

TRADE POLICY REVIEW

Venezuela

Report by the Secretariat

This report, prepared for the first Trade Policy Review of Venezuela, has been drawn up by the WTO Secretariat on its own responsibility. The Secretariat has, as required by the Agreement establishing the Trade Policy Review Mechanism (Annex 3 of the Marrakesh Agreement Establishing the World Trade Organization), sought clarification from the Government of Venezuela on its trade policies and practices.

Document WT/TPR/G/ contains the policy statement submitted by the Government of Venezuela.

Note: This report is subject to restricted circulation and press embargo until the end of the meeting of the Trade Policy Review Body on Venezuela.

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SUMMARY OBSERVATIONS

(1) Introduction

1. Despite serious economic problems in recent years, Venezuela has largely avoided reversal of the important trade reforms initiated in 1989 together with a major macro-economic reform programme. However, foreign exchange controls, introduced in 1994 to stem capital flight, may have significant trade effects.

2. The 1989 reform programme, undertaken in response to a deteriorating trade balance and major foreign exchange problems, entailed fiscal adjustments, tightening of monetary policy and a lifting of controls on prices and interest rates. A unified, flexible exchange rate was adopted. The economic reforms brought some visible signs of success in 1990-92, helped by the recovery of oil prices in 1990; GDP growth accelerated and inflation fell rapidly. In 1991, both Government finances and the trade account turned to surplus, while the external debt was completely restructured. However, the stringency of the fiscal measures contributed to a serious political crisis, and the pace of adjustment has slackened since 1992. The economy also suffered a series of setbacks, including a major banking crisis; real GDP fell in 1993 and 1994; inflation reached some 6 per cent in 1995.

3. The authorities have tried to counteract inflationary pressures through new controls on prices of basic goods and services. Because of concerns about social consequences, the Government has been reluctant to take new severe measures to reduce the fiscal deficit, which was exacerbated by the need to provide support for the failing banks. In June 1994, seeking to stem the fall in international reserves, the authorities imposed exchange controls on all transactions and fixed the nominal exchange rate (against the U.S. dollar), leading to a real appreciation and loss of competitiveness for many Venezuelan exports. The bolivar was

devalued by some 70 per cent against the U.S. dollar in December 1995.

4. The liberalization of the trade régime, initiated in 1989, was complemented by the security of access and improved transparency resulting from Venezuela's accession to the GATT in 1990. The process involved a rationalization and binding of tariffs, as well as the lowering of both the maximum and average applied rates. However, escalation of applied tariffs, intended to promote local processing of domestic raw materials, remains a feature of the tariff structure, and some reductions on the rates on imported inputs for automobile assembly are conditional on compliance with local content requirements. Import prohibitions and licensing have generally been reduced to the extent necessary for security or health reasons or in keeping with international commitments; current exceptions include certain important consumer goods. Agriculture remains relatively protected. There have been advances in intellectual property protection and in competition policy.

5. Liberalization measures have also included steps to attract private investment and provide a more secure, level playing field for domestic and foreign capital. This process has resulted in the extension of the public debt conversion programme to foreign investors as well as a comprehensive opening of the banking and insurance industries and certain public works and services. Nevertheless, constitutional constraints continue to limit foreign participation in a number of key industries and services; access of foreign investors to activities such as the mass media, maritime transport and certain professional services is either prohibited or restricted, while mining (including hydrocarbons) is reserved to the State.

6. The State is thus still a key player in mining, manufacturing and services, including the supply of fuels and electricity, banking,

insurance, transport and tourist facilities. However, steps are being taken to allow the participation of private capital, for example, through joint ventures and operational agreements in petroleum and the privatization of all state-owned hotels and tourist developments. This may go some way to open up Venezuela's market structure, in which vertically integrated groups, many state-controlled, are still prevalent.

7. In 1993, manufacturing other than oil refining generated about 15 per cent of Venezuela's GDP, agriculture about 5 per cent and the services sector 62 per cent; the share of the petroleum sector in GDP was close to 18 per cent. This figure understates the rôle of petroleum as the cornerstone of the Venezuelan economy and the key to understanding major economic developments in the last 20 years. Oil accounts for the lion's share of Venezuelan exports, in spite of the significant impact of the production quotas maintained by Venezuela within the framework of the Organization of Petroleum Exporting Countries (OPEC). The sector also provides an abundant source of inexpensive energy for domestic industries and accounts for 60 per cent of government revenues, used to finance major advances in education and welfare as well as extensive State involvement in the economy. The appropriate balance between oil and other sectors is part of a broader debate on policies to manage highly variable oil revenues while fostering a more diverse economic structure that also reflects the long-term comparative advantage of non-oil activities.

(2) Venezuela in World Trade

8. Fuels and other mining products made up 76 per cent of exports of goods and services in 1993, down from 94 per cent in 1980; manufactures accounted for about 12 per cent. Key exports other than fuels are aluminium, motor vehicles (mainly to the Andean Group),

iron and steel products, coal and coke, and canned and simply preserved fish.

9. The shares of manufactures and minerals in imports of goods and services, at about 59 and 3 per cent respectively, changed little between 1980 and 1993. Agricultural and tourism imports fell slightly to some 10 and 13 per cent, while transport services increased to 12 per cent. The main manufactures imported are automotive products and non-electrical machinery, each representing some 13 per cent of total merchandise imports in 1993.

10. The United States is Venezuela's most important trade partner; between 1980 and 1993 its share of imports decreased slightly to 46 per cent, while that of exports increased to about 56 per cent. The European Union is the second largest partner, imports having grown to reach 32 per cent in 1993 and exports remaining relatively stable at about 22 per cent. Imports from other Latin American countries have also grown, reaching some 18 per cent in 1993; exports, however, fell to around 32 per cent. Merchandise trade with MERCOSUR and Colombia, in particular, showed especially large increases.

(3) Institutional Framework

11. Venezuela has no basic trade law; trade measures are based mainly on a series of laws, implemented through decrees and regulations. A number of modifications made in recent years to trade-related laws have resulted from commitments in regional fora, especially the Andean Group, and in the GATT and WTO. Such changes have affected laws on anti-dumping, standards and competition matters; new legislation is under preparation in areas such as customs valuation, export credit insurance, the free-zones régime and the protection of industrial property rights.

12. The Foreign Trade Institute (ICE), currently part of the Ministry of External Relations, is responsible for trade policy

formulation and implementation, including sectoral coordination. It also provides representation in multilateral fora such as the WTO and regional or bilateral negotiations. The Ministry of Finance is responsible for tariff policy. Foreign exchange and monetary policies are formulated by the Central Bank of Venezuela. Policies affecting services are the responsibility of several public sector institutions, with the ICE coordinating international negotiations. Under legislation awaiting approval, ICE and the Ministry of Development are to be replaced by a Ministry of Industry and Commerce.

13. Venezuela became a formal participant in the Uruguay Round four years after the launching of the negotiations. It ratified the Marrakesh Agreement on 29 December 1994 to become a founder member of the WTO. For the time being, Venezuela does not plan to sign any Plurilateral Agreement. The authorities considered the results of the Uruguay Round particularly beneficial in areas such as textiles and clothing, anti-dumping, countervailing measures and professional and financial services, while issues concerning environmental and workers' rights protection are being approached cautiously.

14. Since the late 1980s, the strengthening and expansion of regional and bilateral agreements have been important elements in Venezuela's trade policy. At present, Venezuela participates in free trade area commitments in the Andean Group, where it applies the Common External Tariff (CET), and the Group of Three (with Colombia and Mexico). Bilateral arrangements exist with individual Central American Common Market (CACM) members, LAIA partners, MERCOSUR countries and Cuba, while Venezuela provides unilateral preferential treatment to certain imports from CACM and Caribbean Common Market (CARICOM) countries. Venezuela is also involved in longer term projects such as the negotiations for a Free Trade Area for the

Americas and the Latin American Integration Association (LAIA).

(4) Trade Policy Features and Trends

(i) *Evolution of trade policies and instruments*

15. Venezuela's trade policies changed direction in 1989, when an import-substitution policy began to be replaced by a more open régime, whose objective was to reduce anti-export bias and integrate the Venezuelan economy more closely into world markets. Under this policy, tariffs, import restrictions and export incentives have all been reduced.

16. On accession to the GATT, Venezuela bound its tariff at a general ceiling level of 50 per cent. These commitments were strengthened in the Uruguay Round by agreeing to reduce the overall bound rate to 35 per cent by 2004.

17. Since 1992, Venezuela's applied tariff schedule has been based on the Common External Tariff of the Andean Group, with ad valorem rates of 5, 10, 15 and 20 per cent (with certain exceptions). Tariff escalation is intended to promote industrial development, encouraging the further processing of regional raw materials in Andean countries. A new tariff, introduced in July 1995, reduced tariff peaks affecting certain automotive items from 40 to 35 per cent. Most rates are ad valorem, but specific and compound duties are levied on certain items.

18. Tariff concessions have been rationalized; concessional entry is limited to imports covered by preferential agreements or entering free zones, temporary admission, admission for improvement and stock replacement. Reduced or zero tariffs apply to inputs, raw materials and capital goods not produced or available in the Andean sub-region. Reduced rates also apply to completely-knocked-down (CKD) motor vehicle kits for assembly,

subject to compliance by assemblers with local content requirements. Effective protection for the assembly industry is thus substantially higher than is evident from nominal rates.

19. In 1995, Venezuela adopted the Andean Price Band system to replace a similar national scheme in place since 1991. The Andean system applies to imports of certain agricultural items (including meat, dairy products, sugar, and various cereals, fats and processed foods) originating outside the region. Its stated objective is to stabilize the domestic price of those products in a manner consistent with the implementation of the Common External Tariff by all Andean Group countries. The system operates by adding an ad valorem levy to the CET rate whenever a reference price falls under a floor, or subtracting from such rate if the reference price exceeds a ceiling; floor and ceiling prices are linked both to the moving average and the spread of prices prevailing in world markets during the previous five years. As under this system applied rates could increase, in principle, beyond bound levels, questions arise about the predictability of such a form of border protection which exhibits many of the properties associated with variable levies.

20. In May 1995 customs clearance fees were abolished. Since April 1992, tariff surcharges have been applied to imports of 15 ten-digit NANDINA agricultural products, including certain types of cheese, maize and mineral waters. According to the authorities, these surcharges were to be eliminated by January 1996.

21. Since September 1994, a VAT-type wholesale and (luxury) consumption tax has been applied at rates ranging from 12.5 to 32.5 per cent on all goods, except some basic foods; on services; and on royalties from the exploitation of all types of intellectual property rights. Additional internal taxes on alcoholic beverages exclusively affect imported items; details of applied rates were not available to the

Secretariat at the time of completion of its report.

22. Import prohibitions are limited to used or old model road vehicles, used clothing, used tyres and gambling games. Restrictive import licensing seems generally to have been eliminated, while import permit requirements are maintained on several items for environmental, health and security reasons. Exclusive import rights are maintained for a few items requiring prior import authorization. In recent years efforts have been made to modernize legislation and institutional arrangements in standards; in June 1993, new compulsory regulations were introduced affecting, *inter alia*, automotive parts, chemicals, foodstuffs, health products and toys.

23. Absence of comprehensive data on the extent of state-owned enterprises does not permit a full appraisal of the degree of state involvement in production and trade. Government procurement legislation permits, but does not require, preferential treatment for domestic suppliers; no data on procurement operations other than that of the State oil company, PDVSA, was available from the authorities.

24. As promised on its accession to the GATT, Venezuela has introduced an injury test, applicable on a reciprocal basis, in its anti-dumping and countervailing legislation. Between 1992 and 1995 anti-dumping duties have been imposed on three occasions on manufactured goods while countervailing duties have been used against cheese imports.

25. Export licensing applies to a few items including fertilizers, certain metals and radioactive substances. A surcharge, to be phased out in 1996, affects petroleum exports. The scope of export assistance for agricultural products, at a rate of 10 per cent of the f.o.b. value, has been reduced over recent years. In the Uruguay Round, Venezuela committed itself to cutting budgetary outlays for

export subsidies by 24 per cent and eligible quantities by 15 per cent. Manufactured goods benefit from a duty drawback system on imports of inputs [and capital goods]. Export finance in domestic currency is provided on preferential terms, while foreign currency loans for this purpose are made on commercial terms.

26. The free zone régime, in existence for over twenty years, is the only regional development instrument; its incidence on the domestic economy remains limited.

27. Venezuela has met its WTO notification requirements in the areas of TRIMs, SPS (national enquiry points), rules of origin, anti-dumping, subsidies and countervailing measures, safeguards and textiles and clothing. Notifications have yet to be made on import restrictions, import prohibitions, licensing requirements and State trading, as well as on the fiscal credit and export finance programmes. Also not yet notified is the Andean Price Band system introduced in 1995.

28. Assistance to domestic production is provided through the supply of refined petroleum products at below world prices and through various other subsidies. For example, agriculture benefits from certain tax incentives, input subsidies on irrigation, electricity, and fixed producer prices on certain items. While the monitoring and fixing of maximum retail prices of certain food and services may disadvantage certain local firms, imported tobacco and cigarettes cannot be sold at a price lower than that of domestic brands. Competition policy introduced in 1992 has allowed for the examination of practices such as cartelization, mergers, boycotts and abuse of dominant position and could lead in the long run to stronger competition in the domestic market.

29. Under the minimum access opportunities of the WTO Agreement on Agriculture, the quantity of most agricultural imports subject to tariff quota commitments is to increase progressively by around 67 per cent by 2004;

however, there will be no increases for a number of items including milk, grains and sugar. The mechanism for the administration of tariff quotas was to enter into force in 1996. Venezuela maintains Special Safeguards Provisions on 76 agricultural items. Under its obligations relating to the Aggregate Measurement of Support (AMS), Venezuela is expected to reduce support to domestic producers through price fixing and input subsidies, by 13.3 per cent.

30. Protection of intellectual property rights is based on domestic legislation introduced in 1993 and complementary Andean Group measures of 1994. The new legislation covers a broad range of works but problems allegedly exist with its enforcement. Venezuela is a signatory to almost all major international conventions on intellectual property, trademarks, copyrights and patent protection, and is a member of the World Intellectual Property Organization. The authorities consider that the implementation of the Agreement on TRIPS should require no significant changes, except for some border measures where modifications are under way.

(iii) Sectoral policies

31. Under the reforms initiated in 1989, serious efforts were made to reduce the anti-export bias of earlier policies, including through privatization and deregulation of the economy. However, such a bias persists through the continued application of sectoral policies favouring "activity leader" groups. The misallocation of domestic resources implied by such measures may not be offset by positive externalities generated by the sectors concerned.

32. Mining and petroleum, which receive little import protection, are most likely negatively affected by the present régime. While assistance to agriculture appears moderate compared with some major world agricultural producers, protection and domestic supports have fostered a high-cost agricultural sector

isolated from international markets. The sector was greatly affected by the initial implementation of the liberalization programme; more recently, new supports have been introduced, mainly through the measures described earlier (the Andean Price Band system, preferential credit, etc.). Currently under study are a draft law on agricultural development and food security as well as a trade defence system and production incentives to counteract perceived distortions in world agricultural markets.

33. The current thrust of industrial policies is the promotion of selected industrial groups and domestic value added, mainly through tariff escalation. Some sub-sectors, such as petroleum refineries, iron and steel and aluminium, are major exporters. Apart from these, the manufacturing sector (particularly, food processing and the vehicle industry) has been inward-oriented and not particularly competitive in world markets beyond the Andean region. Low efficiency has been compensated in part by State subsidies through inexpensive inputs, especially under-priced fuels and other refined petroleum products. Assistance has more recently been provided through government-supported debt rescheduling and recapitalizations.

34. Liberalization has gone relatively far in the services sector, with further advances expected. In the past, high costs and inefficiencies resulted from the shielding of services from foreign competition; many services, particularly banking, were subject to powerful distortionary forces. Competition in the financial sector was hampered by severe restrictions on the entry of foreign banks and major weaknesses in the supervisory and regulatory framework. A major banking crisis erupted in 1994, when the authorities were compelled to nationalize or close a significant percentage of the banks in operation. The crisis spilled over to the insurance industry, with the Government again having to acquire a large number of companies. Steps taken since 1994 have resulted in a series of consolidations and

the introduction of new or revised laws which are expected to change significantly the operation and structure of the financial sector.

35. Inefficient labour practices in ports also represented a serious handicap to non-mineral exporters; to address these problems the authorities initiated a restructuring process in 1991 which has seen port services privatized or transferred to state governments. Reforms undertaken to increase competition in shipping appear to have resulted in a significant fall in the number of shipyards and vessels under Venezuelan flag.

36. State involvement in the operation of telecommunications services is now limited. The largely privatized national telephone company has a monopoly of basic services; however, competition is free in all non-basic services, with private operators having expanded rapidly since the opening of the sector in 1991. The introduction of a new telecommunications law and greater reliance on market mechanisms are seen as important steps for further improvements in the sector.

(iii) New initiatives

37. In 1995, legislation was under preparation to introduce a new customs valuation scheme, adjust the free zones legislation to the WTO Agreement on Subsidies, create a Bank of Foreign Trade, and amend the regulations on consumer protection and industrial property rights; the introduction of regulations on import cartel practices was under study.

(5) Trade Policies and Trading Partners

38. Venezuela was recently included in the group of Andean Group countries which will receive extended benefits under the European Union's GSP scheme until 1998. The authorities consider this measure as an important incentive for non-traditional exports to the EU. A tariff quota affects banana exports to the EU.

Venezuelan exports of certain manufactured items have been subject to anti-dumping or countervailing duties in the EU and the United States, while a similar case has recently been under examination in Mexico.

39. Venezuela, together with other contracting parties, has been a complainant in two GATT dispute settlement cases concerning EU and member State import measures affecting bananas. A case has been initiated under WTO dispute settlement procedures on standards applied by the United States on imports of conventional or reformulated gasoline.

(6) Conclusion

40. While Venezuela's most pressing need is to overcome its macro-economic problems, it also needs to carry forward the reform of its trade and related policies. This is a condition for achieving greater adaptability in the domestic economy to respond to the challenges and opportunities presented by the implementation of the results of the Uruguay Round. Thus, there is a need to extend the process of liberalization initiated in 1989 and to ensure that the application of foreign exchange controls does not adversely affect the interests of Venezuela's trading partners.

41. While integration within the Andean Group, in particular, and other regional agreements may present opportunities for economies of scale in an enlarged regional market, it is important that such agreement retain an open, liberal character as part of the multilateral system. The escalating structure of the Andean Group's common external tariff and other arrangements within the group suggest that certain sectors will retain significantly higher levels of protection and that others, including export industries, will continue to be implicitly taxed by the trade régime.

42. Further liberalization, and a sustained attack on anti-export bias, would imply moving away from the current policy of promoting selected industrial groups and eliminating inter-sectoral distortions to a more neutral trade régime. Such an approach would also be assisted by eliminating distortions provided through inexpensive inputs, especially under-priced fuels and other refined petroleum products. Greater reliance on market prices and reductions in the State's rôle in the economy, accompanied by changes to the investment régime, would go a long way to generating a more resilient economy and solid export base.