan Council for Investment Promotion (CONAPRI)

Table No. 2
New Foreign Direct Investment By Economic Sector

	(Millions Of Dollars)			Percent Of Total 1999
	1997	1998	1999	
Manufacturing industry	253.9	1,358.6	254.4	48.2
Wholesale and retail trade	23.0	41.2	80.0	15.1
Construction	32.7	19.2	42.5	8.1
Other financial services	163.4	90.5	40.4	7.6
Transportation, storing, and Communications	4.7	9.3	38.1	7.2
Electricity, gas, and water	4.0	30.4	37.0	7.0
Agriculture	49.2	0.2	16.7	3.2
Culture Services	-	1.7	6.7	1.3
Other	133.9	19.3	12.1	2.3
Total	664.8	1,570.4	527.9	100.0

Note: Data does not include petroleum, banking and insurance sectors.
Source: Venezuelan Council for Investment Promotion (CONAPRI) and Embassy estimates.

Table No. 3
Stock of Foreign Direct Investment by Country of Origin
(As of December 31 of each year)

In Millions of USD

	1997	1998	1999	%of total	%of change
United States	3,778.5	3,900.7	3,974.9	37.3	1.9
Cayman Islands	474.9	1,678.4	1,714.9	16.1	2.2
Netherlands	773.7	800.2	873.3	8.2	9.1
Switzerland	473.8	490.0	505.4	4.7	3.1
Panama	357.4	385.9	401.9	3.8	4.1
United Kingdom	357.4	380.6	391.2	3.7	2.8
Japan	364.2	377.5	380.6	3.6	0.8
Spain	271.3	286.2	305.9	2.9	6.9
France	235.8	245.4	249.7	2.3	1.8
Italy	192.3	192.5	192.5	1.8	0.0
Colombia	68.5	129.9	185.8	1.7	43.0
British Virgin Islands	160.5	160.5	163.7	1.5	2.0
Canada	134.8	134.8	135.2	1.3	0.3
Curacao	106.0	113.3	114.7	1.1	1.2
Germany	97.2	107.4	111.1	1.0	3.4
Bahamas	31.3	31.5	106.8	1.0	239.0
Sweden	71.7	71.7	96.8	0.9	35.0
Korea	52.2	52.2	83.6	0.8	60.2
Bermuda	61.5	68.8	71.1	0.7	3.3
Belgium-Luxembourg	58.4	61.0	61.0	0.6	0.0
Denmark	43.7	43.8	60.3	0.6	37.7
San Martin	17.7	17.7	55.7	0.5	214.7
Aruba	46.6	51.8	53.8	0.5	3.9
Mexico	21.5	32.3	33.7	0.3	4.3
Austria	22.7	22.7	22.8	0.2	0.4
Chile	17.3	17.3	21.8	0.2	26.0
Uruguay	0.3	19.0	21.6	0.2	13.7
Argentina	18.0	18.1	18.9	0.2	4.4
Costa Rica	5.1	5.1	14.5	0.1	184.3
Brazil	8.4	8.5	8.8	0.1	3.5
Subtotal	8,322.7	9,904.8	10,432.0	97.9	5.3
Others	237.9	223.5	224.0	2.1	0.2
Total	8,560.6	10,128.3	10,656.0	100.0	5.2

Note: Data does not include petroleum, mining, banking and insurance sectors
Source: Venezuelan Council for Investment Promotion (CONAPRI), and Embassy estimates.

E. U.S. AND VENEZUELAN CONTACT INFORMATION

VENEZUELAN GOVERNMENT

Ministerio de la Producción y el Comercio-MPC (Ministry of Production and Commerce, which includes the Department of Agriculture, Industry, Commerce and Tourism)

Ministro Juan Montilla
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Fax: 58-2-574-6383

Ministerio de la Producción y el Comercio-MPC (Department of Agriculture)
Vice-Ministerio de Agricultura (Department of Agriculture)
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Parque Central
Caracas, Venezuela
Tel: 58-2-509-0445/0121/0111
Fax: 58-2-574-2432

Ministerio de Finanzas (Ministry of Finance)
Avenida Urdaneta, Edificio Ramia
Piso 11, Esquina de Carmelitas
Caracas, Venezuela
Tel: 58-2-802-1000/2000
Fax: 58-2-802-2031

Ministerio de la Defensa (Ministry of Defense)
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Caracas, Venezuela
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Fax: 58-2-662-4078

Ministerio del Trabajo y Desarrollo Social (Ministry of Labor and Social Development)
Edificio Centro Simón Bolívar,
Torre Sur, piso 5
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Fax: 58-2-483-5940

Ministerio de Energía y Minas (Ministry of Energy and Mines)
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Fondonorma (COVENIN -Venezuelan Standards Agency)
Director de Seguimineto y Control
Servicio Autónomo
Dirección de Normalización y Certificación de Calidad
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Ministerio de Infraestructura (Ministry of Transportation and Communications)
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Ministerio del Ambiente y de los Recursos Naturales Renovables (Ministry of the Environment and Renewable Natural Resources)
Edificio Centro Simón Bolívar
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Caracas, Venezuela
Tel: 58-2-408-1397/481-1049
Fax: 58-2-483-1148

Ministerio de Salud y Desarrollo Social (Ministry of Health and Social Development)
Edificio Centro Simón Bolívar
Edificio Sur, piso 7
Caracas, Venezuela
Tel: 58-2-481-5573/4292/9101/482-0345
Fax: 58-2-483-8189

Instituto Venezolano de los Seguros Sociales (IVSS) (Venezuelan Institute for Social Security)
Edificio Sede IVSS
Esquina de Altagracia, piso 2
Caracas, Venezuela
Tel: 58-2-862-4715 / 864-1311
Fax: 58-2-861-9713

Fondo de Inversiones de Venezuela (FIV) (Venezuelan Investment Fund)
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Edificio Fondo de Inversiones de Venezuela
Caracas, Venezuela
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Fax: 58-2-505-8126
(Government entity in charge of privatization)

Banco Central de Venezuela
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Fax: 58-2-864-5040

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Comisión Nacional de Telecomunicaciones (CONATEL)
(National Telecommunications Commission)
Calle Veracruz con Calle Cali
Edificio MTC, Las Mercedes
Caracas, Venezuela
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Fax: 58-2-993-0019

Corporación Venezolana de Turismo (CORPOTURISMO) (Venezuelan Tourism Corporation)
Torre Oeste, piso 37
Parque Central
Caracas, Venezuela
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Fax: 58-2-574-2220

Ministerio de Planificacion y Desarrollo (Ministry of Planification and Development)
Torre Oeste, piso 26
Parque Central
Caracas1010, Venezuela
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Fax: 58-2-573-2834

MAJOR STATE ENTERPRISES

Base Metals

Corporación Venezolana de Guayana (CVG)
Guayana Development Corporation
Edf. General de Seguros Piso. 2
Av. La Estancia Chuao Caracas
Tel.: 58-2-991-30-80/ 993-29-21/993-82-12
Fax: 58-2-993-8549 /4306

CVG Internacional: 58-2-993-71-89 and 58-2-991-14-10

Procurement Office in U.S.
CVG International America

7205 NW 19th Street, Suite 500, Airport Corporate Center, Miami, FL 33126
Phone: (305) 470-8100
Fax: (305) 470-8199

Petroleum

Petroleos de Venezuela, S.A. (PDVSA)
Edf. Petroleos de Venezuela
Torre Este, Av. Libertador
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Caracas 1010-A
Tel.: 58-2-708-41-11 Master
Fax: 58-2-46-61

Procurement Office in U.S.:
11490 Westheimer, Suite 800, Houston, TX, 77077
Phone: (281) 588-6333/6382
Fax: (281) 588-6988/6346

Stock Exchange

Bolsa de Valores de Caracas
Av. Venezuela c/calle Sorocaima, Edf. Atrium, Piso 1, El Rosal, Caracas-Venezuela
Tel.: 58-2-905-58-27 Master
Asuntos Publicos: (Public Affairs) 58-2-905-57-05
Fax: 58-2-952-26-40 / 905-5769

Bolsa de Productos e Insumos Agropecuarios de Venezuela, BOLPRIAVEN
Torre El Chorro - PH
Av. Universidad, Esq. El Chorro
Diagonal Banco Union, Caracas
Tel. (58-2) 564.7446 - 564.9556
Fax (58-2) 564.6894

COMMERCIAL/PROMOTIONAL ASSOCIATIONS AND CHAMBERS IN VENEZUELA

In Venezuela:

General

Camara Venezolano-Americana de Comercio e Industria (VENANCHAM)
(Venezuelan-American Chamber of Commerce)
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Fax: 58-2-263-20-60

Federacion Venezolana de Camaras y Asociaciones de Comercio y Produccion (FEDECAMARAS)
(Venezuelan Federation of Chambers and Associations)
Edf. Fedecameras, PH 1 y 2, Av. El Empalme, Urb. El Bosque, Caracas 1050,Venezuela
Apartado de Correos 2568 (Caracas 1010-A)
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Fax: 58-2-742-097 – 730-2097 – 731-1907

Consejo Venezolano de la Industria (CONINDUSTRIA)
(Venezuelan Industry Council)
Av. Principal de Chuao, Edif. Conindustria, Caracas, Venezuela
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Fax: 58-2-991-1737

Consejo Nacional de Promoción de Inversiones (CONAPRI)
(National Council for Investment Promotion)
Av. Francisco de Miranda, Centro Empresarial Parque del Este, Piso 12, La Carlota, Caracas, Venezuela
Apartado Postal 60572 (Caracas 1060-A, Venezuela)
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Fax: 58-2-237-60-28

Consejo Nacional del Comercio y Los Servicios (CONSECOMERCIO)
(National Council for Service Industries)
Av. Este 2 (Av. Andrés Eloy Blanco), Edif. Cámara de Comercio de Caracas
Piso 6, Los Caobos
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AUTOMOTIVE

Camara de Fabricantes Venezolanos de Productos Automotores (FAVENPA)
Esq. Puente Anauco, Edf. Camara de Industriales, Piso 7, La Candelaria
Caracas 1011, Venezuela
Tel.: 58-2-571-36-98/50-91
Fax: 58-2-573-42-21

Camara Nacional de Importadores y Distribuidores de Repuestos Automotores (CANIDRA)
Esq. Puente Anauco, Edf. Camara de Industriales, Piso 2, Ofic. A y B, La Candelaria
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AGRICULTURE

Confederacion Nacional de Asociaciones de Productores Agropecuarios
(FEDEAGRO) (National Confederation of Agricultural Producers)
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BANKING

Asociacion Bancaria de Venezuela
(Venezuelan Banking Association)
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Fax: 58-2-951-49-27/951-25-34

CHEMICALS

Asociacion de Fabricantes de Productos Quimicos (ASOQUIM)
Av. Francisco Solano Lopez , Centro Solano, Piso 1, Oficina 1-A, Chacaito, Caracas 1050, Venezuela
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Fax: 58-2-762-05-97

COMMUNICATIONS

Camara de Empresas de Servicios de Telecommunicaciones (CASETEL)
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COMPUTER HARDWARE AND SOFTWARE

Camara Venezolana de Empresas de Informatica (CAVEDATOS)
(Venezuelan Association of Hardware and Software)
Av. Sucre de Los Dos Caminos, Centro Parque Boyaca, Torre Centro, Piso 19, Ofic.192,
Los Dos Caminos, Caracas, Venezuela
Tel.: 58-2-285-65-20/55-11/84-98
Fax: 58-2-283-55-11
Email: cavedato@telcel.net.ve Webpage: www.cavedatos.org

CONSULTANTS

Camara Venezolana de Empresas Consultoras
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Caracas, Venezuela
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Fax: 58-2-762-26-58

CONSTRUCTION

Camara Venezolana de la Construccion
Av. Casanova, Calle Villaflor, Edf. Centro Profesional del Este, P.H., Ofic. 133, Sabana Grande, Caracas, Venezuela
Tel.: 58-2-761-40-11
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Colegio de Arquitectos de Venezuela
Av. Colegio de Arquitectos, La Urbina Norte, Caracas, Venezuela
Tel.: 58-2-241-8007/ 1313
Fax: 58-2-578-1886/ 1681 – 241-3143

Colegio de Ingenieros de Venezuela
Boulevard Amador Bendayan, Los Caobos, Caracas, Venezuela
Tel.: 58-2-571-3888/ 3944
Fax: 58-2-576-5684/571-6375

Department Stores/Supermarkets
Asociacion Venezolana de Tiendas por Departamento (ATIDE)
c/o GINA
Edif. Gina, Piso 1
4a. Trans. Los Cortijos de Lourdes
Caracas 1050, Venezuela
Tel: 58-2-239-0431/1445
Fax: 58-2-238-5140

Asociacion de Supermercados y Afines (ANSA)
Ave. Principal de los Ruices
Centro Empresarial Los Ruices
Piso 1, Ofic. 116
Caracas 1071, Venezuela
Tel: 58-2-234-4490/235-7558
Fax: 58-2-238-0308

Electricity

Camara Venezolana de la Industria Electrica (CAVEINEL)
Ave. Francisco de Miranda con Calle Elice

Torre Cemica, Piso 5
Chacao
Caracas 1060, Venezuela
Tel: 58-2-264-0203/1192/1592
Fax: 58-2-264-0266/0939

Food/Food Processing

Camara Venezolana de la Industria de Alimentos (CAVIDEA)
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Centro Empresarial
Piso 5, Of. 510
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Caracas, Venezuela
Tel: 58-2-239-9818/0918
Fax: 58-2-238-3268

Franchising

Camara Venezolana de Franquicias (PROFRANQUICIA)
3ra. Transversal de Altamira con Avdas. Luis Roche y Juan Bosco,
Oficentro Neur, Ofc. 5.
Caracas, Venezuela
Tlf. 58-2-266-8494/261-6855/261-8590
Fax 58-2-261-9620

Household/Electrical Appliances

Camara Venezolana de Fabricantes de Artefactos Domesticos,
Industriales, Electricos y Electronicos (CAFADAE)
Puente Victoria a no Pastor
Edif. Centro Parque Carabobo
Torre A, Piso 3, Ofic. 309
Caracas, Venezuela
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Hotels

Asociacion Nacional de Hoteles de Venezuela (ANAHOVEN) & (FENAHOVEN)
Parque Central Torre Oeste, Mezanina 2
Caracas 1010 - Venezuela
Tel: 58-2-574-5672/3994
Fax: 58-2-574-4094

Medical

Asociacion Venezolana de Distribuidores de Equipos Medicos, Odontologicos, de Laboratorios y Afines (AVEDEM)
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Piso 4, Of. Norte 41-A
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Caracas 1060, Venezuela
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Metal Working and Mining

Asociacion de Industriales Metalurgicos y de Mineria de Venezuela (AIMM)
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Petroleum

Camara Petrolera de Venezuela
Av. Abraham Lincoln con C. Olimpo
Torre Domus, Piso 3, Oficina 3-A
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Plastics

AVIPLA (Venezuelan Association of Plastic Industries)
Av. Principal de Macaracuay, Edif. Multicentro Macaracuay
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Fax: 58-2-256-2867

Pulp/Paper

Asociacion Venezolana de Productores de Pulpa Papel y Carton (APROPACA)
Avenida Romulo Gallegos
Edif. Johnson & Johnson, Piso 2, Ofic. 2-B
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Fax: 58-2-234-6542

Safety/Security

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Booz-Allen & Hamilton de Venezuela, S.A.
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MAJOR BANKS

Citibank
Carmelitas a Altagracia. Edificio Citibank. Caracas. Venezuela
Tel: 58-2-806 2211
Fax: 58-2-806 2402
www.citiban.com/venezuela

Banco Mercantil
Av. Andrés Bello con Av. El Lago #1. Edificio Mercantil. Caracas. Venezuela
Tel: 58-2-507 1111 / 1197 / 4072
Fax: 58-2-503 1191 / 0437
www.bancomercantil.com

Banco Provincial
Centro Financiero Provincial. Av. Este O. San Bernanrdino. Caracas
Tel: 58-2-504 5111
Fax: 58-2-574 1964

www.provincial.com

U.S. EMBASSY TRADE PERSONNEL

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Colinas de Valle Arriba
Caracas, Venezuela

Louis Santamaria, Commercial Counselor

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APO AA 34037

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Trade Information Center
Trade Promotion Coordinating Committee
(Access to information on all U.S. Government export assistance programs)
Tel: 1-800-USA-TRAD(E) (872-8723)

Foreign Agricultural Service
Trade Assistance and Promotion Office
U.S. Department of Agriculture
Tel: (202) 720-7420
Fax: (202) 205-9728
Email:

F. MARKET RESEARCH

Agriculture/Food Sector Market Research Completed During the past 12 Months:
All reports may be found on either of the following web sites:
www.fas.usda.gov
www.ers.usda.gov/prodsrvs

Agriculture/Food Sector Market Research to be completed During the Next 6 Months:
1. Hotel, Restaurant & Industry (HRI) Food Service Report for Venezuela
2. Retail Food Sector Report for Venezuela

For More Information on Department of Commerce market research and information, readers are invited to consult the following websites:
Commercial Service - main website = http://usatrade.gov
Commercial Serive - Latin America = http://www.comercioUSA.org
International Trade Administration, U.S. Department of Commerce DC = http://www.ita.doc.gov
American Embassy in Venezuela = http://usembassy.state.gov/venezuela

G. TRADE EVENT SCHEDULE

Agricultural Trade Event Schedule:

Produce Management Association (PMA) Show
Every October
FAS/Caracas recruits industry participants. Contact FAS/Caracas (for more details.

America’s Food and Beverage Show
December 2000
Miami, Florida

FAS/Caracas recruits industry participants. Contact FAS/Caracas (for more details.

Houston Livestock Show & Rodeo

Houston, Texas
February 2001
More than 500 Venezuelan ranchers were recruited for the 2000 show by FAS/Caracas looking for livestock genetics, livestock equipment and veterinary supplies. Contact FAS/Caracas (for more details.

Food Marketing Institute (FMI) Show
Chicago, Illinois
May 2001
More than 140 Venezuelans attended the FMI show in 1999 — most with the FAS/Caracas marketing specialist. Venezuelan attendees recruited by FAS/Caracas (
National Restaurant Association (NRA)
Chicago, Illinois
May 2001
Venezuelan attendees recruited by FAS/Caracas (

Great American Barbecue III
Caracas, Venezuela
July 2001
Hosted by the FAS/Caracas office

NASFT Fancy Food Show
New York, New York
July 2001
Venezuelan attendees recruited by FAS/Caracas (

Non-Agricultural Trade Event Schedule:

1.	Event Name:	Construya Vivienda 2000
2.	Date:	October 23/29, 2000
3.	Location:	Caracas
4.	Product(s):	Construction Equipment/Building Materials
5.	Product Code:	CON/BLD
6.	Type:	Exhibit & Conference
7.	Contact:	Organizacion Expocenter, C.A.
8.	Organizer:	Venezuelan Private Sector

1.	Event Name:	Segur Expo
2.	Date:	October, 2000
3.	Location:	Caracas
4.	Product(s):	Safety & Security Equipment
5.	Product Code:	SEC
6.	Type:	Exhibition & Conference
7.	Contact:	El Mundo de la Seguridad
8.	Organizer:	Venezuelan Private Sector

1.	Event Name:	Expo Franquicias

2. Date: March 8/11, 2001
3. Location: Caracas
4. Product(s): Franchising
5. Product Code: FRA
6. Type: Exhibit & Conference
7. Contact: Prex Internacional, S.A.
8. Organizer: Venezuelan Private Sector

1. Event Name: Visit USA
2. Date: April 23/25, 2001
3. Location: Caracas
4. Product(s): Tourism
5. Product Code TRA
6. Type: Exhibition & Conference
7. Contact: CEA – Conceptos Empresariales Avanzados
8. Organizer: Venezuelan Private Sector

1. Event Name: Comexpo'2001
2. Date: May 23/26, 2001
3. Location: Caracas
4. Product(s): Telecommunications products and services
5. Product Code: TEL, TES
6. Type: Exhibition & Conference
7. Contact: Prex Internacional, S.A.
8. Organizer: Venezuelan Private Sector

1. Event Name: Latin American Petroleum Show (LAPS)
2. Date: July 2001
3. Location: Maracaibo
4. Product(s): Oil and Gas Machinery/Services
5. Product Code: OGM
6. Type: Exhibition & Conference
7. Contact: Celp Group, C.A.
8. Organizer: Venezuelan Private Sector

For contact information on the non-Agricultural events please contact the Commercial Section at email: Caracas.Office.box@mail.doc.gov