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TRADE POLICY REVIEW

VENEZUELA

MINUTES OF MEETING

Chairperson: Mrs. Anne Anderson (Ireland)

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I. INTRODUCTORY REMARKS BY THE CHAIRPERSON

1. The Trade Policy Review of Venezuela was held on 12 and 13 February 1996. The Chairperson welcomed the delegation of Venezuela, headed by His Excellency Mr. Werner Corrales (Minister of Industry and Trade), and the discussants, Messrs. Wilhelm Meier (Switzerland) and Carlos Antonio da Rocha Paranhos (Brazil).
2. The Chairperson recalled the purpose of the Trade Policy Reviews and the main elements of the procedures for this meeting. The report by the Government of Venezuela was contained in document WT/TPR/G/10 and that of the WTO Secretariat in document WT/TPR/S/10 and Corr.1; the main issues to be raised by the discussants were contained in document WT/TPR/W/15. Copies of written questions submitted by six delegations (New Zealand, the United States, Canada, Australia, the European Union and Colombia) had been transmitted to the delegation of Venezuela. If full replies could not be provided during the meeting, supplementary written replies should be provided later.
3. Recalling that intergovernmental organizations attended meetings of the General Council through decisions taken on the basis of the ad hoc arrangements, the Chairperson invited EFTA, FAO, IMF, OECD, UNCTAD and the World Bank as observers to the next meeting of the Trade Policy Review Body.

II. OPENING STATEMENT BY THE REPRESENTATIVE OF VENEZUELA

4. The representative of Venezuela said that his country came to the first review of its trade policy at a time that was certainly difficult and complex. Early in 1994 a most serious systemic crisis had been unleashed in the financial sector, necessitating the contribution of billions of bolivars from public funds and culminating in the transfer to State ownership of a sizeable proportion of the commercial banks which were experiencing severe solvency problems, in order to shore up the country's financial and payments system. This crisis had been preceded by an even more serious political one, including two attempted *coups d'état* in 1992 and the removal of the President of the Republic by the Congress in 1993, once the Supreme Court of Justice had established grounds for prosecuting him. In that year alone Venezuela had been run by three successive legally constituted governments - two of them transitional - from the moment the President of the Republic had been suspended from his functions up to the end of the term for which he had been elected. While this had been all done in compliance with the Constitution, it nonetheless had serious implications for the national economy.

5. Even more important for the review, however, was that Venezuela had never once deviated from its policy of openness, nor had it failed to fulfil its international trade commitments.

6. The Report by the Secretariat - a text of great professionalism - was illuminating. In the first paragraph of the Summary Observations, it stated that "Despite serious economic problems in recent years, Venezuela has largely avoided reversal of the important trade reforms initiated in 1989 ...". Further on, in its analysis of trade policies and practices, it pointed out that "Since February 1989, an intensive and radical transformation of the trade régime has been undertaken. Security of access and improved transparency resulted from Venezuela's accession to the GATT in 1990, and there have been no major setbacks to these reforms, for example, through the increased use of product-specific trading instruments. Tariffs have been rationalized, and both the maximum and average rates have been lowered substantially. The scope and impact of the tariff concessions has diminished. Import prohibitions and licensing have been reduced to the extent necessary for keeping up with security or health concerns or international commitments." (Report by the Secretariat, Chapter IV(1)(ii)).

7. The Government was constrained by the economic and financial situation to take measures to confront the emergency. These measures led to the macroeconomic results recorded in the latest official statement of the Central Bank of Venezuela, which were summarized for 1994 and 1995 as follows: GDP growth, 2.9 and 2.2 per cent; inflation, 70.8 and 57 per cent; gross reserves, US\$11,507 and 9,538 million; and the exchange rate, 170 and 290 bolivars per US\$.

8. The representative of Venezuela noted that some of those measures had sparked the interest of the Secretariat, which in its Report underscored the impact they could have on investment and foreign trade. He mentioned exchange controls, price controls, state participation in the economy and the rules on foreign investments and their effects on privatization, and the provisions of the Andean Group on agricultural imports.

9. Exchange controls were a temporary, exceptional measure to arrest the capital flight that had occurred in the aftermath of the banking crisis. The Government of Venezuela had introduced a macroeconomic adjustment and structural reform programme for whose fiscal implementation it had submitted to Congress a set of Tax Laws. The Central Bank, an independent authority, had defined a new monetary policy consistent with the fiscal programme of the Executive, which had initiated a process for easing the exchange system with a view to abolishing it altogether. Venezuela was holding talks with the International Monetary Fund to obtain the support needed, *inter alia*, to strengthen international reserves sufficiently to lift exchange controls.

10. The exchange controls in force had been imposed in accordance with the provisions of the pertinent international treaties and agreements, including those on integration. This had been a basic principle of the system since its inception in 1994. Accordingly, should any of its provisions conflict with those of an international treaty, the latter would prevail.

11. Thirdly, in the functioning of the exchange control system, the rights of foreign investors had been scrupulously respected, in pursuance of the provisions of the Andean Group's Common Régime for the Treatment of Foreign Capital, as had those enshrined in the bilateral investment protection agreements in force in Venezuela. Hence, the right of foreign investors to acquire foreign exchange for dividend payments and for re-exporting capital had been constantly respected. Owners of intellectual property rights had also been able to receive payments corresponding to licences and royalties.

12. The exchange control system had not originally established priorities for the acquisition of foreign exchange for imports. Given the difficulties involved in meeting all import foreign-exchange requirements, and the increased demand for foreign exchange during the last quarter of 1995, the Government had decided to assign priorities for medicines, foodstuffs and industrial inputs. Those priorities were expressed exclusively in terms of the order in which the authorizations were granted, and never by refusing the quotas.

13. There were import options other than that of obtaining foreign-exchange authorizations, and importers who found the common mechanism too tedious or slow could always resort to those:

- (a) Imports were permitted for individual amounts under US\$5,000 without prior authorization from the exchange authorities.
- (b) United States dollar-denominated Venezuelan public debt bonds (Brady Bonds) could be procured with local currency on the local stock exchange and could be sold abroad for United States dollars, which could then be used to pay for imports.
- (c) Goods and services from, and originating in, the member countries of the Latin American Integration Association (LAIA) could be imported under the Association's Reciprocal Payments and Credit Agreement.
- (d) It was also possible to import goods payable in bolivars by the importer to the exporter.

14. In the face of exceedingly difficult exchange problems, the Government of Venezuela had done all in its power to hinder trade flows and Latin American integration as little as possible.

15. On price control, the representative of Venezuela stated that fixing of maximum retail prices of goods and services had to be pursued in tandem with the exchange control system in order to avert speculation induced by the 1994 financial crisis. Price controls were being gradually lifted and had already been reduced to 12 categories of mass-consumption products. It was the Government's intention to continue to scale down the number of goods affected by this measure, leaving prices to be freely determined by the market. This price fixing was in no way discriminatory, nor had it influenced international trade in the goods on which it was imposed.

16. Concerning state participation in the economy, the Venezuelan State had broadly redefined its economic roles with a view to devoting more of its attention to policy formulation and harmonization and withdrawing from direct involvement as investor and producer in virtually all activities in which it had become the principal actor. The process of relinquishing state control of the economy comprised

four broad lines of action on which undeniable progress had been made: privatization and transfer of ownership from state banking, industrial, tourism and other enterprises; opening up to strategic associations with the local and foreign private sector in areas that had been the exclusive preserve of the State, oil being a case in point; private management of public utilities by infrastructure concessions; and lastly, reform of the industry and trade system in order to trim bureaucracy, reduce State control and leave it to the Ministry of Industry and Trade to coordinate a system of highly autonomous institutions that included non-governmental organizations involved in the field of public policies, as well as other bodies actively involved in private/public sector coordination.

17. It was in that context that the rules on foreign investment and their impact on privatization could be viewed. It was the belief of the representative of Venezuela that a rigorous analysis of Venezuela's foreign investment régime would show that the rules it imposed were open to such investment, even in sectors of the economy from which foreign investors had been previously barred. Foreign investment was permitted in such important sectors as banking and insurance. Even in the oil sector - reserved by law for the State for reasons relating to the history of relations between Venezuela and the international oil companies as well as to security and sovereignty - a sizeable niche had been opened up to foreign investment, stated in the Report of the Secretariat. He presented the following data in support of this case:

- The final phase of the bidding process for the "opening of the oil sector" was completed during the week of 22 to 26 January under the programme of progressive incorporation of private capital into oil production activities in Venezuela. Two integrated projects for bitumen production and upgrading in the Orinoco zone had already been approved under this programme and progress had been made on reactivating marginal oil fields through the award of 15 areas to private consortia. The opening of the oil sector meant searching for new partners of the Venezuelan Petroleum Company (PDVSA) to develop new areas in the country. These partners would conduct explorations at their own risk and develop production in conjunction with PDVSA, sharing the profits among them.
- The bidding process had been entirely successful. Bids had been received for eight of the 10 areas put out to tender. In all, 29 bids had been received from a total of 44 firms grouped into 23 consortia. Fourteen firms from eight countries had been involved in the winning bids. The successful firms were from the United States (6), Argentina (2), France (1), Germany (1), Japan (1), Canada (1), United Kingdom (1) and Venezuela (1).
- Those firms had realized that Venezuela presented a promising business opening along with adequate legal security. They did not see Venezuela's foreign investment system as an obstacle to their investments. On the contrary, this system, recognizing as it did the rights of foreign investors in an international instrument, namely a Decision of the Andean Group, offered them substantial security and stability. The Venezuelan authorities were convinced that investors would think the same when they analyzed the investment potential in the other sectors that were due to be privatized.

18. Lastly, the representative of Venezuela referred to imports of agricultural products. In that area, Venezuela was applying the Andean Price Band System established under Decision No. 371 of the Board of the Cartagena Agreement, a decision that was legally binding on the Andean Group countries. Venezuela, mindful of its commitments to integration, considered that to be the legal provision *par excellence* as far as agricultural products were concerned. The preamble to that Decision declared that it had its basis in the unstable prices of agricultural commodities in international markets and in

the distortions caused in large measure by the agricultural policies of the main food importing and exporting countries.

19. The Government of Venezuela had considered it appropriate to present a separate additional report on the Andean Price Band System. That report stated that implementation of the system in no way detracted from the level of Venezuela's WTO bindings. In any event, the Government of Venezuela was doing all in its power to correct any defect the mechanism might contain through the review process provided for in the Decision of the Andean Group. Moreover, the tariff surcharges or surtaxes imposed on some agricultural products had been removed in the latest customs tariff approved by the Venezuelan Government.

20. The representative of Venezuela said that his Government had come to the TPR to display its past and current efforts to bring into line with its WTO commitments not only the legal provisions underpinning its foreign trade in goods and services as well as intellectual property, but also its administrative structure. On the administrative side, the authorities had replaced the body traditionally responsible for administration of the trade and industry sector - historically divided into two discrete parts - with a single efficient and flexible organ, created by law, the Ministry of Industry and Trade.

21. Venezuela had made headway in many areas and that this had been acknowledged in the Report by the Secretariat. Other adjustments had not been as prompt and effective as the Government would have liked. To change a country's juridical and administrative structure was no mean task, particularly when that country was going through phases of severe financial and, more generally, economic crisis that consumed its energies and capabilities. This explained, then, why Venezuela had not yet fully met its notification obligations to the WTO. It would, however, do so shortly.

III. STATEMENT BY THE FIRST DISCUSSANT

22. The first discussant (Mr. Wilhelm Meier) noted that the Trade Policy Review of Venezuela was taking place a few years after its accession to the GATT, in the initial phase of the implementation of the WTO Agreements and in the context of a difficult economic situation. Venezuela's foreign trade régime had been rationalized and had gained in transparency; the foreign investment régime had also been liberalized.

23. Nevertheless, the objectives of the 1989 programme of economic reforms, successfully implemented until 1992, had not been yet attained. The balance between the oil sector and other sectors was a major, well founded concern for Venezuelan policy-makers; fluctuations in oil export revenues had significant effects on the sectoral adjustment and economic stability. He sought information on the measures to be adopted to correct macroeconomic imbalances, and their effects on trade, as well as information on recent developments in the balance between oil and non-oil exports.

24. He believed that Venezuela's expectations with respect to foreign trade, considered in 1990 as a central element for stimulating efficiency and competitiveness of domestic industries, had not yet been fulfilled. In addition, industrial policy measures had been superseded by more radical economic intervention consisting of foreign exchange and price controls. These could undermine confidence in the national economy and adversely affect imports. He sought information on the existence of a parallel market for foreign exchange and intentions relating to the bolivar's devaluation. Were there any links between export performance and foreign exchange allocation? He requested a detailed list of goods and services considered as priority imports. Did conditions for foreign exchange allocation distinguish among products, applicants or suppliers? What facilities were provided to certain trading partners by means of clearing systems? He asked for more recent data on the level of foreign exchange.

25. Referring to State involvement in the economy, he recalled that no comprehensive appraisal could be made as no detailed data was available on state-owned firms and no notification on the enterprises subject to the provisions of Article XVII had been submitted so far. He asked for clarifications and urged the prompt submission of this notification.

26. Regarding regional versus multilateral trade trends, he was of the view that Venezuela had clearly favoured preferential trade agreements and less exposure to world competition. He was interested in knowing the impact of regional agreements on competition within the domestic market, the restructuring of the economy as well as on the synergy between foreign trade and industrial policy. What was the relevance of tariff escalation within the framework of regional agreements?

IV. STATEMENT BY THE SECOND DISCUSSANT

27. The second discussant (Mr. Carlos Paranhos) stated that the TPR exercise would help in appraising Venezuela's economic difficulties. The implementation of Venezuela's 1989 programme of reforms had been marked by internal political difficulties and adverse external economic conditions, in particular lower prices for its major exports. In accordance with the objectives of the programme, Venezuela had increased its non-traditional exports and the Andean Group market had become the main destination of its non-oil exports.

28. He considered that it would be interesting to have the authorities' assessment of Venezuela's accession to the GATT and membership of the WTO, including the benefits or difficulties relating to compliance with its Agreements. What changes had been made to domestic legislation to implement accession - and Uruguay Round - related commitments? He also sought information on Venezuela's situation and priorities with respect to WTO notification requirements, as well as on the new Ministry of Industry and Trade.

29. He asked for additional information on the export incentives which were available to different sectors. He requested a description of the main features of the legislation on foreign direct investment. He sought explanations on the impact and the progress of the privatization programme; the functioning of the Andean Price Band System; and the objectives and operation of the automotive régime.

30. In view of Venezuela's participation in several regional agreements, he sought explanations on the steps taken by the authorities to ensure that such arrangements were consistent with GATT/WTO provisions. What were Venezuela's main interests in participating in regional trade arrangements such as those of NAFTA and MERCOSUR.

V. STATEMENTS BY MEMBERS OF THE TRADE POLICY REVIEW BODY

31. Members of the TPRB thanked the Venezuelan representative and the discussants for their opening statements, and extended their appreciation to the Venezuelan Government and the Secretariat for their respective reports. Members commended Venezuela for its efforts in liberalizing trade and its active participation in the negotiations of the Uruguay Round despite the crisis in recent years. The 1994 foreign exchange and price controls were widely questioned, and their repeal urged. Concern was also voiced over the recent introduction of the Andean Price Bank System.

32. Members welcomed the delegation of Venezuela and expressed their appreciation to Minister Corrales for his presence at the meeting. Members also thanked the Venezuelan representative and the discussants for their opening statements, and Venezuela and the Secretariat for their reports.

33. The representative of Colombia said that trade between Venezuela and Colombia was of fundamental importance for the two economies; Colombia had become the main destination for Venezuela's non-oil exports, while Venezuela was the third largest market for Colombia's exports. Trade had been strengthened since the establishment of the Andean Group and the subsequent harmonization and coordination of trade policy, including the adoption of a common external tariff and the elimination of non-tariff barriers.

34. Venezuela's liberalization programme had seen the rationalization and reduction of tariffs, the comprehensive elimination of import prohibitions and licences, and the adoption of more flexible controls on agricultural imports. Measures had been adopted to attract foreign investment and privatization was reducing state participation in the economy. Venezuela had made important contributions to trade liberalization and integration, both at regional and multilateral levels, through its active participation in regional agreements and in the Uruguay Round negotiations. Venezuela's participation in the Group of Three, with Colombia and Mexico, had drawn that country into an integration initiative covering goods, services and intellectual property.

35. Venezuela's very significant trade liberalization had suffered set backs during the past three years because of economic difficulties. These had worsened in early 1994 with a crisis in the financial system, falling international reserves and rising inflation. The Venezuelan Government had been forced to adopt restrictive measures including strict foreign exchange controls, which affected trade flows; aware of this, Venezuela had more recently adopted corrective measures to facilitate payments and reactivate trade. Expressing his hope that Venezuela would solve its economic problems without further trade effects, the representative of Colombia asked about the operation of the exchange restrictions, as well as plans to eliminate the 1 per cent customs services charge.

36. The representative of the United States said that his comments were a supplement to earlier questions in writing from his delegation. He recognized the severity of Venezuela's economic difficulties since 1994 but, given the important trade links between the two countries, the United States was greatly concerned by the controls placed on foreign exchange. The system lacked transparency, was restrictive and impeded the trade interests of the United States, which had lost its position as Venezuela's largest trading partner.

37. Exchange controls had been introduced in June 1994 but were only notified in November 1995. Frequent changes to the rules had made difficult for trading partners to understand and use the system, which appeared to have both balance of payments and TRIMs implications. In particular, the export-related conditions for foreign exchange benefits possibly constituted a TRIMs violation. Noting Venezuela's commitments under IMF Article VIII, the representative of the United States said that

Venezuela was restricting payments and transfers for current international transactions, maintained multiple exchange rates and, arguably, discriminatory currency arrangements favouring members of the Latin American Integration Association (LAIA). Suggestions that such a régime was related to a weak balance of payments situation were inconsistent with the absence of notification to the WTO Balance-of-Payments Committee, Venezuela's apparent large trade surplus and significant international reserves.

38. He also expressed great concern on the lack of transparency in Venezuela's agricultural policies. Agricultural exports to Venezuela faced barriers due to the periodic denial of import certificates, tariff surcharges and the Andean Price Band System. The United States strongly believed that this system lacked transparency and distorted trade, and stressed the importance of ensuring that tariff bindings were respected. He expressed disappointment about Venezuela's support of the European Union's banana import régime. Noting that the United States had not yet completed its Uruguay Round negotiations with Venezuela on corn, he asked when Venezuela would confirm the 20 per cent ceiling binding on yellow corn negotiated during its GATT accession. A copy of the regulations under preparation to guarantee the observance of in-quota bound tariff levels was also requested.

39. The United States welcomed Venezuela's steps to open its oil, banking and insurance industries, as well as its initial participation in the GATS negotiations on basic telecommunications. He hoped that Venezuela would contribute to the success of the negotiations by making binding commitments, and that further opening to foreign investment would take place in oil and other industries.

40. He noted that other comments on customs issues, tariffs and taxes, investment, legislation and domestic procedures, regional and preferential agreements, trips and notifications were incorporated in the list of questions previously provided.

41. The representative of Canada, also noting that her delegation had submitted questions in writing, commended Venezuela for its liberalization efforts and encouraged it to remove the foreign exchange controls introduced in 1994. Such controls offered limited benefits in the short term and tended to be detrimental in the long term; their elimination would signal the end of the crisis and, with sound macroeconomic policies, could be an effective way to curb capital flight and attract investment. She commended Venezuela for its bindings of agricultural products, although the agricultural sector continued to be protected, for example, through the Andean Price Band System.

42. She welcomed Venezuela's efforts to modify the rôle of the State in the economy and encouraged further steps to liberalize and correct fiscal imbalances. She also welcomed the opening up of the oil industry, following the easing in 1993 of investment restrictions. The recent devaluation would boost exports and make possible a more flexible exchange rate regime. Additional information was requested on products still subject to price controls, on whether the domestic price of petroleum products would be aligned with world prices, on the further opening of the oil industry and on the eventual fiscal cost of dealing with the banking crisis.

43. The representative of the European Union recalled the written questions submitted by the EU. He said that Venezuela's natural wealth had also created problems, particularly a high, if diminishing, dependency on petroleum for foreign exchange earnings. Welcoming the improvement in GNP per capita during 1995, after previous decreases, he noted that GNP fluctuated closely with petroleum exports. Details were requested on steps to bring domestic fuel prices into line with international levels and, referring to the debate in Venezuela concerning how to manage fluctuations in oil export earnings, on plans to diversify the economy.

44. Trade deficits and foreign debt problems had led in the late 1980s to an economic austerity programme, a move away from import substitution and greater integration into the regional and world economies. Venezuela had acceded to the GATT in 1990, where it had played an active role. Understanding was expressed for the subsequent slowing down in the pace of adjustment, especially after the problems of 1992, the banking crisis and the levelling off of petroleum exports. However, the observation that Venezuela had largely avoided reversing its trade reforms already contained an important qualification.

45. He also welcomed the privatization programme, although the state sector remained large. Referring to apparent delays in the privatization process, details were requested on the programme and on the remaining degree of state participation in the economy, particularly concerning enterprises enjoying exclusive or special privileges. Venezuela was also asked whether it planned to join the plurilateral WTO Agreement on Government Procurement, or make public procurement less protectionist and more transparent.

46. He expressed concern on the system of foreign exchange controls. These appeared to lack transparency, particularly in regard to priorities for allocating exchange. Information was requested on how such controls were implemented and plans for their removal.

47. The representative of Argentina expressed his support for Venezuela's reform programme. The ongoing privatization programme was progressively opening sectors traditionally reserved to the state, notably mining and petroleum. The successful participation of Argentinean enterprises in the latter area indicated that the programme was heading in the right direction and must be further pursued.

48. Reference was made to observations in the Secretariat report concerning the fiscal deficit, the need for better management of oil revenues, and the need to adjust domestic gasoline prices. He asked whether such adjustment was part of the programme under negotiation with the IMF, mentioned in the Government report, which included a gradual reduction of the fiscal deficit.

49. Argentina welcomed Venezuela's tariff reform and its increased binding commitments, as well as with the binding within LAIA of the preferences granted under Complementarity Agreement 20 between Venezuela and Argentina. Noting that tariff escalation remained the main tool to promote industrial development, with significant escalation for food, textiles and leather, he asked why a similar pattern was not maintained in other industrial sectors.

50. He expressed concern on the use of variable levies, under the Andean Price Band System on imports of agricultural products from outside the region. Further information was requested on the apparent recent elimination of tariff surcharges on agricultural products. Argentinean exporters had faced difficulties in obtaining sanitary certificates for black beans, onions and peanuts; however, he was confident that a solution would be found in the context of bilateral meetings on those issues. Clarification was requested on reservations made by Venezuela concerning movement of natural persons in certain service areas mentioned in the Secretariat report.

51. The representative of Japan appreciated the liberalization of the foreign investment régime, particularly in the oil sector where Japanese firms were involved. He noted the restrictive effects on imports of the foreign exchange controls and the large number of exceptions. Japanese firms established in Venezuela had difficulties in pursuing their trading activities due to lengthy, complicated and non-transparent procedures relating to foreign exchange authorization, particularly for imports of electric appliances and motor vehicles. He hoped that efforts to improve transparency would be made.

52. The representative of Switzerland expressed concern about the Venezuelan economy. Foreign exchange and price controls combined with the continuous devaluation of the bolivar had led to price decreases in real terms; thus certain firms had to cease production. Delays in investment-related remittances could discourage foreign investors. She asked the authorities to clarify the product coverage of the import licensing régime. While encouraging Venezuela's involvement in regional and bilateral agreements, she expressed the hope that this process would observe the spirit of Article XXIV and would favour multilateral trade rather than the erection of barriers between regional blocs.

53. The representative of Uruguay commended Venezuela for avoiding any reversals in the trade liberalization process despite recent difficulties. However, he said that the Andean Price Band System, which affected the transparency and predictability of border protection, would not improve agricultural resource allocation. He expressed concern over its consistency with the tariff binding and "tariffication" commitments under the WTO Agreement on Agriculture.

54. To cope with instability in world prices originating in subsidization by certain exporters, safeguard or countervailing measures were more transparent. This type of measure was not prohibited under the Agreement on Agriculture and did not delink the domestic from the world market. His authorities were very interested in having the document explaining the functioning of the Andean Price Band System (referred to in the initial statement of the representative of Venezuela). He hoped that Venezuela's negotiations with the MERCOSUR would be concluded rapidly.

55. The representative of Mexico wanted to know the rate of and the rationale for the implementation of internal taxes on imported alcoholic beverages. He also requested information on new laws on financial services and telecommunications. He wondered whether the latter would form part of Venezuela's offer in the negotiations.

56. The representative of Hungary said that the recent slowdown in the pace of reforms raised concerns over the irreversibility of the entire process. The rôle of the State in the economy seemed excessive. Certainly, protection to domestic producers had decreased and the predictability and transparency of the regulatory framework had improved. However, the liberalization process had not affected the agricultural sector which was protected in an unpredictable and intransparent manner by the Andean Price Band System. This system could result in tariff protection exceeding binding levels. He wanted to know when this border measure was to be notified to the WTO. Furthermore, he asked the authorities to confirm that the tariff surcharges which affected a few agricultural items had been suppressed at the date foreseen (January 1996).

57. The representative of India recognized the merits and continuity of the autonomous liberalization and reform measures undertaken by Venezuela. Nevertheless, the initial benefits from this process had been subsequently eroded in the face of social and political problems. He advised stringent monetary and fiscal discipline as well as further liberalization of the foreign investment régime. An outward-looking policy beyond regional and bilateral arrangements would help. Regarding Uruguay Round commitments, he commended the improvements made in binding levels as well as the changes undertaken in the regulatory framework in line with WTO Agreements, including those in the sector of financial services.

58. The representative of Pakistan commended Venezuela for its outward-looking policies and expressed the hope that foreign exchange restrictions would be repealed.

59. The representative of Chile praised Venezuela's efforts for the adjustment of its legislation to the WTO commitments. She sought information on the progress on the adoption of new legislation

on a number of issues including customs valuation, export credit insurance, free zone régime and the protection of intellectual property rights.

60. The representative of Brazil noted the reinforcement of Venezuela's participation in regional cooperation mechanisms, particularly with Colombia and Mexico. He was interested in knowing whether its objective was to negotiate an association agreement with or become a full member of MERCOSUR.

VI. REPLIES BY THE REPRESENTATIVE OF VENEZUELA AND ADDITIONAL COMMENTS

61. On the suggestion of the Chairperson, the responses by the representative of Venezuela were grouped in two main blocks: (i) economic reforms, fiscal equilibrium and macroeconomic adjustment; the rôle of the State in the economy; exchange controls; and (ii) Venezuela in regional agreements; sectoral themes (agriculture); Venezuela in the WTO.

(i) Economic reforms, fiscal equilibrium and macroeconomic adjustment; exchange controls

62. The representative of Venezuela said that despite a slowdown between 1992 and 1993, the 1989 trade liberalization programme had been strengthened and expanded both at multilateral and regional level in recent years. Fiscal and institutional reforms, blocked on the eve of the 1992 political crisis, had been approved only in February 1994. Nevertheless, there had been considerable diversification of the economy and by 1995 the contribution of the oil sector fiscal revenue was 46 per cent, compared with 75 per cent in 1990.

63. The privatization programme, which had met with some prior to 1991, had been re-activated in October 1994 through the Stabilization and Economic Recovery Programme (PERE), a plan comprising the elimination of state involvement in the economy. By now, progress in this area comprised: the implementation of a programme for the opening of the oil sector; the ongoing privatization of all state-owned aluminum and steel industries (ALCASA, VENALUM, BAUSILUM, SIDOR); the creation of a Ministry of Industry and Trade; the granting of a major public works contract by means of international tender; and the preparation of reforms for the liberalization of the legal framework.

64. Regarding the programme of structural reforms and adjustment, the short-term objective was to attain fiscal equilibrium. The ratio of the public deficit to GDP was expected to be reduced to 2.5 per cent in 1996 and nil in 1997, while inflation was expected to be below 50 per cent in 1995. In the past two years, the largest part of the public deficit had been generated by the massive assistance provided to the banking sector. He explained that, during the first half 1994, this assistance had translated into a 200 per cent increase in the volume of money. In the absence of controls and a restrictive monetary policy, this would have driven inflation rates to over 300 per cent. International reserves had dropped by 33 per cent in two months. A costly rescue policy had been pursued.

65. The macroeconomic equilibrium depended, inter alia, on the full removal of control régimes, in particular that on foreign exchange. His Government was committed to taking action in this respect, striking an agreement with the IMF and carrying out necessary adjustments. The price controls, now affecting 12 groups of mass-consumption products, had no effect on competition. These controls had never frozen prices against the rise in inflation rates or currency devaluation; prices were adjusted every three months.

66. In response to criticism on the implicit domestic subsidies operated through fuel prices kept below the world market level, he stated that the Government was convinced that adjustments should be made in this area. He recalled that, as cited in the IXth National Plan, these were to form part of the programme for the improvement public transport in urban areas; the objective was to channel the subsidy to this activity. Nevertheless, in view of the political and social impact, no decision had been made yet on the timing or on the instruments to be used.

67. The forthcoming liberalization in the distribution of fuels, still requiring new legislation for the repeal of state monopoly in the sector, was expected to bring more competition in the domestic market and would thus benefit consumers. Certain progress had been made allowing the manufacturing

and marketing of non-regulated oil products (e.g., lubricants). A private group from Venezuela had already started marketing lubricants in the Andean Group market and other countries in the region.

68. Servicing the bilateral debt was a fiscal priority. The Government, with the technical assistance of the World Bank and the Inter-American Development Bank, was working out an administrative reform to be implemented under a joint sectoral loan. Supervision of the banking sector had been reinforced through a new regulatory framework. Pressure was being exerted on private banks to meet the Basle terms with a view to eliminating their liquidity problem. FOGADE was entrusted with the privatization of publicly-owned banks.

69. He described the critical circumstances which had preceded the establishment of exchange controls; particular emphasis had been given to indicators such as the growth of the monetary mass and the significant drop in the level of international reserves. He underlined the fact that the exchange controls had not been established for balance-of-payments purposes. These controls had not had restrictive effects on the level and the direction of trade flows. Between 1994 and 1995 imports had grown by 28 per cent in U.S. dollar terms. The United States remained Venezuela's main supplier and export destination (including oil).

70. Pending their elimination, the exchange controls were being progressively liberalized in line with the availability of international reserves. Action to streamline certain documentation and authorization requirements, had been taken to ease certain imports such as those valued at less than US\$5,000 and those paid through either the LAIA Reciprocal Payments and Credits Agreement or in bolivars. Changes relating to the authorization to exporters to maintain bank accounts in foreign currency abroad, had focused on adding flexibility to the administration of foreign currencies; it was intended that export earnings could be used to pay for imports. Bureaucratic procedures for the granting of exchange had also been reduced.

71. The drop in operational reserves of the Central Bank in the last quarter of 1995, had led to the establishment of a list of priority imports for the allocation of foreign exchange. This list, initially comprising foodstuffs, medicines, and industrial inputs, had been extended to include telecommunication items, textiles, footwear and printing (newspaper) paper. Priorities had been expressed in chronological order and not in terms of rejecting applications or excluding certain import items.

72. He concluded by confirming that the macroeconomic programme contained a fiscal adjustment component which was to be coordinated with restrictive action in the monetary area and the liberalization of the exchange market. To carry out this programme, reforms were under way. However, consensus had to be reached in Congress for the approval of new fiscal legislation and the agreement with the IMF had yet to be concluded.

73. The first discussant appreciated the information provided on fiscal matters, as well as on the extent of the recently introduced measures for price control. He asked about the social acceptability of the recent reform measures. Recalling discussions on coherence and cooperation among the IMF, the World Bank and the WTO, he asked whether there were any trade measures involved in the forthcoming agreement with the Fund. Was the new Ministry of Industry and Trade planning to redesign an industrial policy based on trade measures?

74. He urged the phase-out of the exchange control régime by pointing out that procedural delays and the operation of price controls could easily affect imports of goods such as pharmaceuticals. Regarding the figures on rising imports indicated in the context of the exchange controls, he asked in which currency these were expressed (US\$ or bolivars). He called for an urgent normalization

of the situation, since in the context of a rapidly changing economic environment, slow adjustment could inflict lasting damage to foreign exporters.

75. The second discussant noted the extent of the crisis revealed by the Minister. He wanted to know the permissible share and conditions for foreign ownership under the privatization plan. He also asked for operational details on the priority principle used for foreign exchange allocation purposes.

76. The representative of Colombia was interested in knowing the share of banks which had passed to the public sector in the context of the financial rescue operation. He sought information on any plans for re-privatizing these banks as well as on the possibilities for foreign investors in this specific area.

77. The representative of New Zealand appreciated the Government's determination to eliminate price and exchange controls. However, in the light of his country's experience with such measures, there were still major difficulties to be overcome (e.g., blockages in importing, de-bonding, wholesale and retail stock shortages). The foreign exchange allocation system determined the timing, volume and value of trade flows. He recalled that certain industries, such as food processing, were particularly vulnerable to supply variations.

78. The representative of Japan asked whether a date had been set for eliminating the exchange controls.

79. The representative of the EU pointed out that foreign exchange controls created problems for EU exports, such as exports wine, to Venezuela and asked for the timing of their phase-out.

80. The representative of Argentina stated that adjustment measures had always been painful for the population. Referring to Government plans for the reduction of inflationary pressures by means of arrangements between employers and employees, he sought information on the state of progress and content of such arrangements.

81. The representative of Peru asked about restrictions on foreign exchange remittances abroad, included those covered by different investment protection treaties. He sought details on debt servicing other than that of bilateral debt.

82. In response the representative of Venezuela recognized that to manage the current crisis appropriate mechanisms, observing international obligations, were required.

83. While the social acceptability of adjustment measures was for sometime now a requirement for undertaking reforms (including the 1994 tax reforms), he recalled that the 1989 market-opening programme had been launched without obtaining consensus among all economic agents/operators. The opinion of the less-favoured sections of the population, which were to be the main beneficiaries of the reforms, had been manipulated against changes.

84. Venezuela's industrial policy was not being implemented with protectionist trade measures and was aimed in increasing competitiveness in a neutral manner. Certain documents on the principles of Venezuela's industrial policy would be supplied to the WTO Secretariat for circulation. He then discussed the efficiency of tariff escalation or uniform tariffs in raising production and exports of high value-added items. Export diversification in developing countries with abundant natural and energy resources such as his country, tended to develop on a cross-sectoral basis which did not necessarily attain optimum or maximum levels of value-added. The objective was to avoid significant discrepancies

in productivity among different sectors and thus obtain better resource allocation. Trade was an efficient instrument and part of the final objective of economic development policies. To design development and equitable industrial policies, the full latitude available in international agreements had to be utilized.

85. Regarding the repeal of foreign exchange and price controls, he reiterated that no specific date had been agreed yet; this depended on the forthcoming IMF agreement and the situation of the country's international reserves. He clarified that these controls did not distinguish between foreign and domestic suppliers.

86. He said that the foreign exchange priority allocation system was much simpler than it was thought to be. Priorities were strictly defined by product group. Foreign exchange was automatically granted to items contained in the priority list. The system had introduced order to imports. There would not be any negative response to such applications unless foreign reserves were not available.

87. The import growth and values quoted in the reply on the effect of exchange controls were expressed in US dollars. Due to delayed adjustments to the exchange rate in order to reflect inflation developments, the national currency had been overvalued, thus constituting an import incentive.

88. Imports from New Zealand, consisting mainly of milk in powder which formed part of the priority list (foreign exchange allocation), were benefiting from foreign exchange authorizations granted to importing firms. These authorizations affected 8,000 tonnes and had not been fully utilized yet.

89. There were no restrictions on foreign currency and capital transfers abroad, an application was simply required to the Exchange Management Board (*Junta de Administración Cambiaria*).

90. Price controls were also to be dismantled. He recognized that these controls affected the pharmaceuticals sub-sector and imports of these items suffered all the effects of devaluation. The most recent price adjustment for medicines was about to be published in Venezuela.

91. Regarding the crisis in the financial sector, he said that this was a normal outcome of the introduction of liberal economic reforms in the absence of adequate supervision. With respect to the share of private banks which had passed to the public domain, he said that figures were to be made available in due term. He gave details on the crisis and developments on the re-privatization of the banking sector; there were no limitations on foreign participation.

92. Details on conditions affecting foreign investors in the context of the overall privatization process were to be supplied in due term to the WTO Secretariat. He nevertheless indicated that 10 per cent of the shares was reserved for the employees of state firms.

93. The relations between the State and labour-related associations (employers, unions) had improved since 1995. A Special Committee had been established to propose reforms to the social allowances and pension funds scheme. In January 1996 an agreement had been reached between associations in this area. A new law was also under discussion in Congress.

94. All payments relating to the restructured debt of the period 1990-91 had been made.

(ii) Venezuela in regional agreements; sectoral issues (agriculture); Venezuela in the WTO

95. The representative of Venezuela said that, under the concept of "open regionalism", membership of regional agreements and strengthening regional trade did not exclude participation in the multilateral framework. Andean policies aimed to consolidate the free trade area and to establish a customs union; a process of harmonization had been initiated with the adoption of the CET in 1995. The four-tier structure of the CET (5, 10, 15 and 20 per cent) had been carefully negotiated with reference to the degree of processing and sought to encourage the development of Andean industries and regional value-added.

96. The relation with MERCOSUR was part of the general integration strategy and of paramount importance for Venezuela, which was actively promoting the integration of the MERCOSUR and the Andean group. The two groups expected to conclude during 1996 the renegotiation and multilateralization of their "historical heritage", i.e. earlier preferences granted as part of bilateral agreements under the LAIA. The integration of the two groups would bring about a more balanced relationship when the Free Trade Area for the Americas was established, a process which Venezuela welcomed and to which it was committed. To that end, Venezuela supported the gradual expansion and consolidation of existing sub-regional pacts, a complex process which should ensure the convergence and compatibility of the continent's integration agreements. The next Cartagena Ministerial Meeting would strengthen the negotiating basis for the FTAA. Venezuela had also followed with interest development of NAFTA, which together with the Uruguay Round Agreements had served as a reference for the Group of Three.

97. All of Venezuela's regional and preferential agreements had taken place within the framework of the LAIA Referring to the observation in the Secretariat report that three years had elapsed since LAIA's last report to the Committee on Trade and Development, the Government of Venezuela committed itself to try to arrange for the LAIA Secretariat to provide an update on recent agreements subscribed by Venezuela.

98. The delegate of Venezuela stated that agricultural policy aimed to restore and modernize internal production systems and to increase productivity and competitiveness. Official support was only a minor element of that strategy; protectionism and over-regulation were over in Venezuela. Trade policies would be used to support the drive for modernization in line with Venezuela's commitments.

99. The central elements of agricultural policy included environmental conservation and regional specialization in particular products, aided by rural censuses and regularization of land tenure. Investment was also being made in infrastructure and research and technology programmes with the participation of multilateral bodies such as the IDB and the World Bank. Privatization had embraced marketing systems and infrastructure, including irrigation. Credit was being made available by the Government as well as by private and state banks. The new type of relationship between the State and private entities included policy coordination through Consultative Councils in to specific production areas.

100. The policy of liberalization, begun in 1989 and consolidated through Venezuela's accession to GATT, had been maintained with only minor interventions in the setting of domestic prices for highly sensitive products. Tariffs had been adjusted and rationalized, most maximum and minimum prices had been eliminated, as had also been import licensing, tariff exemptions, fertilizer subsidies, and the state trading monopolies for coffee and cacao. A price stabilization mechanism had been adopted for sensitive products, such as milk, sugar, pork and chicken. Import surcharges of 60 per cent had been applied from 1992 on items such as cereals, dairy products and alcoholic beverages, but the

surcharges on cereals had been eliminated in August 1994. Remaining surcharges would be eliminated with the publication of a new tariff schedule in the Official Gazette.

101. The harmonization of agricultural policies within the Andean group had led to a reduction in the list of products entitled to export subsidies, the freeing of trade in seeds and the adoption of the Andean Price Band System. This mechanism was detailed in a report already circulated, which showed the system as having no significant effects on imports. An official report from the Cartagena Agreement Board fully describing the system and its expected effects would also be provided. Noting the technical and detailed nature of his prepared text on this subject, the delegate of Venezuela asked the Chair whether it would be appropriate to hold technical discussions over the following days for Venezuelan experts to respond to specific questions on the Andean Price Band System. The Chairperson indicated her preference for giving time to interactive discussion rather than reading out of texts; the Secretariat would make available a room for informal discussion on the system, if required.

102. Sanitary and phytosanitary permits were granted on the basis of risk analyses related to the origin of the product and sanitary and phytosanitary conditions, to ensure there was no danger of introducing exotic diseases in Venezuela. Permits had been denied for products from countries where avian influenza, respiratory and reproductive pork syndrome, and African port pest were present. Venezuela had not received from countries affected requests for recognition of disease-free areas as allowed under the SPS Agreement. Normally, permits would be granted for products from other countries. In relation to pork, Venezuela had applied the recommendations of the International Pork Veterinary Association and was still consulting the International Epizootic Organization (IEO) with a view to the possible removal of restrictions.

103. A ban was in place for cattle from countries where foot and mouth disease existed, this being an exotic disease in Venezuela. Imports from countries where the eradication of this virus had been certified by the IEO were under consideration by the Venezuelan authorities. There were no restrictions on the granting of phytosanitary permits for onions, black beans or peanuts, and imports had increased considerably in 1995.

104. In relation to the possible breach of binding commitments through the application of the Andean Price Band System, Decision 371 of the Cartagena Agreement concerning that system established the obligation to meet the Uruguay Round commitments. Following the conclusion of the Uruguay Round, the United States had proposed renegotiations concerning corn, but since Venezuela's counter-proposal had been rejected, the binding on that tariff line remained unchanged at 20 per cent. The appropriate administrative procedures for tariff quotas were under study by the Government and would be notified in due course. The authorities had no evidence of denials of sanitary permits for protectionist reasons.

105. The first discussant was encouraged to learn that an update of Venezuela's regional agreements would be provided. As such agreements continued to grow in number and complexity, complying with existing WTO notification requirements was particularly important.

106. The second discussant asked for further information on Venezuela's plans vis-à-vis NAFTA and MERCOSUR. He also requested clarifications on whether surcharges continued to apply to certain agricultural products and, if so, when the new tariff schedule eliminating them would be published.

107. The representative of Venezuela said that his country attached great importance to the relationship with MERCOSUR. Within the Andean Group, Venezuela had taken a leading rôle in bringing the two blocks closer, as had Brazil within MERCOSUR. Such efforts were important to create a more balanced relationship that would help advance the FTAA initiative. Venezuela considered the relationship

with NAFTA to be an important point of reference, as were the Uruguay Round Agreements and the Group of Three agreement.

108. The new tariff schedule modifying the surcharges on certain agricultural products had been published in the Official Gazette on 9 February 1996. Although reduced in number, surcharges still applied to some products such as non-alcoholic beverages and cheeses. Venezuela had made a number of notifications; others would be brought up to date. In the future, notifications and informal information would be provided to the WTO and major trading partners on a timely basis.

109. The delegate restated that answers in writing would be provided to all questions. It was important, however, to address at the meeting the issue of the customs services charge. Such charge was collected as 1 per cent of the value of shipments, having been reduced from 5 per cent in accordance with Venezuela's commitments when joining GATT. This rate attempted to reflect the cost of the service provided by the customs authorities and had the virtue of eliminating discretionary elements from the calculation. Venezuela continued to examine alternatives that preserved the simplicity and transparency of the current system, but which would better reflect the true cost of the service. However, these efforts were made difficult by limitation on the availability of cost data.

110. The delegate of Colombia requested a review of the text in paragraph 47, page 62, in the Spanish version of the Secretariat report to reflect the information provided by Venezuela on the customs services charge.

VII. CONCLUDING REMARKS BY THE CHAIRPERSON

111. At its meeting on 12-13 February 1996, the Trade Policy Review Body held its first review of the trade policies and practices of Venezuela. These remarks, made on my own responsibility, summarize the salient points of the discussion and are not intended to substitute the for collective evaluation and appreciation of Venezuela's trade policies and practices, which will be reflected in the Minutes.

112. We appreciate very much that Venezuela has made a text of their replies, which includes details on the operation of the Andean Price Band system, available to all interested delegations and proposed additional written information in the days to come.

113. The discussion developed under six main themes: (i) the general economic situation and reform programme; (ii) exchange controls; (iii) the rôle of the State in the economy; (iv) Venezuela in regional agreements; (v) sectoral questions; and (vi) Venezuela in the WTO.

(i) General economic situation and reform programme

114. Venezuela was widely commended by members for the rapid progress of economic and trade reform between 1989 and 1992. Since then, despite difficult economic and social problems, the process had not, in the main, been eroded. Venezuela was encouraged to carry forward its reforms and bring greater transparency to its policies. Further liberalization would also bring to fruition the improvements in competitiveness initially expected from Venezuela's trade liberalization and accession to the GATT. A question was posed regarding the acceptance of the reforms by the population.

115. Note was taken of Venezuela's ongoing negotiations with the IMF and details were sought on whether such negotiations included closing the gap between domestic and world prices for fuels. Venezuela was encouraged to pursue appropriate monetary and fiscal policies to address its domestic and external imbalances in the least trade distorting manner.

116. The paramount rôle of petroleum in Venezuela's economy was noted. Members stressed the importance, while recognizing the difficulties involved, of reaching an appropriate balance between the oil sector and the rest of the economy. Given the vulnerability of the economy to highly variable oil revenues, questions were asked on efforts being made to diversify the economy, particularly exports.

117. In response, the representative of Venezuela said that the reforms initiated in 1989 had been consolidated and deepened since 1994, following a weakening of efforts in 1992-93. This included liberalization in a regional context as well as the entry into force of the WTO agreements. Tax reforms had been approved in 1994 and further reforms were now before Congress. He emphasized the need for social acceptability of any reform programme; and underlined that the present reforms were being undertaken after full consultations. He gave details of Venezuela's industrial policies and their relation to trade commitments.

118. The Government was concentrating on reducing the fiscal deficit, aiming at balance in 1997, and was hoping to reduce inflation to 50 per cent in 1996. Success in achieving macro-economic stability depended on a number of measures, including the eventual ending of exchange controls and financial support, one of the reasons the Government was seeking an agreement with the IMF.

119. The representative also explained that general price controls had already been reduced to 12 categories of mass-consumption products under price management, with adjustments every 2-3 months.

The Government also recognised the need for adjustments in domestic prices of petroleum. This was to be undertaken in the context of changes to public transport services. A number of changes were already being made in the internal market for non-regulated petroleum products.

120. Details were also provided on the regularization of the servicing of bilateral debt as well as a programme to resolve the problems of the financial sector. He emphasised that new supervisory mechanisms had been established and a new framework law passed by Congress.

(ii) Exchange controls

121. Widely shared concerns were expressed over the effects of the foreign exchange controls introduced in June 1994 against a background of serious reserve losses. Details on the operation of these controls were requested, particularly concerning the type of priority imports and non-discriminatory treatment among suppliers or applicants. Venezuela was encouraged to remove such controls as early as possible. Some participants believed that Venezuela's exchange controls lacked transparency and had detrimental effects on foreign investment, capital inflows and trade. The régime had not been notified to the WTO until November 1995; according to one Member, it seemed to have both balance-of-payments and TRIMs implications. Some members raised specific concerns regarding access for particular products accorded low priority under the system. Additional questions were asked on the consistency of the foreign exchange restrictions with Venezuela's IMF commitments and a possible deadline for their removal.

122. In reply, the representative of Venezuela said that the exchange controls were intended to arrest serious capital flight in the light of the lack of confidence that had developed after the political crisis of 1992. He emphasised that the crisis did not result from a "balance of payments problem" in the sense of trade in goods and services. The controls were temporary and exceptional and, consistent with this approach, they had been progressively liberalized. Venezuela was committed to reaching understanding with the IMF in the short term, and to dismantling both exchange and price controls as part of the Government's macroeconomic programme. Details of various steps in the liberalization were provided. The Venezuelan Government had focused on maintaining reserves, not on limiting trade flows or payments related to foreign investments; imports had not fallen, but had continued to grow. Certain changes in the direction of trade could not be related to exchange controls, but rather to developments in regional integration. As reserves had also fallen sharply in late 1995, the Government had been obliged to introduce certain product priorities; however, no applications had been refused and the priority list had since been expanded to include new sectors. There was no discrimination between domestic and foreign applicants.

(iii) Rôle of the State in the economy

123. Participants noted the crucial rôle of the State in key sectors of Venezuela's economy. Members stressed the importance of completing Venezuela's notification of enterprises subject to Article XVII of the GATT and sought a complete list of products covered by state trading enterprises.

124. Information was requested on developments in the privatization programme. The partial opening to foreign investment of the oil and financial sectors was welcomed and Venezuela was encouraged to continue the process; questions were posed on conditions for privatization of aluminium and steel, including the scope for foreign participation. Further details of the legislation on foreign direct investment were also requested. A number of Members sought information on Venezuela's policies and practices on government procurement.

125. In response, the representative of Venezuela said the privatization programme had been weakened in 1992/93, following initial successes in 1991, but at the end of 1994, in its new Stabilization and Recovery Programme, the present Government had announced its new concept for the reduced rôle of the state and re-launched the liberalization programme, including petroleum and the financial sector. Details were provided on the specific privatization programmes for petroleum, aluminium and steel. Proposals for further reforms would be presented to the next two sessions of the Congress. The creation of the Ministry of Industry and Trade in November 1995 was intended to play a major part in the new concept of public-private sector relations.

(iv) Venezuela in regional agreements

126. Members recognized the importance attached by Venezuela to participation in regional agreements. The Andean Group had become the major destination of Venezuela's non-oil exports. Members emphasised the need to ensure that all such trade agreements remained outward looking and the importance of full notification to the WTO. Information was sought on Venezuela's interests in NAFTA and MERCOSUR as well as the initiative to establish a Free Trade Area of the Americas.

127. The representative of Venezuela responded that his country's participation in regional agreements was in the form of open regionalism and was not at the expense of the multilateral system. The Andean Group was consolidating free trade and moving towards a full customs union, in which the establishment of a common external tariff in 1995 was the first step. The four-tier structure of the CET, decided after extensive negotiations, was intended to foster increased value-added. The eventual integration of the Andean Group and MERCOSUR was also being promoted actively, and member states were actively renegotiating their existing bilateral preferences. Such strengthened ties would lead to greater balance in relations in the negotiation of a Free Trade Area for the Americas, in which Venezuela was participating actively. Negotiation of an FTAA would be very complex and needed to take account of different stages of development. Sub-regional agreements could be consolidated and progressively converge towards an FTAA.

128. The representative also said that Venezuela's regional agreements all fell within the context of the LAIA, and an updated report on Venezuela framework of regional agreements would be provided to the WTO.

(v) Sectoral questions

129. The use of tariff escalation as Venezuela's main instrument of industrial policy was noted. Information was sought on patterns of escalation in specific industries as well as their effects in an environment of regional duty-free trade. Details were in particular sought on objectives and effects of the automotive régime in force.

130. Members pointed out that liberalization of agriculture had been relatively limited. Concerns were widely expressed about the potential trade-distorting effects of the Andean Price Band System, and its compatibility with WTO commitments; in this connections, details were requested on steps taken by Venezuela to ensure that its application did not violate tariff bindings.

131. Members welcomed the opening of Venezuela's banking and insurance sectors and expressed the hope that Venezuela would also make binding commitments within the GATS negotiations on basic telecommunications.

132. In response, the representative of Venezuela outlined the broad framework of agricultural policy objectives and how these had evolved. The intention was to modernize the sector, increasing specialization, productivity and competitiveness while preserving the environment. In this regard, the Programme for Agricultural Investment was being negotiated with the IDB and the World Bank. The overall programme of modernization had many elements, of which tariff protection was only one minor element. There had been major trade liberalization in the sector since 1990, including tariff reductions and rationalization, elimination of minimum and maximum prices, elimination of import licences, elimination of fertilizer subsidies, elimination of state monopolies in coffee and cocoa, the implementation of price stabilization plans for a number of products, harmonization with Andean policies, including reduction of export subsidies, liberalization of trade in seeds, and finally the adoption of the Andean Price Band System, on which operational details were tabled. Import surcharges on cereals had been eliminated in 1994 and others would be abolished on the forthcoming publication of the new customs tariff. Information was also provided on the operation of sanitary and phytosanitary controls.

(vi) Venezuela in the WTO

133. Members commended Venezuela for the increased transparency in its trade régime following its accession to the GATT. Tariffs had been reduced and rationalized and the scope of tariff bindings had improved in the Uruguay Round. Prohibitions and import licenses had been largely eliminated.

134. An overall assessment was requested on the benefits or difficulties arising from Venezuela's membership in the WTO, as well as progress in meeting WTO obligations, including notification requirements in a number of areas such as State trading and import licensing. Members were interested in the legislative changes required for implementation of the WTO Agreements. Venezuela was asked whether it was considering adherence to the Plurilateral Agreement on Government Procurement. Information was requested with respect to the elimination of the one per cent customs service charge, the coverage of the import licensing régime, the elimination of import surcharges, the implementation of internal taxes on imported alcoholic beverages and the operation of the standards and SPS régimes.

135. The representative of Venezuela recognized that certain notification obligations had not been fully met but action was to be taken to remedy the situation promptly. He also recalled the difficulties in reforming the legal and administrative framework at times of financial and economic crisis. A new Customs Tariff would shortly be published. The one per cent customs change was intended to approximate the cost of services provided; however, Venezuela was actively looking at alternatives.

136. In conclusion, the TPRB appreciates Venezuela's efforts to maintain a liberal trade policy, under very difficult circumstances and its active participation in the GATT/WTO system since its accession in 1990. We took note of the efforts to re-establish of macro-economic stability as a basis for future growth. We are sure that the Venezuelan authorities will give serious consideration to all the concerns raised during the review, and look forward to receiving the notifications and written replies promised by Venezuela in the course of the meeting. We also look forward to the consolidation of the economic reforms and to further advances in the process of economic liberalization and integration in the world trading system.