

# **DOING BUSINESS WITH VENEZUELA**

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# DOING BUSINESS WITH VENEZUELA

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## 1. GENERAL INFORMATION

<b>NAME:</b>	Bolivarian Republic of Venezuela
<b>LOCATION:</b>	The northern most tip of South America
<b>AREA:</b>	881 050 square kilometers 340 561 square metres
<b>CAPITAL:</b>	Caracas
<b>OTHER MAJOR CITIES:</b>	Maracaibo, Valencia, Ciudad Guayana, Ciudad . Bolívar, Barquisimeto, and Maracay
<b>CLIMATE:</b>	Tropical, hot, humid. The rainy season is from June to October. The dry season is from November to May
<b>POPULATION:</b>	28.0 million
<b>LIFE EXPECTANCY:</b>	71 years (Men) 77 years (Women)
<b>LITERACY:</b>	93 percent
<b>RELIGION:</b>	Christianity
<b>GEOGRAPHY:</b>	<p>Located in the north of South America, Venezuela is one of the few countries in that continent with a Caribbean coastline. Its outlook is therefore to the Caribbean Sea which acts as the main traffic lane for exports and imports. Venezuela's was once part of Gran Colombia which disintegrated in 1830. Colombia and Ecuador were also part of Gran Colombia.</p> <p>Venezuela's neighbours are Brazil to the south, Colombia to the west and Guyana to the east. Venezuela owns Margarita just off the coast of South America and Bird Island in the Caribbean. It claims five eighths of Guyana. The Andes mountain range passes through Venezuela as do the Orinico River and Lake Maracaibo.</p>

## DOING BUSINESS WITH VENEZUELA

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### **NATURAL RESOURCES:**

Venezuela is rich in natural resources, with oil being the most significant. The country produces one million barrels of oil daily, making it the world's sixth largest oil producer. Venezuela is one of the founding members of the Organization for Petroleum Exporting Countries (OPEC). Other resources include hydrocarbons, bauxite, coal, diamonds, gold, iron ore and natural gas. Along with oil, Venezuela exports many of these.

### **EDUCATION:**

Successive governments in Venezuela have pursued an all embracing educational programme which ensures that nationals receive a rounded education. The state allocates a significant share of its national budget annually to the provision of education. According to a 2005 Country, Venezuela has a diversified educational system which ensures schooling for the population. In a report, the Library of Congress said that Venezuela has more than 90 institutions of higher learning catering to more than six million students. Higher education is free under the 1999 Constitution with 35 percent of Government Budget being allocated to this cause.

### **GOVERNMENT:**

One of the long standing democracies in South America. Venezuela is a Federal Republic. There is an Executive Branch headed by a President who is an elected representative for a term of office lasting six years. There is also a Concil of Ministers and the Cabinet is appointed by the President. The Legislature is Unicameral. The system has a 32-member Judiciary (Supreme Court) elected by the Congress for at least 12 years, an electoral National Council elected by the Congress for a seven year term.

### **PRESIDENT:**

The President of Venezuela is Hugo Chavez who was elected to office in the 1998 elections. He came to office on a pledging to fight corruption in Venezuela, eradicate poverty, and to re-organize the country's oil based economy through nationalization and more state control. Chavez, a former Army General, was re-elected in 2006 following what was generally a productive first term which saw him tackling poverty and some of the other social issues afflicting Venezuela. Since

# DOING BUSINESS WITH VENEZUELA

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then he has vowed to pursue a policy of 21<sup>st</sup> Century Socialism that has seen a number of changes being instituted in the country. The state has taken control of some sectors of the economy, energy, electricity and cement included, along with the private sector; it is involved in the food distribution network and is very large in the fight to combat poverty.

## FOREIGN AFFAIRS:

As regards external affairs, the Hugo Chavez Government has pursued close relations with Cuba. This has seen the conclusion of bilateral agreements that span energy, housing, health care and education. While this has taken place, Chavez has been very critical of the United States which is Venezuela's main trading partner, saying that it is attempting to dominate the region. Venezuela has opted out of the Andean Common Market and has established close ties with countries in the Middle East, and with China and some European States. As well it has knocked the American led Free Trade Area of the Americas (FTAA). Instead Venezuela is promoting its own version of integration called the Bolivarian Alternative for the Americas (ALBA). To date the member states are Venezuela, Cuba, Bolivia, Dominica and Nicaragua. Venezuela is also sponsoring a Petro Caribe oil facility under which beneficiary countries are receiving oil at concessionary rates.

## 2. BASIC ECONOMIC DATA

### 2.1 ECONOMIC INDICATORS

At the end of 2007 the Venezuelan economy registered a rate of growth of 8.8 percent, according to a report by the Central Bank of Venezuela. This came on top of a growth rate of 10.6 per cent in 2006. The outturn for 2007 marked four consecutive years of growth following the slump of 2002 and 2003. Other economic data on Venezuela are as follows:

Table 2.1 Economic Data

<b>GDP (PPP)</b>	<b>US \$26.9 billion</b>
<b>GDP (Growth)</b>	<b>8.8 %</b>
<b>GDP (Per Capita)</b>	<b>64</b>
<b>Inflation</b>	<b>15.8 %</b>

## DOING BUSINESS WITH VENEZUELA

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<b>Exports</b>	US \$66.0 billion
<b>Imports</b>	US \$44.3 billion
<b>Public Debt</b>	US \$45.4 billion
<b>Govt Revenues</b>	US \$39.6 billion

### 2.2 PRICES AND INCOMES

Prices in Venezuela rose dramatically around 2003 and in 2004. During those two years inflation averaged 31 percent. While increases have not reached those levels since they were high around almost 16 percent in 2007. Press reports including those of the International Tribune say the increase in prices stemmed from shortages occasioned by price controls which the Venezuelan government introduced to help combat inflation. Supplies like food, building materials, cars, and hardware items have at times been in short supply.

The Tribune said that Government-controlled prices account for about half of the country's Consumer Price Index. To deal with the issues the Venezuelan government has instituted measures aimed at increasing incomes and living standards. Data published and sourced from venezuelananalysis.com refer to the rising incomes in the country. It reports that incomes in Venezuela had grown at a tremendous rate in the four years after 2003, especially for the poorest economic class.

Table 2.2      Inflation Rates

<b>Year</b>	<b>%</b>
<b>2003</b>	31.2
<b>2004</b>	31.1
<b>2005</b>	22.4
<b>2006</b>	16.0
<b>2007</b>	15.8
<b>2008</b>	20.17*

\* projected

Similarly, the government had pursued an Urban Renewable program drawing on both domestic resources and funds from the World Bank. A US\$60 million program administered by the Bank was initiated to improve living conditions in Caracas (the capital) where an estimated two million people reside. This was followed through by Government measures to tackle poverty across the country, improve urban transportation, the creation of jobs and housing and better health facilities and health care. Resources for this initiative came from some of the oil revenues earned by Venezuela.

# DOING BUSINESS WITH VENEZUELA

Table 2.3 Poverty Rates in Venezuela

Year	Time	Households Poverty Line %	People Below Poverty Line
1997	1 <sup>st</sup> Half	55.6	60.94
	2 <sup>nd</sup> Half	48.6	54.48
1998	1 <sup>st</sup> Half	42.8	49.9
	2 <sup>nd</sup> Half	43.9	50.40
1999	1 <sup>st</sup> Half	42.8	49.99
	2 <sup>nd</sup> Half	42.0	48.69
2000	1 <sup>st</sup> Half	41.6	48.31
	2 <sup>nd</sup> Half	40.4	46.34
2001	1 <sup>st</sup> Half	39.1	45.51
	2 <sup>nd</sup> Half	39.0	45.38
2002	1 <sup>st</sup> Half	41.5	48.13
	2 <sup>nd</sup> Half	48.6	55.56
2003	1 <sup>st</sup> Half	54.0	61.00
	2 <sup>nd</sup> Half	55.1	62.00
2004	1 <sup>st</sup> Half	53.1	60.15
	2 <sup>nd</sup> Half	47.0	53.90
2005	1 <sup>st</sup> Half	42.4	48.80
	2 <sup>nd</sup> Half	37.9	43.70

The data show that poverty in Venezuela had receded from a high 55 percent of households and 60 percent of individuals in the year 1997 to 39 percent and 45 percent respectively by the end of 2001. However, with a slowdown in the World Economy and the General strike in 2002/2003, the numbers inched back up, before retreating once the situation had stabilized in the country.

## 2.3 STRUCTURE OF THE VENEZUELAN ECONOMY

Venezuela has a diversified economy with petroleum being the sector that is responsible for the bulk of the foreign exchange flowing into the country. Tourism, manufacturing, agriculture, iron ore mining, construction and wholesaling and retailing are the other principal areas of activity in the economy of the South American country.

### 2.3.1 Petroleum

Venezuela is the world's fifth largest oil producing nation. Oil is said to be lifeblood of Venezuela, accounting for roughly half of the state's total revenue and one third of Gross Domestic Product.

# DOING BUSINESS WITH VENEZUELA

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Photo 6.1      Machine drilling for oil in Venezuela



Photo Source:

[http://newsimg.bbc.co.uk/media/images/42394000/jpg/\\_42394533\\_noddingdonkey\\_afp203b.jpg](http://newsimg.bbc.co.uk/media/images/42394000/jpg/_42394533_noddingdonkey_afp203b.jpg)

Venezuela produces about 2.8 million barrels of oil a day and exports roughly 80 percent. The industry was opened to private investment in the 1990s resulting in the creation of 32 operating service agreements with 22 foreign oil companies. This structure had to foreign oil companies managing the oilfields. Since Hugo Chavez became President in 1998 changes have taken place in the industry with the state becoming more actively involved. It must be noted that in 2002 the petroleum sector declined 12.6 percent on account of a general strike in the country and a policy by OPEC to lower oil quotas. Oil consumption is Venezuela in about 2.2 million barrels and proven reserves are 79.73 billion barrels. There are also extensive reserves of natural gas used in domestic industries and exported.

## **2.3.2 Mining**

Apart from oil Venezuela boasts a very active mining sector which adds tremendous economic value to the country. Natural resources like iron ore, gold, bauxite and hydro electric hydrocarbons have together given rise to industries whose production is consumed locally as well as exported. Among the principal export items are coal, steel, aluminum, cement which account for almost 15 percent of total exports and three percent of GDP.

## **2.3.3 Tourism**

This is another key industry in Venezuela. With a diverse geography Venezuela has been able to offer a uniqueness that has proven to be a hit with visitors. The country has a long and attractive Caribbean coastline, towering mountain ranges, open plains, and tracts of the Amazon rain forests. These have been made into a simple package which acts as a driving force for visitors to the country. Promotional literature also speaks to the Bolivar state and the Gran Sabana National Park where the famous Angel Falls, the world's highest waterfall is located. Added to these are the scenic cities headed by Caracas, the capital, which are attractions in their own right and their vibrant night life. Venezuela

## DOING BUSINESS WITH VENEZUELA

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also has air links to many cities in North America, Europe, the Caribbean and Latin America and these again provide easy access.

### **2.3.4 Manufacturing**

Historically, manufacturing has played a key role in the economic success of Venezuela. Today the sector remains vibrant even if there is competition from imports due mainly to the liberalization policies pursued by successive administrations in Venezuela. In 2005 Manufacturing's share of GDP is about 16 percent. That figure increased to 17 percent in 2006. The principal items manufactured in Venezuela are food and beverage, chemicals, cement, tires, paper, automobiles, fertilizers, transport equipment, and textile apparels. These industries are highly competitive as companies have access to cheaper sources of energy and raw materials.

### **2.3.5 Agriculture**

Several years ago this sector had served as the dominant area of activity in the Venezuelan economy. In its heyday back in the 1950s and 1960s about 60 percent of the Venezuelan labour force was employed in agriculture whose contribution to GDP back then was as high as 21 percent. Crops like sugar cane, rice, corn, bananas, vegetables, maize, wheat and coffee, were the core products coming out of the agricultural sector. Today agriculture in Venezuela does not reflect those glory days having since the 1980s fallen into a rut. Contribution to GDP is below 10 percent. However, President Chavez is committing Venezuela to producing more food while limiting the export of some basic commodities like corn. He has revealed a US\$600 million package for agriculture to boost production and distribution of food. A further US\$10 billion in low cost loans was approved in 2008 while the state's Assembly has reformed the law on agricultural loans. This has been done so that the Federal Government could decide what level of loans should go to producers, distributors and others in the supply chain.

### **2.3.6 Construction**

This is an active part of the Venezuelan economy. With the continuing upgrade in the country's infrastructure, construction has remained buoyant growing at a rate of five percent annually.

# DOING BUSINESS WITH VENEZUELA

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Photo 6.2 Houses under Construction in Venezuela



Photo Source: Google Images

Both the private sector and the government have invested heavily in construction, the former through new stores, office buildings, hotels and housing, For its part the state's activities include roads, government buildings, port improvements and other infrastructure, The industry is supported by the production of key inputs like cement, tools, other building materials. The government has taken control of cement production saying output is necessary to safeguard domestic requirements.

## **2.3.7 Banking and Financial Sector**

Venezuela has an active and vibrant banking and financial services sector. It continues to record strong annual growth given the positive impact the petroleum sector has on areas of the economy. There are under 50 financial institutions including commercial banks, development banks, insurance companies, and stock exchanges. The commercial banks comprise both state-owned institutions and privately-owned ones and total assets were estimated at around US\$100 billion at the end of 2006. The banks are operating in an environment where both lending rates and deposit rates are fixed. However, the sector has reported growth as higher disposable incomes by Venezuelans, high consumption of both consumer items and food have resulted in Venezuelans tapping to the system for financial assistance. Other industries in the economy also benefit from bank financing at reasonable rates. The banks along with other financial houses offer a number of products for investing. The sector is so important that the Hugo Chavez Government has earmarked a section of it for state involvement. The President is on record as saying that he intends to acquire a banking institution to meet the demands of his Government's social policies.

## **2.4 EMPLOYMENT**

Official Labor market information at the end of 2007, suggests that Venezuela had a unemployment rate of 10.2 percent of the country's work force. The Public sector in Venezuela accounts for about 13 percent of the persons employed in the country. Less

## DOING BUSINESS WITH VENEZUELA

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than one percent was employed in the capital intensive petroleum industry. A further 10 per cent of the labor force is employed in Agriculture, according to a United States State Department Report. This report along with a BBC survey estimate that over 50 per cent of the labor force is employed in the informal sector. A major part the informal sector incorporates services.

Table 2.4      Venezuelan Labour Force Data

Total Labour Force	12.5 million
Unemployment	9.1 % (2007)

Employed	%
Agriculture	13
Industry	23
Services	64

### 2.5 ECONOMIC OUTLOOK

There are mixed forecast for the economic outlook of Venezuela.

Some analysts and institutions believe that future growth of the economy and a higher standard of living for Venezuelans hinge very much on the continuing high price of oil, additional foreign direct investments, and bilateral arrangements which the country has with countries in Asia, Europe and Latin America.

At another level critics of the Hugo Chavez administration are not as optimistic. They fear that the state-led policies, including nationalization of key sectors in the economy and the move towards socialism, government's intervention in the economy including the food retail sector and continuation of the windfall tax on oil companies will not augur well for the country's future.

The petroleum industry is the mainstay of the economy. It has provided successive Venezuelan governments with enormous elbow room to tackle social problems and to finance developments in other areas of the economy.

Economic growth has been very strong with GDP in 2006 being eight percent.

International reserves, said the Venezuelan Central Bank, were under US\$40 billion in 2007, They would have been higher were it not for funds being diverted towards social programs. In any case, with the oil prices being US\$120 a barrel at the end of March 2008, and new oil discoveries being made the country's international reserves will increase further.

Other sectors of the economy are growing and Venezuelans, who have benefited from increased salaries, are spending at will. GDP per capita is approaching US\$10 000. Retail sales almost doubled last year on account of the purchasing power by Venezuelan.

Other sectors are growing as well with manufacturing, especially, maintaining the recovery from 2004 and contributing 17 percent to GDP.

## DOING BUSINESS WITH VENEZUELA

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In addition, the Venezuelan government has entered into joint venture arrangements with several countries. They include Iran, Russia, China, Cuba and Brazil. These arrangements cover mainly energy, manufacturing, heavy industries and social service. As such they widen the scope of Venezuela to maximize investment earnings.

However, recent state policies have raised some doubt about the sustained economic development. Business leaders say the retention of price controls will continue to affect the economy. Furthermore, they argue that the oil tax on energy companies will lead to a reduction in investment in the petroleum sector, and that the privatization undertaken in telecommunications, cement, and electricity, is not good for the market.

While not being characterized as critics of Venezuela, both the International Monetary Fund and the World Bank nonetheless predict a slowdown in the Venezuelan economy.

Quoting from an IMF report Latin Business Chronicle said the oil boom in Venezuela is coming to an end. The year 2008, it said, will see very low growth in Venezuela.

In a 2008 report, Associated Press said that bank lending in Venezuela had slowed considerably in 2008.

The Venezuelan government in the meantime remains optimistic about the country going forward.

### **3. MARKET ACCESS**

#### **3.1 GENERAL IMPORT POLICY**

As a member of the World Trade Organization and several other bodies which promote international trade, Venezuela has pursued an open market policy. Until recently it was a member of the Andean Common Market and was cultivating close ties with Mercosur, an arrangement that includes among other countries, Brazil and Argentina. The Andean Common Market is made up of It has relations with the CARICOM, a region of 14 former British, French and Dutch speaking territories and the United States is Venezuela's main trading partner. Such relationships have informed trade policy in Venezuela as well as market access arrangements through tariff policy and importing regimes.

As a member of the Andean Common Market, Venezuela had been using the Community's price based system for certain agricultural products. Ad valorem rates for these products were adjusted according to the relationship between market commodity prices and established floor and ceiling prices. This is highlighted in a Report on Venezuela Trade Policy (<http://www.ustr.govt/assets>), published in 2004. It notes further that when the reference price for a particular market commodity falls below the

## DOING BUSINESS WITH VENEZUELA

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established floor price, the compensatory tariff for that commodity and related product is adjusted upwards.

Venezuela, the 200 Report said, does not allow the importation of used vehicles, used tires and used clothing. There is strict adherence to sanitary and phytosanitary requirements, and there is a general protection to agriculture. The exception is food. Tight controls exist on the availability of foreign currency (US dollars) to finance imports. The slow approval of import licenses has evoked much discussion by countries looking to export to Venezuela.

### **3.1.1 Import Duties**

Venezuela has adopted the Harmonized Tariff schedules in accordance with WTO regulations. There are at least six types of duties and tariffs levied on goods and services entering Venezuela. These are import duties, the value added tax, Custom fee, Customs stamp duties, valuable duties (applied only to food products with an international price variation) and excise duties.

Import duties range from five percent to 10 percent. There are many products which are duty free. However, where duties are applied they are based on the cost, insurance and freight (c.i.f) system. Customs collect the VAT which is about nine per cent.

Retail sales outlets also collect VAT. Customs officials are stationed at all international airports as well as at main seaports.

### **3.1.2 Taxation**

#### **3.1.2.1 Internal Taxes**

The Venezuelan taxation system is structured to ensure full compliance in the country. The principles of the system are equality, legality and generality.

#### **3.1.2.2 Income Tax**

This is applied to income earned in Venezuela by taxpayers. Whether or not one is residing in the country, individual taxpayers are subject to the tax. Non domiciled legal entities with a permanent establishment in Venezuela must pay the tax based on the profit from territorial or extraterritorial sources attributed to such permanent establishments. The Federation of International Trade Association said in one of its commentaries taxation for individuals is expressed in the following tributary units:

# DOING BUSINESS WITH VENEZUELA

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Table 3.1 Taxation for Individuals

City or Town	%
1000 units to 1500 units	9
1501 units to 2000 units	12
2001 units to 2500 units	16
2501 units to 3000 units	20
3001 units to 4000 units	24
4001 units to 6000 units	29
Beyond 6000 units	34

Source: FITA

### 3.1.2.3 Corporation Tax

The FITA has outlined that in Venezuela the system of corporate taxes is expressed in tax rules and specific tax rates. Corporation tax is levied at the rate of 34 percent in Venezuela. It is applied to a company resident in Venezuela, on its worldwide income, and with a credit for foreign tax paid. Non-resident companies pay taxes only on their Venezuelan source of income. Venezuela also levies Capital gain taxes on companies.

### 3.1.2.4 VAT

This is one of the principal tax systems in Venezuela. The VAT is applied to a wide range of goods and services. The rate was lowered in 2007 from 14 percent to 11 percent. Additionally, 10 percent is charged on luxury goods, including high value vehicles and jewelery. Reduced rates are between eight and 10 percent. These are in respect of exports, services of banks, financial institutions and leasing companies, and insurance companies among other entities, along with domestic passenger transport, basic foodstuffs, farming, ships and some education and health services.

### 3.1.2.5 Foreign Oil Tax

Foreign oil firms operating in Venezuela pay an oil tax which the Venezuelan government has introduced on these companies. The tax also known as a windfall tax, is based on the prevailing price of oil. At the time of announcing the increase in the oil tax, oil was priced at US\$70 a barrel. At that price the companies 50 percent tax and 60 percent when the price topped the US\$100 a barrel level. Anticipated revenue from the tax is US\$9 billion. It has not gone down well with many of the companies operating in the petroleum sector of Venezuela.

## 3.1.3 Import Licensing

Venezuela has in place an import licensing system which is used to offer protection to its domestic industries, especially agriculture. The policy stipulates that importers of specific products purchase domestic supplies before embarking on the importation of the

## DOING BUSINESS WITH VENEZUELA

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products. Only then would import licenses or permission be granted. The policy has brought a sharp reaction from importing countries, notably the United States, according to reports published by USA officials. Those reports say that requests for consultations with Venezuelan officials had been futile. The issue was also brought to the WTO Dispute Settlement Mechanism.

### **3.1.4 Special Customs Provision**

#### **3.1.4.1 Samples and Carnets**

The Customs Law and its regulations allow for the importation of merchandise on a temporary basis for exhibitions and demonstrations. The importer must request permission for temporary entry, promoting an exact description of the merchandise, its number and/or volume, its value and its expected date of re-export. Temporary entry forms may be requested from the SENIAT. For a shipment to be considered under this procedure, the air bill description must include the title, "sample no commercial value." A bond covering the full value of the duty payable in case the products stay in the country must be obtained and will be returned once the products have left Venezuela.

## **3.2 OTHER REGULATIONS AFFECTING TRADE**

### **3.2.1 Foreign Exchange Controls**

The Venezuelan Government has tightened the country's Foreign Exchange regulations. Ever since 2003 a new exchange control system has been in place in the country. The Currency Administration Regime suspended the existing system at the time and replaced it with the new scheme to be administered by the Foreign Exchange Administration. Introduction of the new scheme stemmed from the slowdown in foreign inflows into the country during and after the general strike of 2002. Applications for foreign exchange have to be lodged with the Foreign Exchange Administration which has the authority to sanction such requests which are then granted by the country's Central Bank. Official figures put the approved transactions in 2006 at US\$27.4 billion, a 30 percent hike on the amount for 2005.

### **3.2.2 Labelling and Marking Requirements**

It is a requirement for all products entering Venezuela to be appropriately labeled. Goods not so designated are not allowed entry or they can be confiscated. There is a rule that stickers can be used for marking some imported products. Also the owners' manuals must be in Spanish. These relate to food, medicines, cosmetics, and medical devices. All labels must carry ingredients (of the products), quantity, registration numbers, Three sets of documents which serve as sources for labeling requirements in Venezuela, are required.

### 3.2.3 Laws of Patents, Trademarks and Copyright

#### 3.2.3.1 Patents

Venezuela has a modern Patent system where all fields of technology, with some exceptions are patented. The exceptions relate to

- inventions that violate public policy, morals or proper conduct;
- inventions that are contrary to the health or the life of a person or an animal, to plant preservation, or to the environment;
- animal species and essentially biological procedures for obtaining them;
- inventions relating to matter composing the human body and the genetics identity thereof; and inventions related to pharmaceutical products shown in the list of medications of the World Health Organization,

The enforcement of a patent right is generally sought before a first instance tribunal which has the authority to grant a wide range of information to safeguard a legal right. However, this is provided that irreparable claims can be shown. Furthermore, in order to institute legal proceedings, a patent must have been granted by the Venezuelan Patent Office.

#### 3.2.3.2 Trademarks

There are as strong regulations on trademarks which go hand in hand with the recognition that such regulations have social and economic interests.

Trademark protection is provided through the Andean Community Decision 486 and the 1955 National Industrial Property Law. It is usually the obligation of the suppliers of technology to train the required personnel to take the greatest advantage of the technology services contracted.

The point needs to be made that in 2006 Venezuela withdrew from the Andean Community. With this the Andean Legislation which made up much of the Intellectual Property regime was effectively repealed. It therefore is not clear (up to late 2007 when this survey was undertaken) what the status of those is obligations.

#### 3.2.3.3 Copyrights

The Venezuelan Copyright enforcement rules provide copyright support.

However, it is an all embracing program as the National Guard and private industry cooperate in enforcing the regulations. As with Patents and Trademarks, the legal framework of Copyrights was provided by the Andean Pact Decision 351 and Venezuelan Copyright Law. The law extended protection to all creative work, including computer software. The National Copyright Office is responsible for registering copyrights, as well as controlling, overseeing, and ensuring compliance with the rights of authors and other copyright holders. However, the office's copyright enforcement arm, COMANPI, can only act based on complaint by a copyright holder, and cannot carry out an arrest on its own initiative.

# DOING BUSINESS WITH VENEZUELA

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## 3.3 INVESTMENT POLICY

The Venezuelan government has pursued an active policy on wooing both foreign direct investment and closer relations with a number of countries to explore investment opportunities on behalf of the South American country. This policy is built around marketing opening, as well as on tax policy to attract investments. At times the tax policy like the windfall tax on oil companies, has brought some apprehension and how it plays out in the future will be a test of its effectiveness.

Official reports suggest that the stock of Foreign Direct Investment into Venezuela was US\$21 billion in 2004. The United States was the single largest investor in Venezuela. However, Venezuela has welcomed investment from China, some European states and Japan. In addition the country has pursued joint ventures with Middle Eastern countries, notably Iran, and with Cuba, China and some Latin American states in the area of oil and gas, and offshore oil exploration.

The government has revised the country's tax legislation to Favour foreign investment. Taxes on dividends were eliminated, corporate taxes were lowered from 50 percent to 34 percent, while tax credits and exemptions from custom duties were also part of the package.

Article 45 of the Value Added Tax law gives the country's tax agency, SENIAT, the authority to grant investors exemption from VAT if they are engaged in industrial projects in the pre-operative stage of development. That exemption can last up to five years or until the pre-operating period terminates with the possibility of extensions.

## 3.4 DOCUMENTARY REQUIREMENTS

Investors doing business in Venezuela are required to submit as much relevant documentations as is possible to make the process seamless. Like in other jurisdictions across Latin America and the Caribbean, Venezuelan authorities have to be furnished with the information. Venezuela has a commercial code which relates to companies seeking a foothold there. The code outlines specific provisions and guidelines for the businesses which investors want to create. All documents have to be registered at the country's Commercial registry. These are

- Articles of incorporation and by-laws of the company;
- An attorney-at-law;
- Data relating to the (new) company's origin;
- Details of the agreement granting the incorporation of the business
- Articles of incorporation and By-laws have to be registered with the Mercantile Registry Office.

As a consequence shareholders have to show proof of having made the capital payment as is required by law. The Code, according to a survey titled, "Doing Business With Venezuela," outlined the specific business form that can be pursued in Venezuela. These are: stock corporation, partnership, limited liability, limited partnership and joint venture.

## DOING BUSINESS WITH VENEZUELA

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It notes further that at least two shareholders are required for incorporating a stock corporation. Further on, it said that a limited capital of Bolivars 20 000 and a maximum of Bolivars 2 000 000 is required. While joint ventures are allowed, the Code cautions however that some areas of the national economy are preserved for local participation.

The Venezuelan laws further stipulate that registration with the appropriate taxation authorities, classification of the entity to be established and its registration form part of the process as well.

However, information on the procedures can be sourced from Venezuelan Embassies abroad.

## **4 GENERAL MARKETING FACTORS**

### **4.1 IMPORT AND DISTRIBUTION SYSTEM**

Venezuela has a very unique import and distribution system. There are first of all the traditional wholesalers/importers performing the usual chores of importing and distributing goods. On the other hand is a government structure that performs similar functions since the Government decided to become active in the food business on behalf of low income earners in the country. The industry is characterized by shortages as a result of Government's policy of keeping food prices in check. That policy includes price controls, and very often basic food stocks are in short supply. As such, the Venezuela Government got directly involved in the food business by doing its own importation.

#### **4.1.1 Wholesale Food Distribution and Sales Channel**

There are large wholesale food distributors in Venezuela. They have established contacts with major suppliers mainly in the USA which is Venezuela's main trading partners and in other locations, mainly in Latin America. Some of them also have outlets mainly in Florida where goods are purchased and stored before shipping to Venezuela. The wholesalers also have storage capacity. They sell directly to supermarkets and hypermarkets and smaller retailers. In some instances the wholesalers have their retail establishments which they service. Some retailers also sell to Government. However, in an attempt to acquire food at as cheap a price as possible the Venezuela government has created food purchasing agencies. CASA (Corporacion de Abastecimiento y Servicios Agricolas) is one such agency. It sources food supplies which are sold to other government distribution networks as well as some smaller retailers who benefit from cheaper prices when compared to the traditional wholesalers.

# DOING BUSINESS WITH VENEZUELA

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## 4.1.2 Retail Food Distribution Channels

As is the case with the wholesaling sector, both the private sector and the state are involved in the food retail business. Supermarkets and hypermarkets account for most of the sales in this segment of the market. Small shops and convenience stores are in abundance. They are located mainly in the urban neighborhoods. They have been affected by shortages that characterized the bigger players in the industry. To minimise the impact of shortages and to woo more customers, supermarkets have widened their offerings by introducing more in store varieties like bakeries, delicatessant and pharmacies. The state trading entity CASA purchases both domestic and imported products. Items like sugar, rice, wheat flour, black beans, milk powder, cooking oil, poultry and eggs are among the items acquired from a variety of countries. Mercado de Alimentos (MERCAL) another state entity distributes about 30 percent of all basic foods consumed in Venezuela. Because of price controls these items are offered at prices lower than from the private sector retailers. The private sector has complained that CASA has an unfair advantage because it is ensured access to dollars, import licenses and permits.

## 4.2 USES OF AGENTS AND DISTRIBUTORS

Again players (the private sector and Government) have their own agents to distribute goods to consumers. Venezuela has manufacturers' representatives and commission agents. It is very common for Venezuelan companies to undertake these functions simultaneously. No specific business license is necessary for a local company or an individual to be to be an importer.

Retailers as well administer their own imports, sometimes placing orders through commission agents or purchasing directly from foreign suppliers, as reported by the University of Florida Institute of Food and Agricultural Services. This has been so since the Hugo Chavez government decided to intervene in the food distribution industry.

The University reports that a commission agent or a manufacturers' representative finds customers, passes the order to the foreign supplier and receives a commission on the sale. It varies between five percent and 30 percent. It further notes that the use of agents is the most practical and efficient means of covering market.

That's because wholesalers often have minimal outside sales forces. They also offer advice on the market and demand for specific products.

As far as Government is concerned the country has created several state-owned enterprises to supply the food network. They include CVA Cereals and Oilseeds, CVA Dairy, and CVA sugar to handle the networks.

# DOING BUSINESS WITH VENEZUELA

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## 4.3 GENERAL MARKET CONDITIONS

High prices, price controls and competition among private firms and with state agencies, are some of the key features of the retail market in Venezuela. These features of the market has given rise to certain consumer behaviour chief of which is to seek lower prices and among companies to look for the best to compete and to acquire more market share. Stores like hypermarkets and supermarkets have repeatedly been upgrading their operations. Better store layout, improved point of sales systems, and variety wherever possible are some of the strategies used by key players. Reports have suggested that because of price controls some stores have been selling items to neighboring Colombia to benefit from better prices.

However, there has been a crackdown on the practice and greater border patrol to prevent it. The market has seen some consolidation as companies look to increase margins in the face of the tough competition. There have also been new entrants including some players from outside of Venezuela. One of them is a Dutch retailer which has created a low priced discount store. Its structure includes banks, money exchange houses, butcher shop and a pharmacy. An April 2008 Reuter's news said that Venezuelan consumers have had to adapt their purchasing decisions. This has led many of them to patronize state establishments. Venezuela has also experienced a growth in restaurants that add to the American fast food outlets that are present in the country.

### 4.3.1 Sales/Service/Customer Support

The Venezuelan consumer has certain characteristics which have drawn the attention of retailers and other providers of goods and services. The continuing growth of the economy and the allocation of resources from the energy sector to Venezuelans mean that people are better off. Disposable incomes have been growing and this has given Venezuelans opportunities to indulge in excessive spending. Venezuelan consumers have strong demands for imported goods. Retailers have therefore concentrated firstly on brands which are popular among the younger market segment, aged 18 years to 30 years. Consumer spending, according to Fortune's Sacha Fernmen increased from US\$34 billion in 2003 to US\$61 billion in 2006. Retailers, the main beneficiary of this, have improved store ambience, offered sales, especially at weekends, special promotions, and have offered facilities like credit and other plans to boost sales. Staff training has been done to complement these strategies.

## 4.4 PAYMENT CONDITIONS

As highlighted earlier, Venezuela has in place since 2003 a foreign exchange regime which deals with the access to foreign currency by Venezuelan importers. Transactions are undertaken in US currency. Usually there a commission on transactions ranging between 0.25 percent and 2 percent. While the system was introduced to better manage the outflow of funds at a time when the country was experiencing economic setbacks, it has nonetheless been effective in meeting the requests for foreign exchange except for goods which are not allowed into the country. These goods are mainly luxury items. The

## DOING BUSINESS WITH VENEZUELA

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rules indicate that Venezuelan importers have to register with the Foreign Exchange Administration Commission which manages the scheme. Once goods have arrived in Venezuela and the documentation is verified and Customs duties are paid approval is granted for the release of funds to finance the imports. Import documentations required by the Customs include an Airway Bill, Bill of Lading and the appropriate invoice. The invoice should state both the total cost and the cost per unit of the items, and list the cost, insurance and freight (c.i.f) information.

### **4.5 MAJOR SALES PROMOTION MODELS**

Venezuelan retailers have undertaken a variety of methods to promote the sale of their goods and services. The mass media (newspapers, trade journals, radio and television) is the foremost medium used in the process. Whole page advertising of products, in addition to other sized advertising (half page, quarter pages etc etc) are undertaken in the print media. Sometimes flyers advertising products are inserted in the newspapers, as well. Advertising is carried in the electronic media also. Much of this is handled by advertising departments at the media houses as well as by Advertising agencies and Public Relations firms. Product sampling, trade shows and exhibitions are among the other promotions carried on.

## **5 FOREIGN TRADE DATA**

### **5.1 TOTAL IMPORTS**

In 2007 Venezuela's total import bill was in the vicinity of US\$45.5 billion. Consumer goods, machinery and transport equipment, manufactured goods and construction materials accounted for the lion share of the imports. Major suppliers were the United States, Brazil, Colombia, Mexico, and China..

### **5.2 TOTAL EXPORTS**

Total exports in 2007 were valued at around US \$69.2 billion. Petroleum accounted for more than two- thirds of that figure. Other export commodities were alumina, steel, chemical products, iron ore, cigarettes, plastics, fish, cement and paper products. The main markets were the United States, the Netherlands, Mexico and Colombia.

## **6 TRANSPORT AND COMMUNICATION FACILITIES**

### **6.1 TRAVEL AND TRANSPORTATION**

#### **6.1.1 Airports**

There is a highly developed travel and transportation system in Venezuela. As one of the world's leading oil producing nations, successive governments in Venezuela have allocated enormous resources to infrastructure development.

# DOING BUSINESS WITH VENEZUELA

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Photo 6.1                      An airport in Venezuela



Photo Source: Google Images (via Wikimedia)

One of the main developments involves airport facilities. The country boasts several airports with 11 of them classified as international offering connections to a number of cities around the world. The main international airport is the Simon Bolivar International Airport which is located approximately 12 miles north of Caracas, the Venezuelan capital. The Simon Bolivar International Airport is serviced by many of the world's leading airlines, from North America, Europe, Latin America, Asia and Africa.

## **6.1.2 Seaports**

The leading seaports of Venezuela are located at La Guaira, Puerto Cabella, and Maracaibo. However, there are small facilities spread around the country, given that Venezuela has over 1 000 miles of navigable inland waterways which serve as a mean of domestic cargo and ferrying passengers. The mercantile fleet is estimated at over 50 vessels of more than 1 000 tons. Major shipping lines abound at the Venezuelan ports with both cargo and vessels. Indeed, some ports specialize with cargo and passengers. Puerto Cabella handles most of the cargo while Maracaibo is the main port for oil shipments.

## **6.1.3 Railway System**

This system serves mainly the Northern areas of the country. However, the facilities are being expanded to incorporate other areas.

## **6.1.4 Public Transportation**

Buses, taxis, and rental cars are equally as important in Venezuela. The bus service is deemed to be very efficient. It offers cheap and reliable services between cities and remote areas, between those locations and the airports, and even around the cities where they are stationed. Many people including visitors to Venezuela use the bus system for

# DOING BUSINESS WITH VENEZUELA

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sightseeing. The bus service is complemented by the other modes of transportation – taxis and rental cars.

## 6.2 BUSINESS HOURS

Business hours in Venezuela are usually between 8 a.m. to 5 p.m. There are some businesses which operate between 8 a.m. and 12 noon, and from 2 p.m. to 6 p.m. The opening hours for commercial banks are 8.30 a.m. to 3 p.m.

## 6.3 PUBLIC HOLIDAYS

January 1	New Year's Day
Carnival	Two days in the month of February Thursday and Good Friday
May 1	Labor Day
June 24	Battle of Carababo
July 5	Independence Day
July 24	Simon Bolivar's Birthday
October 12	Discovery of the Americas
December 17	Death of Simon Bolivar
December 25	Christmas Day

## 6.4 ENTRY PROCEDURES

A visa is required for travelling to Venezuela. However, there are two aspects to the visa requirement. The first is that travelers must apply for a Tourist Card. It is normally issued by some airlines and passenger carrying shipping companies upon purchase of tickets. It is valid for up to 60 days. Tourist cards valid for 90 days may only be issued at a Venezuelan Consulate abroad, and may be extended for a further 90 days, after the visitor arrives in Venezuela. The other aspect of the visa arrangement is that it may be issued at a Venezuelan Consulate and is valid for 30 to 60 days. It can be renewed for up to 160 days as of the arrival in the country. Persons entering Venezuela on a tourist card are not permitted to engage in business activity.

## 6.5 WEIGHTS AND MEASURES

Like many of the other Latin American states Venezuela uses the metric system.

## 6.6 ELECTRICITY

Venezuela uses a 60 Hz and 120 voltage power system. The power plugs are similar to those used in the United States.

## 6.7 TIME ZONE

Since December 2007 Venezuela Standard Time is 4.30 hours behind Greenwich Mean Time. The country does not have Daylight Savings Time. The international Dialling Code for Venezuela is 58.

## 7

## APPENDICES

### 7.1 ADDRESSES

#### 7.1.1 Newspapers

Ultimas Noticias	El Nacional
Abril	El Venezolano
Analita	La Hora
Business News America	La Verdad
Correo del Caroni	Medio a Medio
Daily Journal	Noticiero Digital
Diario El Araguano	Noticiero Venevision
Diario El Luchado	Nueva Prensa
Diario El Tiempo	Panorama Digital
Diario Vea	Quando Dio
El Globo	Venpres
El Informe	Version Final
El Mundo	

#### 7.1.2 Manufacturers/Commercial Organizations

The lead private sector organization in Venezuela is Fedecamaras also known as the National Chamber of Commerce. It has a number of member (associations) drawn from different segments of the country's private sector. In relation to manufacturers associations, these are widespread. These are the Venezuelan Manufacturers Association and the sub groups relating to food, automobiles, electrical, equipment manufacturers, asphalt, and construction among others.

#### 7.1.3 Industrial Business Consultants

One of the benefits of the diversified Venezuelan economy is that it has created a wide range of business consultants. These are found in services, petroleum, wholesaling and retailing, manufacturing, tourism, agriculture and whatever form of economic activity there is in Venezuela. There are as well consultants in the areas of finance, law, education and health.

# DOING BUSINESS WITH VENEZUELA

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## **7.1.4 Advertising and Publicity**

Professional advertising agencies are fully developed in Venezuela. They perform services for both the public and private sector. At times they liaised with similar professions in the established media (print, radio and television). Many are involved in public relations as well. Yellowpages-Venezuela.com provides a full listing of the businesses involved in advertising and publicity.

## **7.1.5 Banking Systems**

The Central Bank of Venezuela which was created in 1939 is at the apex of the banking system in the country. It performs many of the traditional central bank functions. These include the issuing of currency, acting as banker to the government, managing the economy, and acting as lender of last resort. The banking system is made up of commercial banks (including government owned banks), insurance companies, stock exchanges, and development banks. The commercial banks have enormous networks of banking, investment banks, mortgage banks, leasing companies, and savings and loan institution.

## **7.1.6 Government Ministries and Departments**

Government Ministries and Departments are quite similar to those in other Latin American and Caribbean states. Ministries in respect of Agriculture, Economic Planning and Development, Education, Energy, Environment, Health, Forestry, Law and Order, Commerce, Manufacturing, Security, and among others, Labor, and Utility and Telecommunications are in Venezuela.

## **7.1.7 Shipping Services**

All ports in Venezuela are serviced by both the international shipping companies and the domestic companies. The ports of Caracas, Guanta, La Guaira, Maracaibo, Puerto Cabello, Potamar, Puerto La Cruz, Puerto Ordaz, Punto Fijo and Valencia, are serviced by the lines. Among them are ABX Logistics, Adunera El Puerto, Agencia Seafreight De Venezuela, ABN Citobal Logistics Venezuela, Conaven, Consolidadora de Cargo Koscargo, Cross Atlantic Shipping CA, Intershipping, Adryman Service AgentsAduanera El Puerto,APM Globalogistics, Daily Freight Care, H.L. Boulton, King Ocean Service, Maersk, Nedlloyd, UPS, Maracargo, and Yicheng Logistics.

## **7.1.8 Major Importers/Wholesalers**

Supermarket chains, hypermarkets while functioning as distributors are into the importation of an assortment of goods. Many of them serve as importers, specializing in certain product lines. The Venezuelan government has created agencies which are involved directly in the importation of mainly food items. This is an attempt to ensure that goods reach lower income earners at prices more affordable than those offered by private wholesalers/retailers.

### 7.2 FREE TRADE ZONES

Venezuela has four free trade zones. They are located at Paraguana Peninsula, Margarita, Merida and Santa Elena de Uairen. A report from the Kish Trade Promotion Centre identified the operations of the four locations which adds more value to economic output in Venezuela. The Paraguana zone is mainly for industrial purposes. The report noted that it is small and is used by a few enterprises. Margarita, located off the coast of Venezuela, specializes in the sale of duty-free merchandise to mainland Venezuela. However, the amounts are subject to quotas. Merida's free zone caters mainly to cultural goods. Located in Western Venezuela, Merida is a centre for Information Technology and the goal is to have it updated along the lines of California as an IT centre. Santa Uairen is the newest of the lot and caters to Industrial goods. Apart from the free trade zones duty free bonded warehouses are available at air and seaports, and in major towns.