Country Commerce

Venezuela

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The Economist Intelligence Unit

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Regulatory/market assessment

- In June 2015 Venezuela announced it would not renew a contract to import natural gas from neighbouring Colombia and would instead tap gas from the offshore Cardon IV block managed by Repsol (Spain). The block has proven gas reserves of 17 trn cu ft and it made its first shipment of gas to Venezuelan offshore facilities in early August 2015. 9, 10

- In July 2015 the Ministry of Food announced the creation of 14 conglomerates that will manage its companies involved in the production, storage and distribution of food. As decreed in *Official Gazette* No. 40.690, these include, but are not limited to, conglomerates for cooking oil, corn flour, fishing, rice and silos that will be run and controlled by the state-owned Corporación de Abastecimiento y Servicios Agrícolas (CASA). 12

- Nicolás Maduro, the president, enacted new anti-monopoly legislation on November 26th 2014. The new anti-monopoly law, or Ley Antimonopolio (Decree No. 1.415, Official Gazette No. 40.549), replaces the previous law in place since May 1992 and sets forth regulations regarding the abuse of a dominant market position. The law creates the Superintendencia Antimonopolio, or Anti-monopoly superintendency, that replaces Procompetencia, the previous regulator. 42

- In April 2015 the government set a maximum US$3,000 per year of foreign currency available to Venezuelans. Of this total, up to US$300 can be used for online purchases, with a limit of US$100 to be spent per quarter, and US$200 received in cash. The new ruling also restricts how many dollars Venezuelans can obtain for travel depending on the destination and length of stay. Venezuelan citizens travelling to the United States for more than eight days can take up to US$700. 46

- The newest route to securing foreign currency is the Sistema Marginal de Divisas (SIMADI) created by the central bank on February 10th 2015. In this government-supervised platform, companies and individuals can trade foreign exchange and dollar-denominated debt with one another, the central bank and state-owned oil company Petróleos de Venezuela (PDVSA). SIMADI imposes maximum trading limits of US$300 daily, US$2,000 monthly, and US$10,000 in a calendar year. As of early August 2015, SIMADI had an implicit rate of BsF197.92:US$1. 47

Regulatory/market watch

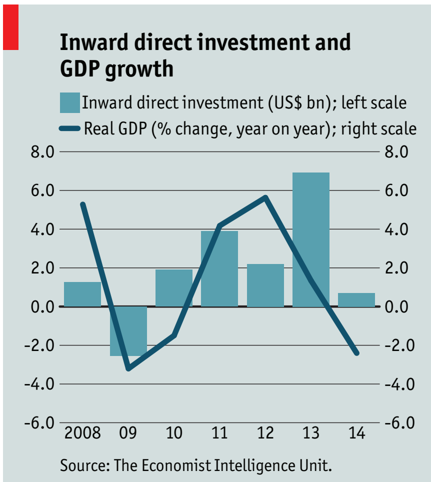
- President Maduro announced in May 2015 that he would pass laws to seize all food-distribution chains in the country, a measure that was still pending by September 2015. 8

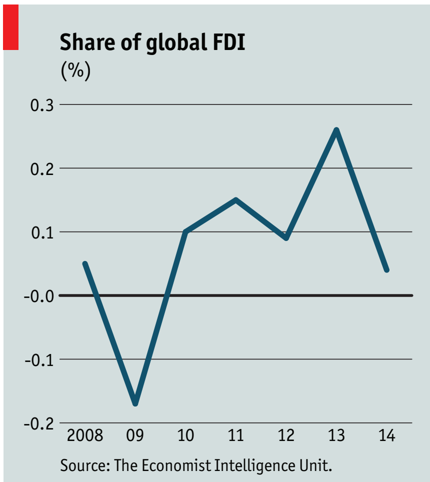
- In September 2015 PDVSA was negotiating with its foreign joint-venture partners whether to let them exchange foreign currency at the SIMADI exchange rate to pay for the operating expenses of their ventures. 20

- In January 2015 the Maduro government launched a campaign to prepare Venezuelans for an increase in petrol prices, which would mark the first nominal petrol-price hike since 1997. Venezuela petrol is among the cheapest in the world, with a subsidised market price of about US$0.06 per gallon at end-September 2015. The government has given no definitive timeline for the measure's rollout. 45, 46

Venezuela's position in the global economy

Following a period of booming FDI inflows in the 1990s, driven by oil and telecommunications openings, an uncertain political and policy environment—including threats of nationalisation—and a volatile macroeconomic climate have kept FDI well below potential, particularly in the non-extractive sectors. In Venezuela's extractive sector, the government's restrictive hydrocarbons investment regime has hurt FDI inflows. This partly reverses the oil opening of the 1990s by mandating that state-owned oil company Petróleos de Venezuela (PDVSA) must hold a minimum 51% stake in most activities, and raises the national take from taxes and royalties in the sector. The sharp contraction of non-energy economic activity and severe weaknesses in the business environment have hampered inward FDI outside of the oil sector. Potentially attractive opportunities for FDI exist in many sectors, such as oil and gas (of which Venezuela possesses the world's largest reserves), petrochemicals, coal, aluminium, gold, forestry, power, tourism and telecoms. Some manufacturing and agricultural niches (for example, leather goods, cocoa and rum) offer additional potential. Further comparative attractions are the country's transport infrastructure, which is still fairly good by regional standards, and its strategic geographic location. However, concerns over the government's policy stance, difficulties in accessing foreign exchange, the weak macroeconomic environment and the fragility of the legal framework will severely curtail FDI.





Political/commercial background

Political conditions

President Nicolás Maduro's approval rating edged up in the first half of 2015 following several diplomatic spats (which tend to rally national support). However, at less than 30%, support remains low. This mainly reflects the economy's dismal state, a consequence of the government's interventionist stance. Venezuela, deep in recession, suffers from the world's highest inflation. In this context, the ruling Partido Socialista Unido de Venezuela (PSUV) will struggle to avoid significant losses in legislative elections scheduled for December 6th. The Economist Intelligence Unit expects the opposition to make significant election gains, but predicts that Mr Maduro will serve out the remainder of his term in office, which runs until the end of 2018. However, assuming the economy remains in a dire position, we think it highly unlikely that Mr Maduro would be in a position to win the next presidential election in December 2018.

We expect that in 2015-19, Venezuela will continue to suffer from one of the region's weakest political and institutional frameworks. Under Maduro's predecessor, Hugo Chávez, decisions were made arbitrarily and were often subject to reversals; the Maduro government has proved little different in this respect. There is little discussion of policy proposals among the wider public, and the technical quality of the laws passed is extremely patchy. Institutional effectiveness will remain very poor, undermined by a politicised judiciary and high levels of corruption. Moreover, the credibility of Venezuela's institutions will continue to decline, with particular concerns about an increasing lack of accountability and transparency, including in the use of public finances and the management of state-owned oil company Petróleos de Venezuela (PDVSA). The government's aggressive stance towards some foreign multinationals (while granting more favourable treatment to other companies from countries with politically sympathetic governments) is likely to continue. Violent crime is also expected to remain a major problem, fuelled by impunity, shortcomings in law enforcement and the growing problem of crossborder drug-trafficking.

In addition, corruption remains a serious problem. According to Transparency International's 2014 Corruption Perceptions Index, Venezuela ranked 161st among 175 countries in terms of public-sector corruption during the year.

For more information on political conditions, see the Economist Intelligence Unit's *Country Report* Venezuela.

Market conditions

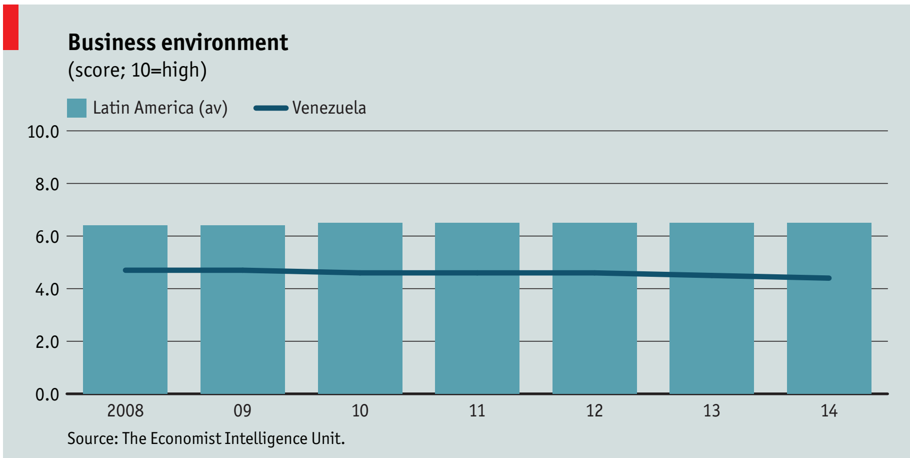
No monthly or quarterly data on economic activity exists, but based on anecdotal evidence, The Economist Intelligence Unit expects Venezuela's recession to deepen in 2015, with GDP contracting by 6.2%. Worsening shortages of consumer goods and triple-digit inflation will reduce private consumption, and the increasingly difficult operating environment will prompt further disinvestment (affecting fixed investment). A contraction of this magnitude would often be followed by a sharp rebound the following year, but our forecast of a further decline, of 5.5%, reflects the fact that the authorities have very little room for manoeuvre on the policy front, because of the capital controls and anti-business stance they have adopted. Assuming a recovery in oil prices from 2017, we expect a return to GDP growth as higher export earnings boost government consumption and investment (indirectly filtering through to private consumption), but this will represent only a partial bounce-back after such a protracted and deep recession.

We expect that after contracting by an estimated 3.1% in 2014, private consumption will decline even more sharply in 2015-16, before recovering slightly in 2017-19. Rapid inflation and weak job creation will be the main factors affecting household income. Fixed investment will also contract sharply in 2015-16, reflecting the ongoing threat of nationalisations, deteriorating infrastructure, and foreign firms' difficulty in accessing foreign exchange and remitting profits.

On the supply side, we expect industrial production to sharply contract in 2015-16, before recovering only slightly in 2017-19 as unorthodox policy measures hamper growth. Agriculture will remain hindered by government intervention, price-setting and inadequate protection of property rights. Similarly, we expect the oil industry—and PDVSA in particular—to suffer from continued mismanagement and an unstable tax regime.

Inflation is forecast to soar in 2015, to an average of 104.1%. Forecasting inflation has become more difficult, given the authorities' continued failure to publish data relating to 2015, but this heavily suggests that the month-on-month increases in inflation have risen sharply. Opposition claims of levels around 10% may be inflated, but even assuming monthly increases of 8% during the first half of 2015, moderating slightly in the second half of the year, annual inflation will surpass the 100% mark. Our expectation that annual inflation will fall to 25.8% by 2019 is based on the assumption that years of economic weakness will reduce demand-side price pressures. However, given the extremely unfriendly business environment, supply shortages will remain a problem even as demand falls, keeping inflation much higher than the regional average throughout the forecast period.

For more information on market conditions, see the Economist Intelligence Unit's *Country Forecast* Venezuela.



Currency

Despite repeated government pledges of radical currency reform, recent changes have done very little to alter the underlying dynamics of the complex exchange-rate system. A multi-rate system remains in place, with the official currency peg of BsF6.3:US$1 (essentially reserved for public-sector imports) remaining unchanged. Two other rates also remain, with the first, SICAD, standing at around BsF13:US$1. A third rate, SIMADI, is supposed to be a floating rate, but has become quasi-fixed, at close to BsF200:US$1. Shortages of foreign exchange have made it extremely difficult to purchase US dollars at any of the official rates, fuelling a rampant black market, through which the dollar traded at over BsF700:US$1 as of end-August 2015. Even though this rate is likely to be undervalued, none of the government's tinkering with the fixed rates has tackled the underlying problem of a fundamental mismatch between the supply of and demand for foreign currency, and further exchange-rate adjustments will be necessary in the forecast period. Assuming several step-devaluations of the official exchange rate, we expect it to stand at BsF16:US$1 at end-2019, but even at this level the currency will be heavily overvalued.

State role in the economy

Historically, the state has played a large role in the Venezuelan economy. Under the late President Hugo Chávez, in office from 1999 to early 2013, the government nationalised private enterprises run by both domestic and foreign investors, undermined private-property rights and violated contractual agreements, all with the effect of severely constraining private-sector activity. His successor, President Nicolás Maduro, took office in April 2013; four months later, the state seized the assets of steel companies Orinoco Iron and Prereducidos Caroní, both of which had been in the process of being nationalized for some time. Since assuming power, Mr Maduro has yet to launch a new company takeover, due in part to the fact that his government lacks the resources to nationalise large swathes of the economy that have not already been taken over by the state, such as companies in the food, drink and retail sectors.

Under Mr Maduro, the government has continued to encroach on the private sector by accusing companies of price-gouging and hoarding products. The government has even jailed executives for allowing long lines of customers eager to buy scarce goods. Mr Maduro has also limited the amount of foreign exchange available to businesses, which in turn has made it harder for companies to produce basic food and personal-hygiene goods. In February 2015 a Venezuelan tribunal ordered the arrest of the president and operations vice president of pharmacy chain Farmatodo on charges of "boycott and economic destabilization" because of long lines of customers outside one of the company's pharmacies. In February 2014 the government enacted the Ley Orgánica de Precios Justos, or Law of Fair Prices, (*Official Gazette* No. 40.340), which sets a 30% limit on the profitability for commercial enterprises of any nature and located at any step of the value chain. The law also introduced an open-ended price-control regime and created a new Superintendency for the Defence of Socioeconomic Rights (Superintendencia Nacional para la Defensa de los Derechos Socioeconómicos), which is charged with analysing product prices and company cost structures to determine fair prices and profit-margin levels. (For more information on pricing regulations, see Price controls.)

From 2006 through March 2013 the state became the majority owner of key players in the Venezuelan economy. These include the following: the largest telecommunications provider (Compañía Anónima Nacional de Teléfonos de Venezuela—CANTV); all privately held electric-utility companies; the country's largest steel producer (Siderúrgica del Orinoco); a leading bank (Banco de Venezuela) along with five other smaller banks; cement companies; food-distribution companies; the gold industry; several steel-sector companies; and more than 60 companies in oilfield services. The Chávez government funded this nationalisation drive with oil revenue, but most of the companies that were taken over have experienced long delays in receiving compensation. In February 2015 the government jailed two executives of the food company Día Día and put it under the control of state-run Producción y Distribución Venezolana de Alimentos (Venezuelan Food Production and Distribution, or PDVAL). Mr Maduro also announced in May that the government would pass laws to seize all food-distribution chains in the country, but his administration had not enacted any laws to that effect by September 2015.

Although the constitution guarantees the right to private property, Article 115 allows expropriation for the public good, and Article 116 permits confiscation of property for crimes against the state, corruption and drug-trafficking. Under Mr Chávez, the government made extensive use of the existing expropriation law. It also expanded its discretionary powers to intervene quickly in businesses accused of price-gouging and product hoarding.

The number of public-sector workers has risen as the government has increased its presence in the economy. The public sector accounted for 19.3% of the employed workforce in January 2015, slightly below the 19.8% when Mr Maduro took office in April 2013, according to the National Statistics Institute (Instituto Nacional de Estadística—INE).

Energy. The Venezuelan economy relies heavily on the production and sale of petroleum and its derivatives, which generated 96.4% of total export earnings in the first nine months of 2014 (latest available). Oil accounted for 45% of central government revenues in 2014, down from 46.6% in 2013, on the back of lower oil prices. The state—through government-owned oil company Petróleos de Venezuela (PDVSA)—has increased its role in the energy sector with mixed results: although it has benefitted from the surge in commodity prices since 2004, it has failed to sufficiently boost investment and production capacity.

The government nationalised the production of oil, natural gas and basic petrochemicals in 1976 under PDVSA, and it retains control over these areas because of their strategic importance despite limited managerial, financial and engineering capacity. Article 303 of the 1999 constitution (drafted by supporters of Mr Chávez) mandates that the state retain control of PDVSA, though it allows for the privatisation of some of its subsidiaries. The Chávez administration restricted the activities and ownership of private companies within the oil and gas sector, causing international companies to complain about policy reversals and dampening investment interest in the country. In a move that severely restricted Venezuela's oil-investment regime, the government in 2005 enacted the Organic Hydrocarbons Law of Venezuela, which mandated the conversion of operating-service contracts to joint-venture agreements. The legislation also requires that PDVSA hold a minimum 51% stake in any joint-venture agreement formed.

The Organisation of Petroleum Exporting Countries reported in its 2015 Annual Statistics Bulletin that Venezuela produced 2.68m barrels of oil a day (b/d) in 2014, down from 2.79m b/d in 2013, based on official Venezuelan figures. PDVSA reported net earnings of US$9.07bn in 2014, which were far below its 2013 earnings of US$15.83bn, in large part due to a drop in crude oil prices. However, it should be noted that because of various unspecified financial flows from the government, PDVSA's earnings figure is a relatively unreliable indicator of company performance.

Since 2004 PDVSA has directly administered social programmes, bypassing normal legislative controls on expenditure. This has caused Venezuela's fiscal accounts to deteriorate significantly—with the non-financial public-sector deficit reaching an estimated 14% of GDP in 2013 (latest available data), down from 14.5% in 2012 but significantly higher than the 2.6% recorded in 2008. After rising to US$28.7bn in 2011, direct spending on social programmes funded by PDVSA fell to US$15.9bn in 2014. PDVSA has a number of foreign subsidiaries, which includes the following: PDV Caribe; PDV Europa (European investments); PDV Holding (which has energy investments in the United States, including Citgo); PDVSA America (to handle energy accords with Latin American nations); and PDVSA Finance (a structured-finance entity based in the Cayman Islands). The company also has several non-oil subsidiaries including PDVSA Agricola (involved in agriculture businesses, such as production of rice and corn) and PDVSA Industrial (manufacturing of pipes and valves). In late 2014, Venezuela considered selling some of its Citgo assets, but decided against it. In June 2015, PDVSA sold its stake in the Chalmette, Louisiana, refinery to PBF Energy.

PDVSA has been a leading contributor to the government's National Development Fund (Fondo de Desarrollo Nacional—Fonden), which manages Venezuela's "excess" foreign reserves. The company's contributions to social-development spending in 2014 totalled US$5.32bn—far less than the 2013 level of US$13.02bn—as the cash-strapped company had less money on hand to fund such ventures.

Venezuela is counting on the development of its resource-rich Orinoco tar belt to boost oil output. In 2010, PDVSA announced a series of ventures with a range of consortia (involving some foreign companies), but investment has stalled. An expansion of the income tax on oil-sector windfall profits took effect April 18th 2011 (*Extraordinary Official Gazette* No. 6,022). Foreign investors already in joint-venture agreements with PDVSA are exempt from the levy until they have recovered their investments. A further expansion to the law in February 2012 (*Official Gazette* No. 39.871) establishes that all proceeds from the levy shall be devoted to the government's Big Missions (Grandes Misiones) social programmes. The government expanded the scope of the windfall profits tax once again in January 2013 (*Official Gazette* No. 40.114) by adding a 20% levy whenever the oil price sits between US$55/barrel and US$80/b. The tax goes as high as 95% when oil prices exceed US$110/b.

PDVSA's natural-gas industry remains largely underdeveloped, resulting in domestic fuel shortages, especially in western states. To make up for the country's shortfall in natural-gas supplies, Venezuela had been importing natural gas from neighbouring Colombia. But in June 2015, Venezuela announced it would not renew a contract to import Colombian gas and would instead tap gas from the offshore Cardón IV block managed by Repsol, which has proven gas reserves of 17trn cu ft. The block made its first shipment of gas to Venezuelan onshore facilities in early August 2015.

Following approval of the Gaseous Hydrocarbons Law (published in the *Official Gazette* No. 36.793) in September 1999, Venezuela sought to attract foreign investors by offering several blocks in its first-ever licensing round for gas exploration in 2001. The main winner was Total (France), which took control in 2001 of the coveted Yucal-Placer gas field by obtaining the two licences covering the area. Another three blocks were awarded in the waters off the Orinoco Deltana Platform in 2003, and the government awarded another five for natural-gas exploration off the Paraguaná peninsula in 2005. Gas discoveries on the Deltana blocks in 2005 and 2006 by Chevron (US) and StatoilHydro (Norway) are believed to be large enough to support large-scale gas export projects.

However, changes in government policy have delayed exploration and production. Official policy has moved in favour of exporting the gas as LNG (liquefied natural gas), yet the government continues to insist that a portion of production be marketed internally at subsidised prices. Investors have expressed concern that the government will similarly use heavy-handed measures to force tougher terms on investors in the gas sector as well. This, in addition to policy indecision, has dampened enthusiasm among private-sector partners.

Other industries where the state plays an important role include the following:

Cement. The government now controls virtually the entire cement industry. In April 2008 it seized the domestic operations of Cementos de México (CEMEX), Holcim Group (Switzerland) and Lafarge (France). Talks with CEMEX over compensation ended in December 2011 with the government agreeing to pay US$600m for the company's 75.7% stake in CEMEX de Venezuela. It also settled with Holcim (US$650m) in September 2010 and with Lafarge (US$295m) in September 2009.

Electrical utilities. Following the 2007 takeovers of Electricidad de Caracas and a small utility company serving Margarita Island, the state now owns Venezuela's entire power sector. The companies joined other state utilities, such as Compañía Anónima Nacional de Administración y Fomento Eléctrico (Cadafe), an electricity transmission-and-distribution service provider; Electrificación del Caroní (Edelca), the state hydroelectricity giant; and a handful of smaller utilities.

All state utilities have merged into Corpoelec, which was established by the Organic Law to Reorganise the Electric Sector (Decree 5330, *Official Gazette* No. 38.736) in May 2007. Corpoelec is 75% owned by the national government and 25% by PDVSA. The previously independent utilities are now treated as divisions under Corporelec.

Corpoelec's revenues have been hobbled by widespread energy theft and frozen electrical rates that have been in place since 2005 despite double-digit inflation. To help address the problem, the government launched a plan to adjust residential electricity tariffs nationwide starting in August 2014, but it will continue to subsidize 80% of the cost of the service, according to statements by the electricity minister. Corpoelec's total revenues failed to fully cover its operating costs in 2014, leaving the firm reliant on capital infusions from the central government in order to operate. The company's giant 10,300-mw Guri hydroelectric-dam complex, located in the Caroní River basin, provides nearly two-thirds of the nation's electricity supply. A major project to replace the generation turbines at Guri has been underway. Corpoelec signed contracts in October 2014 with China's Dongfang Electric Machinery Co. to modernise six turbine generators, a project originally slated to begin in 2012 and reach completion in 2016. The Caruachi hydroelectric dam, also in the Caroní River basin, was completed in 2006 and is managed by Edelca (now a Corpoelec subsidiary). Construction of the 2,160-mw Tocoma hydroelectric dam remains ongoing, with completion postponed several times, though as of June 2015, government officials estimated the completion rate at 86%. Tocoma was initially slated for completion by 2012 at a cost of US$3bn, but government officials now suggest the project will not be finished until 2018, and that the cost may escalate to US$7bn.

Power failures remain endemic throughout the country, in some areas more than others, with distribution bottlenecks leading to frequent, unplanned blackouts. New generating capacity of 432 mw came on-stream in 2014, down from 3,604 mw in 2013, mostly due to project delays and less cash available to invest in the sector. Corpoelec attributed nearly 278 mw to new-generation projects.

Discussions continue on several electric projects at various stages of completion. The Andean Development Corporation (Corporación Andina de Fomento—CAF) lent US$300m to Venezuela (to be distributed in three instalments) in December 2013 for investment in the sector, on top of the US$500m it had lent in May 2010. Venezuela signed agreements with Spanish companies in 2009 that included the construction of an electricity plant to produce 1,000 mw in Cumaná, Sucre state. Iberdrola and Elecnor (Spain) are now developing the project, whose cost is estimated at US$2bn. The Cumaná plant has faced repeated corruption allegations as well as delays, and Iberdrola has reportedly threatened to leave the project. The entire complex was initially expected to come onstream in 2011, but the first phase of the 340-mw production was later postponed to begin operations in September 2013, with the rest expected in 2016. No clear progress had been made on the project by September 2015.

Financial services. In July 2009 the government took over the operations of Banco de Venezuela through a majority purchase from Grupo Santander (Spain) for US$1.05bn. The government stepped in to buy Banco de Venezuela (which was the country's fourth-largest bank in terms of assets at the time) when Santander entered into talks to sell the bank to a private investor.

The government began a campaign in November 2009 to seize and liquidate a series of smaller banks, citing instances of corrupt banking practices and doubts about their financial viability. The state seized 12 banks between November 2009 and June 2010, liquidating most of them and merging five into Banco Bicentenario, a new state-controlled financial institution created in December 2009 (Decree 7126, *Official Gazette* No. 39.334) through the merger of state-owned Banco de Fomento Regional de los Andes (Banfoandes) and the assets of privately owned Banco Bolívar, Banco Confederado, Banorte and Central Banco Universal. A broader bank-liquidation campaign eliminated the last holdouts of mortgage banks and savings-and-loan institutions in June 2010 and January 2011, respectively.

Food. The government began expropriating farms and nationalising food manufacturers and distributors in 2008 in a bid to extend control over Venezuela's food supply. It has gained market share as an importer, particularly through Productora y Distribuidora Venezolana de Alimentos (PDVAL), a food distribution chain and food importer controlled by the Ministry of Food. Nevertheless, it is still far from becoming the sole importer of food and agricultural goods. PDVAL was created in 2008 in recognition that another state-run food chain, Mercal, was ineffective. The government closed numerous Mercals because of corruption and unfair business practices in 2009 and 2010, though Mercal continues to operate in shantytowns and lower-class districts throughout the country.

In January 2010 Venezuela nationalised Éxito, a chain of supermarkets partly owned by Cativen (a subsidiary of Casino Group of France). The government then created Abastos Bicentenario, a state-owned retail supermarket chain. In May 2010 the state bought 80% of Cativen's shares in Cada, another supermarket chain, incorporating it as part of Abastos Bicentenario. Cativen retains management of day-to-day operations for both Éxito and Cada. In late February 2015, the government took control of the Día Día supermarket chain through state company PDVAL, after charging the chain's officials with "boycott and economic destabilization."

State-owned Corporación de Abastecimiento y Servicios Agrícolas (CASA) operates a number of food-processing and distribution plants. CASA is the main supplier to the government's Mercal supermarkets, most of which, as noted, are in shantytowns and lower-class districts throughout the country. The groups receive annual subsidies from the government's own budget and from off-budget funding sources (such as PDVSA and Fonden) to cover their operating losses. These state-controlled food-distribution chains have regularly experienced shortages of various sundry goods, the same problem that privately owned chains suffer as well. In July 2015, the Ministry of Food announced the creation of 14 conglomerates that will manage its companies involved in the production, storage and distribution of food. As decreed in *Official Gazette* No. 40.690, these include, but are not limited to, conglomerates for cooking oil, corn flour, fishing, rice and silos that will be run and controlled by CASA.

Metals and mining. The government in 2008 renationalised Siderúrgica del Orinoco (Sidor), Venezuela's largest steelmaker. The move increased the government's stake in the business to 80% after acquiring the 60% share owned by Luxembourg-based Ternium. Electrical shortages, labour unrest and difficulty procuring replacement parts have hit Sidor's production hard. Production fell to 1.04m tonnes in 2014, down from 1.56m tonnes in 2013; this marks the lowest production in decades and is far below its annual installed capacity of 5m tonnes. In the first half of 2015 production came to 605,000 tonnes, or an average of 100,833 tonnes per month. The company aims to close the year with 3m tonnes, but that is unlikely given its current monthly output; Sidor produced 4.3m tonnes a year prior to being nationalised. Recurring disputes between workers and the government have exacerbated production problems. Sidor's losses totalled BsF7.6bn in 2014, more than triple the BsF2.2bn registered in 2013.

The government's nationalisation of the gold-mining sector in September 2011 hurt privately owned Rusoro (Russia), which filed for arbitration through the International Centre for Settlement of Investment Disputes (ICSID) on July 17th 2012, just ahead of Venezuela's withdrawal from the panel eight days later. Arbitration was still ongoing as of September 2015.

Telecommunications. In January 2007 Mr Chávez declared the telecoms sector to be "strategic" and subject to nationalisation. Shortly afterwards, the Ministry of Telecommunications signed a memorandum of understanding with Verizon Communications to acquire the US company's 28.5% stake in Compañía Anónima Nacional de Teléfonos de Venezuela (CANTV) for US$572m. The government achieved a majority stake in the company in May 2007 via a public tender offer for the purchase of outstanding shares. CANTV is now the nation's sole fixed-line telephone provider and a dominant player in the broadband market. With its takeover of CANTV (raising government ownership to 91%), the state also controls CANTV's mobile arm, Movilnet, allowing it to compete directly with the private sector in mobile services.

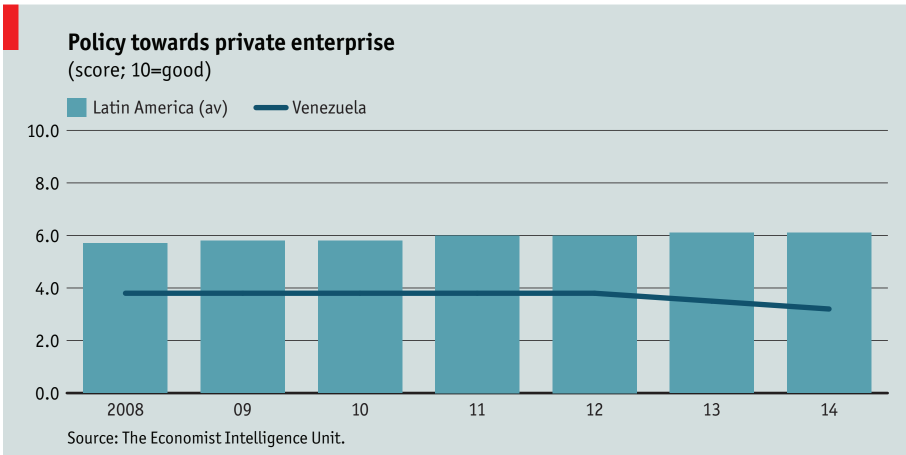
Government control has led to an expansion of the company's workforce. The price of mobile services has been cut several times in recent years, but cellular-phone providers boosted their rates by as much as 23% in April 2015. Similarly, the state-owned CANTV increased rates for four internet-service packages by 10% in June 2015.

Corporación Venezolana de Guayana. Burgeoning oil wealth in the 1950s and 1960s led to the creation of Corporación Venezolana de Guayana (CVG), the state holding company whose subsidiaries cover iron and aluminium production, mining, forestry and electricity generation. CVG's main affiliates and their businesses are Sidor (steel); Bauxiven (bauxite mining and alumina production); Alcasa, Carbonaca, Bauxilum and Venalum (aluminium mining and smelting); Ferrominera (iron-ore mining); Proforca (forestry); Fesilven (ferrosilicon); and Minerven (gold mining). Many of the CVG affiliates have foreign shareholders, especially the aluminium companies. Several smaller nationalised companies—not all of them in Guayana—have also been rolled into the CVG orbit, such as automotive wheel-maker Rialca (formerly Rualca).

Major state-owned enterprises, 2015

Company	Sector	State ownership (%)
Abastos Bicentenario	Food	100
Banco de Venezuela	Financial services	100
Consorcio Venezolano de Industrias Aeronáuticas y Servicios Aeronáuticos	Airlines	100
Corporación de Abastecimiento y Servicios Agrícolas (CASA)	Food	100
Corporación Eléctrica Nacional (Corpoelec)	Electricity	100
Corporación Venezolana de Guayana (CVG)	Iron, aluminium, mining, forestry and electricity services	100
Mercal	Food	100
Petróleos de Venezuela (PDVSA)	Oil and natural gas	100
Siderúrgica del Orinoco (Sidor)	Steel	100
Siderúrgica del Turbio (Sidetur)	Steel	100
Compañía Anónima Nacional de Teléfonos de Venezuela (CANTV)	Telecoms	91

Sources: Government ministries, Caracas Stock Exchange (Bolsa de Valores de Caracas).



Foreign investment

Venezuela's weakened economy and deteriorating business climate have steadily discouraged foreign investment. Many investors have grown wary of the government's nationalisations, lack of foreign exchange and limits to private enterprise. Few global companies are expanding their Venezuelan operations and some have chosen to leave if they can. Many must reinvest their utilities because of an inability to convert their earnings into foreign currency. Even when foreign companies are still attracted to Venezuela, the governmenet tends to prefer investment from countries with which the late President Hugo Chávez developed links based on ideological grounds.

According to the latest available data, the stock of foreign direct investment (FDI) rose to US$57.7bn in 2013, from US$51.1bn in 2012. Despite the country's weak macroeconomic environment and business climate, capital controls have made it very difficult to disinvest, and government delays in approving profit remittances have trapped liquidity in the domestic economy. Even though the nominal stock of FDI has grown, its share of GDP has plummeted. Overall, FDI inflows have been very volatile in the past 15 years, affected by both political and macroeconomic factors. During the 1996-98 oil opening, inward FDI peaked at an annual average of US$4bn a year (5% of GDP). By historical standards, inward FDI held up well in the first three years of the presidency of Hugo Chávez (1999-2003), averaging US$3.8bn per year in 1999, 2000 and 2001. As political conflict intensified, FDI inflows began to decline in 2002-08 (averaging US$1.6bn per year), while in 2009—a year of great volatility in the world economy and adverse domestic developments in Venezuela—inward FDI fell by US$2.6bn. Inward FDI has recovered since then—averaging an estimated US$3.5bn per year in 2011-14 thanks to greater Chinese investment in energy and housing—but remains very low compared to other large economies in the region. Inward FDI from foreign oil companies has been deterred by forced revisions to the ownership structure of their operations and to domestic economic issues.

President Nicolás Maduro enacted the Law of Foreign Investment on November 18th 2014 (Decree 1,438, published in the *Extraordinary Official Gazette* No. 6,152). The law, which replaces the 1999 Law for the Promotion and Protection of Investment, guarantees equal judicial treatment for foreign and domestic investors, and states that foreign investment will submit to the jurisdiction of local courts. Investments need approval to be registered as foreign investments and must remain in the country for at least five years following that approval. At least 75% of any initial investment must be composed of assets and equipment already located in Venezuela. Investors have the right to repatriate as much as 80% of utilities or dividends in "freely converted foreign exchange." The law, however, reserves the right to apply "special measures" against investments and even limit repatriation of capital and dividends under "extraordinary economic circumstances" that threaten the country's balance of payments and the central bank's foreign reserves. In February 2003, Venezuela imposed foreign-exchange controls, and the increasingly complex foreign-exchange system since then has forced Venezuelans to get government approval to send foreign currency overseas. The law allows the president to offer special incentives to foreign investment.

As per the new law, all investments from abroad must be registered with the Centro Nacional de Comercio Exterior (Cencoex), which replaces the Superintendencia de Inversión Extranjera (Siex) in regulating foreign investment. Investors must participate in government policies that help local suppliers and providers, and they must implement corporate social responsibility programs. Cencoex must be notified within 30 days of a decision by company shareholders of any reductions of invested capital.

Foreign investments generally must be at least US$1m, but Cencoex can reduce the limit to 10% of that amount to encourage certain types of investments.

The state reserves the right to develop sectors considered strategic and can establish special investment regimes with different incentives and percentages in certain sectors. As per the constitution and the country's mining and oil legislations, all subsoil resources are deemed state property, and the government must be a majority partner in any dealings in the petroleum sector. Some projects, particularly those in the natural-resources sector, are subject to approval by the National Assembly. The Consejo Nacional de Promoción de Inversiones—Conapri is the official agency for foreign-investment promotion in Venezuela. Conapri provides tailored advice to investors interested in specific economic sectors.

Foreign investors have traditionally been most interested in hydrocarbons, banking, telecommunications, and mining and metals. Compared to its neighbours, Venezuela enjoys significant advantages including inexpensive and abundant raw materials and energy, a relatively modern road infrastructure, and a strategic location for trade with the United States, Europe and Latin America. Despite these advantages, an increasingly unstable political and economic climate has tempered foreign investment.

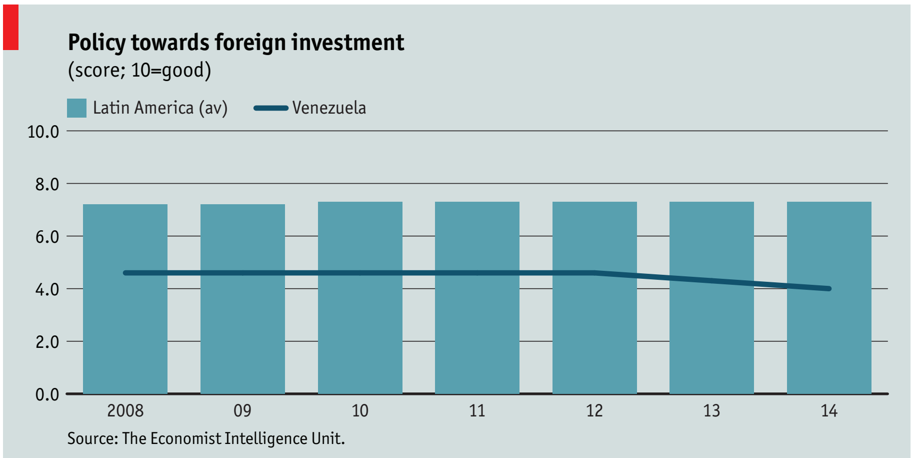
Tax increases and legal uncertainty have also combined to keep foreign investment in Venezuela's mining sector far below its potential. Venezuela holds substantial reserves of gold, uranium, iron ore and nickel, but companies report considerable difficulties in securing and maintaining mining concessions from the state, which by law owns all subsoil resources. Companies that have secured mining concessions have encountered lengthy delays in obtaining environmental permits to exploit the concessions, as well as legal challenges to the validity of their mining rights. Some companies have had their concessions revoked. Moreover, changes to the income tax law in May 2007 boosted taxes on mining, further reducing incentives to invest in this sector.

In November 2014 the government passed legislation (*Extraordinary Official Gazette* No. 6.150) that reserves gold-mining and all related activities for the state only.

Recent foreign direct investment

In June 2015 Russia's state oil company, ***Rosneft***, cemented its partnership with its Venezuelan counterpart, Petróleos de Venezuela (PDVSA). Rosneft and PDVSA agreed to form a joint venture dedicated to the infrastructure needed for offshore gas development, and to develop new heavy oil upgrading infrastructure in the Orinoco river belt. Contracts signed by Roseneft President Igor Sechin and PDVSA President Eulogio Del Pino included one for oil-personnel training., but the parties did not disclose financial details.

China is also stregthening its dealings with Venezuela. In January 2015, China's Xi Jinping agreed to invest US$20bn in Venezuela over the coming years primarily in the construction, telecommunications and energy sectors. Venezuelan President Nicolás Maduro announced the decision during a visit to Beijing but failed to provide further details, and it seemed unlikely the money represented free cash for Venezuela to use. In April 2015, Mr Maduro announced a new US$5bn development loan from China to further develop the oil sector. Mr. Maduro has said this is part of a several loan tranches the country expects to receive from China in 2015.



International agreements

Venezuela is a member of the World Trade Organisation, the successor to the General Agreement on Tariffs and Trade. Under the administration of the late President Hugo Chávez, Venezuela refused to sign free-trade agreements (FTAs) supported by the United States. Together with Cuba, Venezuela spearheaded the creation in 2004 of the Bolivarian Alternative for the Nations of Our America (Alianza Bolivariana para los Pueblos de Nuestra América—ALBA), an organisation that seeks to promote economic, political and social integration among its members and that serves as a counter-weight to US-led FTAs. Its 11 members include Bolivia, Cuba, the Dominican Republic, Ecuador, Nicaragua and Venezuela, among others. In 2010 ALBA introduced a "virtual-currency" system known as SUCRE (Sistema Único de Compensación Regional) to denominate trade within the bloc. According to a report by the Consejo Monetario Regional del SUCRE, in 2013 (the last available data) operations using the SUCRE, valued at US$1.248 per unit, amounted to US$2.26bn.

Venezuela became a full member of the Southern Common Market (Mercado Común del Sur—Mercosur), a South American regional trading bloc, at the end of 2013. Bolivia won approval to become a member in July 2015, though as of September 2015 its accession to the bloc was awaiting approval by the legislatures of Brazil and Paraguay. Mercosur now has five full members: Argentina, Brazil, Paraguay, Uruguay and Venezuela. Accession opened a four-year implementation period for Venezuela to harmonise its tariff nomenclature with that of Mercosur, liberalise its trade with other Mercosur members, and gradually adopt Mercosur's common external tariffs along with negotiated exemptions for sensitive products.

Venezuela nominally exited from the Andean Community of Nations (Comunidad Andina de Naciones—CAN—Bolivia, Colombia, Ecuador and Peru) in 2006 to protest trade talks with the US conducted by Peru and Colombia, though its withdrawal from CAN did not become effective until April 2011. Following its departure, Venezuela formed a series of bilateral tariff deals with all CAN members.

Venezuela was brought into the US Generalised System of Preferences in 1980. The two countries have had a Framework Bilateral Trade and Investment Agreement in place since 1991. They ratified a double-taxation treaty, with effect from January 1st 2000 (*Extraordinary Official Gazette* No. 5.427), designed to prevent the same taxes from being levied on companies in both countries.

Venezuela has had an agreement since June 1990 with the Overseas Private Investment Corporation (OPIC), a US government agency. OPIC offers financing, political-risk insurance and investment counselling to US companies, but OPIC has suspended its services for all new investments in Venezuela since July 2004. The US Export-Import Bank also has stopped funding projects in Venezuela.

Venezuela officially withdrew from the International Centre for the Settlement of Investment Disputes (ICSID) on July 25th 2012. At the time of its departure Venezuela faced 28 separate arbitration disputes at the ICSID, and the country still had 24 pending cases at August 2015, including nine filed since the date of withdrawal. Investment-protection provisions established under bilateral treaties still apply, however, allowing for investors to continue filing claims with the ICSID.

Organising an investment

Basic investment approval

Investors must register newly formed companies with the local mercantile registry (*registro mercantil*). All foreign investment must be registered with the Superintendency of Foreign Investment (Superintendencia de Inversión Extranjera—Siex) within 60 days of a company's local mercantile registration. Effective in January 2015, per the *Ley de Inversiones Extranjeras* approved in November 2014 (Extraordinary Official Gazette No. 6.152), the Centro Nacional de Comercio Exterior took over registration duties from Siex. The Regulation on the Treatment of Foreign Capital and Trademarks, Patents, Licences and Royalties (Decree 2095, published in *Official Gazette* No. 34.930 on March 25th 1992) removed the need for formal prior government approval to make a foreign investment in Venezuela. However, that decree was suspended with passage of the November 2014 foreign investment law. The government has said it may take up to a year to issue rules for the new law. Lawyers continue to follow rules as laid out in Decree 2095, but as of September 2015, the state had not provided instructions for the transition. Venezuela's investment climate continues to worsen due to unpredictable state intervention, weak security of contractual agreements and private-sector difficulties in accessing foreign exchange.

Investing in Venezuela can be a burdensome process that often involves hassles and delays. Establishing a company—domestic or foreign—is time-consuming and costly.

Investment-approval checklist

Prior government approval is not required for foreign investments in Venezuela, according to Decree 2095 of 1992; however, there are registration requirements. The government is expected to issue new rules in late 2015 that will replace Decree 2095 rules. All foreign investment must be registered with the Centro Nacional de Comercio Exterior (Cencoex), within 60 days of the company's local mercantile registration. The foreign-investment registration process should take 15 working days. Registration of foreign investments is requested in writing and must be accompanied by the following documents:

- application for registration and classification of the company as national, mixed or foreign, with evidence that the capital supplied by the foreign investors has entered Venezuela;
- copy of the company's articles of incorporation/byelaws translated into Spanish by an official translator, and legalised and authenticated by the Venezuelan consulate in the country of origin; and
- power of attorney for the representative of the foreign investor.

New industrial projects and expansions of existing plants must be listed with the Registry of Projects Department, part of the Ministry of Commerce (Ministerio del Poder Popular para el Comercio), for statistical purposes. Registration must be updated annually. The process takes 20 working days to complete. Besides an application, this process requires presentation of the following documents:

- financial statement for the previous fiscal year, audited by an external public accountant;
- the company's income tax declaration for the previous year;
- minutes from any shareholders' meetings at which the capital base of the investment is augmented, reduced or renewed and in which dividends are declared, with proof that corresponding taxes have been withheld; and
- an economic-technical-financial study covering the useful life of the investment and explaining the size, location and total investment in the plant.

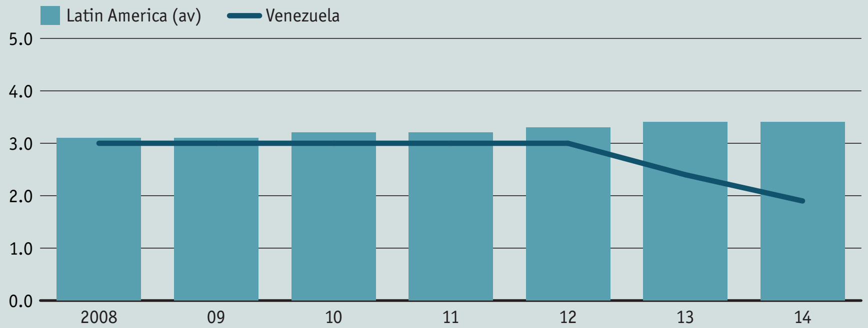
For projects in one of Venezuela's duty-free zones, a proposal must first go to the zone director for approval. The Ministry of Commerce must then receive the approved proposal within 30 days. For investments subject to special laws, other approvals may be necessary before a particular investment may proceed.

Acquisition of an existing firm

Foreign investors are allowed to add to an existing stake in a company through a capital increase or debt capitalisation, regardless of the percentage of equity investment, in accordance with Decree 2095 of 1992. The only exceptions are for companies in sectors reserved for majority-Venezuelan-owned operations. Decree 2095 also permits foreign investors to acquire equity through a variety of means, with little or no red tape. With the approval of the new foreign investment law in November 2014, the government suspended the validity of Decree 2095 and it remains to be seen if the same rules still apply to firm acquisitions once the government issues new rules on the matter. Lawyers continue to follow rules as laid out in Decree 2095, but the state has failed to provide instructions for the transition.

Foreign investors may acquire equity in a Venezuelan company from either foreign or local investors without prior approval, though the investor will have to report the transaction to Centro Nacional de Comercio Exterior (Cencoex) within 60 days. In addition, foreign investors may acquire shares of Venezuelan companies listed and sold on the Caracas Stock Exchange if they report such acquisitions to Cencoex on a yearly basis. The acquisition of a controlling stake in a listed Venezuelan company by either a local or a foreign company requires the approval of the National Securities Superintendency (Superintendencia Nacional de Valores), under the terms of the 1998 Capital Markets Law (*Official Gazette* No. 36.565).

Setting up a new business
(score; 5=low regulation)



Source: The Economist Intelligence Unit.

Building and related permits

Obtaining building permits in Venezuela is a time-consuming and bureaucratic process. Plant construction or expansion requires permits from both the central and local governments. Besides registering foreign investments with the National Center for External Commerce (Centro Nacional de Comercio Exterior—Cencoex), investors must also comply with the requirements of the Ministry of the Environment (Ministerio del Poder Popular para el Ambiente). The following building-permit provisions are typically required:

Application to occupy land. Different applications relate to proposed types of land use (such as for agricultural, industrial, mining, rural, tourism or urban use). Documentation accompanying the application must include proposed uses and activities, an environmental-impact study, plans and maps clearly indicating the proposed development, and the proper authorisation to use the land. If the applicant is a foreign company, it must attach its registration with the Centro Nacional de Comercio Exterior (Cencoex). The application process can take up to six months and may be extended.

Application to affect natural resources. The application to affect natural resources must be supported by one to occupy land. The application process can take six months or longer, and activities in the following areas are subject to an environmental-impact study: mining, production and processing of metals; production of construction materials; energy industries; petroleum and chemical industries; aquaculture; infrastructure works; and forestry projects.

Local government requirements are fairly standard across Venezuela, and those of the Caracas Libertador municipality serve as an example. For new projects and expansions in the municipality, requirements include the following:

Application for permission to construct requires land-ownership documents; architectural plans; a copy of the application submitted to the fire department; permits from sanitary authorities demonstrating compliance with local regulations such as those concerning sanitary installations, wastewater and ventilation; and any previous approvals (such as from the Ministry of the Environment) that might be required (15 working days for processing).

Certificate of conclusion of works and permit for use, accompanied by copies of payments of relevant inspection fees (15 working days for processing).

Any development of a new manufacturing site must also comply with the so-called Plan for the Territorial Organisation of the Country. This permit, granted at the state level, relates to a master plan defining urban, agricultural and industrial areas. Without it, the Ministry of the Environment cannot grant operational permits.

Holding patterns

The operative weakness and poor financial health of Petróleos de Venezuela (PDVSA), the state-owned oil company, as well as the country's struggling economy, all have affected the development of Venezuela's oil fields. In September 2015, PDVSA was still in talks with foreign oil companies to consider whether it would let partners exchange foreign currency at the SIMADI exchange rate to pay for the operating expenses of their joint ventures. If allowed, this would significantly reduce payroll costs in mixed companies and, by extension, reduce the overall cost per barrel. The government has already agreed to allow companies exchange their dollars at the third-weakest official exchange rate to cover capital-expenditure costs. The talks are part of PDVSA's broader attempt to attract the investment needed to increae oil output. Over the past two years, PDVSA has allowed mixed-company projects to establish trusts to guard fresh invesment money brought in by partner companies. The trusts aim to give foreign investors the assurance that the government will not spend money intended to further develop the production capacity of mixed companies. So far, PDVSA has struck deals under the trust scheme with CNPC (China), Chevron (US), ENI (Italy), Repsol (Spain), Suelopetrol (Venezuela) and Perenco (UK-France) for US$11bn in fresh financing. The focus of the fresh trust money is to increase the output of the seven mixed companies by 376,000 b/d. The government has also bet on the development of the Orinoco oil belt with plans to build five new synthetic-crude upgraders and one new refinery, but these projects have seen little progress, especially given the steep decline in oil prices that began in late 2014. During 2014, financially strapped PDVSA lowered social spending and paid part of its hefty debts. At end-2014 the company had US$20.9bn in accounts receivables, a 2.6% decrease from 2013, most of it owed to suppliers. In July 2014, CITGO sold US$650m in bonds in a private placement, paying a 6.25% interest rate and an 8-year maturity. In September 2014, PDVSA managed to expand a credit facility with Credit Suisse to US$2.2 bn from US$1.29 bn.

Environmental law

The legal framework governing environmental protection is contained in the Framework Environmental Law of 1976, the 1983 Land-Use Law and the Environmental Crime Law of 1992.

The following byelaws apply to industrial activities: Decree 2289 of December 1997 on the recovery and handling of dangerous waste, modified by Decree 2635 of July 1998. Decree 638 of May 1995 regulates air- and atmosphere-quality control, and Decree 883 of December 1995 regulates liquid waste. A law approving the Basel agreement on crossborder movement of dangerous waste was published in February 1998. All companies with activities potentially damaging to the environment must register with the new Ministry of Housing, Habitat and Ecosocialism (Ministerio del Poder Popular para Vivienda, Habitat y el Ecosocialismo), or its regional branches. Permits should be renewed periodically and can be revoked at any time. Decree 1257 of April 1996 details the depth of the environmental-impact study required for various activities and streamlines the process for acquiring permits. Provisional permits are no longer available. The ministry, which was created in September 2014 (Decree No. 1.227, Official Gazette No. 40.489) to replace the Ministry of the Environment, provides further information on its website (http://www.minamb.gob.ve/).

Although Venezuela's environmental laws are strict on paper, enforcement is weak. Environmental authorities have been known to lack funds, equipment and specialised staff. Ministry officials have long considered creating a green police force, staffed with trained biologists and technicians, but the idea has never left the drawing board because of a lack of funds. Meanwhile, the poorly trained and corrupt National Guard is in charge of enforcing the country's environmental laws.

Private companies that have taken over the operations of previously state-owned firms have at times been served with ordinances demanding the clean-up of liabilities dating from before the assumption of operations. For this reason, foreign investors regularly seek environmental audits of any operations as part of normal due diligence.

Acquisition of real estate

Foreign and domestic firms are subject to the same requirements when purchasing real property. Currently, foreigners may construct buildings and hold 100% ownership of their property. All incoming foreign investment must be registered with the National Center for Foreign Commerce (Centro Nacional de Comercio Exterior—Cencoex).

Foreigners wishing to acquire real property in areas close to basic industries or military installations, or along Venezuela's borders, coastline, lakes or navigable rivers, need prior authorisation from the Ministry of Defence. Actual territorial restrictions vary by township, but purchases within 90 km of the Colombian border generally require prior authorisation.

The government's aggressive moves towards land reform were the first indications of its disregard for private property.

Rural land use generally falls under the 2001 Land and Agricultural Development Law (*Official Gazette* No. 37.323), which empowers the government to regulate rural land use to favour the growth of the agricultural sector. The law also allows the government to seize and redistribute rural land that is being used “unproductively”, which can include using land suitable for certain crops for other purposes.

Indeed, the government expropriated many rural tracts and farms in 2009 and 2010, claiming the lands were unproductive. Moreover, recent land reform has further undermined private-property rights. A reform of the Land and Agricultural Development Law (implemented in June 2010) restricts ownership of large expanses of land by a single owner. It declares as a *latifundio*, or a great estate, any expanse of land larger than the average for the region in which it is located. The law forbids sharecropping and sets strict standards on the production levels that must be maintained to prevent a property from being declared idle.

Since early 2004 the National Lands Institute (Instituto Nacional de Tierras) has been revoking the ownership titles of large farms when the owners are unable to prove that the lands in question were not originally state land that had been illegally appropriated. To keep their land, landowners must produce a verifiable title that establishes the private ownership of the land in question in the early 19th century, a difficult task since many land registries were deliberately destroyed in civil wars during that time. Landowners also have to prove that the land is being used in order to avoid expropriation. The government often divides expropriated land among small farmers, since the late President Hugo Chávez had envisioned making the country self-sufficient in agriculture. However, that goal remains elusive.

The National Assembly passed an urban-land law in August 2009, with effect from October 2009, which allows the government to seize abandoned or decaying buildings and properties in urban areas. The law aims to address the lack of housing by targeting large holdings of land in urban areas, which the government then converts into new housing. The government also has the right to seize properties that are more than 60 years old, a stipulation that critics charge allows the government to expropriate property held by families for generations.

In May 2011 the Special Law Wholly Regularising Land Tenancy in Urban and Suburban Settlements (Ley Especial de Regularización Integral de la Tenencia de la Tierra de los Asentamientos Urbanos o Periurbanos) was published (*Official Gazette* No. 39.668). This law extends new property rights to squatters on privately owned land and penalises price speculation in rent.

The Law to Regularize Commercial Real Estate Rentals, Decree 929 (Official Gazette No. 40.418) in May 2014, which established formulas for monthly rent with limits to the monthly profitability of rental property, showed an increasing disregard for private property rights. The government has gone even farther with the Law to Regularize Housing Rentals (*Official Gazette* No. 40.382), approved on April 2014, which forces anyone who owns three or more properties and has rented a unit for 20 years or more to sell it at a price dictated by the state.

Establishing a local company

Venezuelan law outlines four basic business structures: the corporation (*compañía* or *sociedad anónima*—CA or SA); the limited-liability partnership (*sociedad de responsabilidad limitada*—SRL); the open-capital corporation (*sociedad anónima inscrita de capital abierto*—SAICA); and the authorised-capital corporation (*sociedad anónima de capital autorizado*—SACA).

The CA is the most popular corporate form. SAICAs and SACAs have not proved popular, partly because of the special restrictions intended to attract and protect minority shareholders.

Forming a corporation is, in theory, a simple matter in Venezuela and may be done privately or through a public issue of shares. In practice, however, Venezuela remains one of the most difficult countries in the world in which to start a new business.

In fact, Venezuela ranked 182nd among 189 countries in ease of doing business, according to the World Bank's *Doing Business* 2015 report, and scored the lowest of any Latin America/Caribbean (LAC) nation. Because of delays in obtaining necessary paperwork, setting up a business in Venezuela takes an estimated 144 days, compared with a regional average of 30.1 days for LAC, and an average 9.2 days for the OECD.

The process of setting up a foreign-owned business also is lengthy and cumbersome. Although the incoming foreign investments do not require government approval, they must be registered with the National Center for Foreign Commerce (Centro Nacional de Comercio Exterior—Cencoex).

The National Securities Superintendency (Superintendencia Nacional de Valores) supervises public offers. Promoters of a company to be publicly held must issue a prospectus in Spanish indicating the amount, number and rights of shares; the prospectus should also contain the company's principal byelaws and describe its purpose. Promoters are collectively liable for obligations undertaken during the incorporation proceedings.

Once 20% of the capital has been paid in (100% for foreign capital) and all of it has been subscribed, a shareholders' meeting must be held. At the meeting, the capital is verified, the byelaws approved, and management and legal auditors (*comisarios*) named. Each shareholder has one vote at this meeting, regardless of the number of shares owned, and at least 50% of the shareholders must attend. A simple majority of those present is sufficient to take action, unless a change in the terms of the prospectus is undertaken. The articles of incorporation and byelaws must be registered with the local mercantile registry within two weeks of their adoption. This process normally takes two or three weeks, and the articles of incorporation must then be published in a local newspaper.

Establishing a branch

Decree 2095 of 1992 allows foreign companies to establish Venezuelan branches. The company resolution establishing the branch must specify the allocation of foreign capital, which must be registered with the National Center for Foreign Commerce (Centro Nacional de Comercio Exterior—Cencoex). Branches of foreign companies have the same rights and obligations as Venezuelan companies. Repatriation of capital and remittance of dividends and profits is subject to approval by Cencoex. Decree 2095 was suspended with the approval of a new foreign investment law in November 2014, but the rules for this law were still unavailable as of September 2015.

Branches of non-resident companies may take the form of representative offices for sales or services. These are deemed to operate outside of Venezuela if the branch acts solely as an intermediary between the purchaser in Venezuela and the non-resident company. Any income generated within Venezuela is taxable at the same rates applying to companies that operate locally, but income that arises from royalties or technical-assistance agreements is taxable on gross, rather than net, revenue.

Requirements of a *compañía anónima*

Capital. No minimum, but all authorised capital must be subscribed at the time of incorporation, and at least 20% of the par value must be paid in. Subscription may be paid by means other than cash, but the shareholders must approve the value. Corporations must set aside 5% of annual after-tax profits into a legal reserve until the reserve reaches 10% of capital stock. Foreign investors find this restriction particularly burdensome. One method of minimising this capital trap has been to reduce the amount of paid-in capital to a minimum. However, the tax authorities may deem loans to a local subsidiary from a foreign owner to be paid-in capital if it determines that the local unit was deliberately undercapitalised as part of a tax-avoidance scheme.

Founders, shareholders. Minimum two; no limits on maximum or nationality.

Board of directors, management. Article 125 of the 1998 Capital Markets Law stipulates that minority shareholders holding a stake of more than 20% in a company are entitled to board representation.

Labour. There are no requirements that labour be represented on the board of directors of private companies.

Disclosure. Shareholders must appoint a legal auditor (*comisario*) to oversee management, examine the books and report on the company's financial health at the mandatory annual meeting. Management must submit a summary balance sheet to the *comisario* every six months. A copy of the annual financial statement and a copy of the *comisario*'s report must be filed with the Mercantile Registry within ten days of the shareholders' meeting. The *comisario* must be a licensed accountant, economist or business administrator.

Taxes and fees. Fees for company-name searches and approvals are subject to constant revision. Fees for registration with the Mercantile Registry equal 1% of capital.

Types of shares. Shares must be issued in nominative form.

Control. Unless the byelaws provide otherwise, a major decision must be submitted to shareholders representing at least 75% of the company's capital and be approved by at least half of the capital voted. A special shareholders' meeting must be convened if requested by shareholders representing 20% or more of the equity. Moreover, any shareholder is permitted to examine the company's balance sheet, inventory, list of shareholders and *comisario*'s report 15 days before a shareholders' meeting. Any shareholder may protest against violations of a company's byelaws at the shareholders' meeting to the commercial court within 15 days of the meeting. In addition, shareholders representing at least 20% of the capital may present charges of negligence or dereliction of duty against any administrator or *comisario* to the commercial court.

Human resources

Overview

Venezuela's ability to develop and retain skilled labour in the local workforce is weak compared with other Latin American countries owing to a poor educational system, growing state control over the market economy and, most recently, a contraction in the real (inflation-adjusted) value of wages. The economy's informal sector is large and it employs a substantial portion of the country's workers. Informal employment has grown in recent years, with many Venezuelans abandoning jobs to resell goods with price controls in the streets. In addition, as a result of the nationalisation of private companies, more workers have ended up employed by the public sector.

Many of the most highly skilled workers in the oil sector have emigrated since losing their jobs after the strike in 2002 and 2003 at state-owned Petróleos de Venezuela (PDVSA), and subsequent government pressure on private companies not to hire ex-PDVSA employees. Many of them now work in Canada, Colombia, Mexico and the Middle East. The government's nationalisation policy has added to the exodus of talent since many senior managers at nationalised companies have chosen to resign rather than work in the public sector. Other sectors continue to lose skilled staff due to Venezuela's uncertain political and economic climate. Limited career opportunities have increasingly led skilled graduates to emigrate, especially given the government's preference for employing supporters of the late President Hugo Chávez's policies and ideas. The Economist Intelligence Unit expects the departure of skilled workers to create shortages in key sectors of the domestic economy. In the long term, shortages of skilled labor wil prevent firms from investing in Venezeula.

The unemployment rate stood at 7.9% in January 2015, down from 9.6% one year earlier, according to the latest official figures from the National Statistics Institute (Instituto Nacional de Estadística—INE). Rapid inflation has pushed real wages down since 2008 despite government efforts to raise the nominal minimum wage. The Economist Intelligence Unit estimates that average real wages fell by 7.8% in 2014, compared with a decline of 5.8% in 2013; we expect wages to fall by 26.5% in 2015.

The state took over the management of pension funds at end-2002, when the government approved the Organic Social Security Law (Ley Orgánica de Seguridad Social; *Official Gazette* No. 37.600, December 30th 2002). The legislation called for gradually phasing out the state-run Instituto Venezolano de Seguros Sociales (IVSS) and replacing it with a provisional board. However, implementation is now several years behind schedule, and there were no immediate plans to wind down the IVSS as of September 2015.

Article 86 of the constitution provides that "all citizens have the right to social security as a non-profit-making public service" regardless of their ability to pay for it. The government wants to expand IVSS coverage to workers in the informal sector, in accordance with the new Law on Labour and Workers (Ley Orgánica del Trabajo de los Trabajadores y Trabajadoras—LOTTT), which took effect in May 2012. Nonetheless, no long-term strategy has been devised to fund the social-security system, as only 25% of the workforce contributes to that system. In mid-August 2015, the government announced it had added 22,617 people to the IVSS pension rolls. New legislation for healthcare and other elements of the system has been pending for years.

Labour law

Venezuela's labour laws were already among the most rigid in the world even before a new, highly restrictive Organic Law on Labour and Workers (Ley Orgánica del Trabajo de los Trabajadores y Trabajadoras—LOTTT) went into effect in May 2012. The World Economic Forum's *Global Competitiveness Report 2014–15* ranks Venezuela last among 144 economies in terms of labour-market efficiency, unchanged from the previous year.

LOTTT reduced the working week to 40 hours from 44 hours, extended paid pre-natal and maternity leave, prohibited contracting through third-party labour agencies (*tercerización*), banned unjustified layoffs, capped night-time work to seven hours, and rolled back reforms in the severance-pay system to the version that existed prior to 1997. The 554-article code covers employment-related issues, including work terminations, benefits, hours and labour representation. The law includes criminal penalties for employers who fail to observe labour rights. Failing to re-hire a wrongly dismissed worker, locking workers out and infringing on the right to strike are all punishable with jail terms of 6–15 months.

The 1992 Children's Day-care Centre Law requires companies with more than 20 workers to provide child-care facilities. The former Chávez government updated the law governing working conditions with the 2005 Organic Prevention, Conditions and Environment of Work Law (*Official Gazette* No. 38.236). Disputes arising from work-related issues are to go to labour tribunals, which are governed by the 2002 Organic Labour Tribunals Law (*Official Gazette* No. 37.504).

Industrial labour

Venezuela's trade-union movement traditionally has been very strong. This is particularly true in state-owned enterprises and the civil service, in which some 90% of the workers are unionised (compared with around 15% in the private sector). It is not uncommon for multiple unions to claim to represent workers at a single company. A joint committee comprising delegates from all the unions at a company typically undertakes collective bargaining.

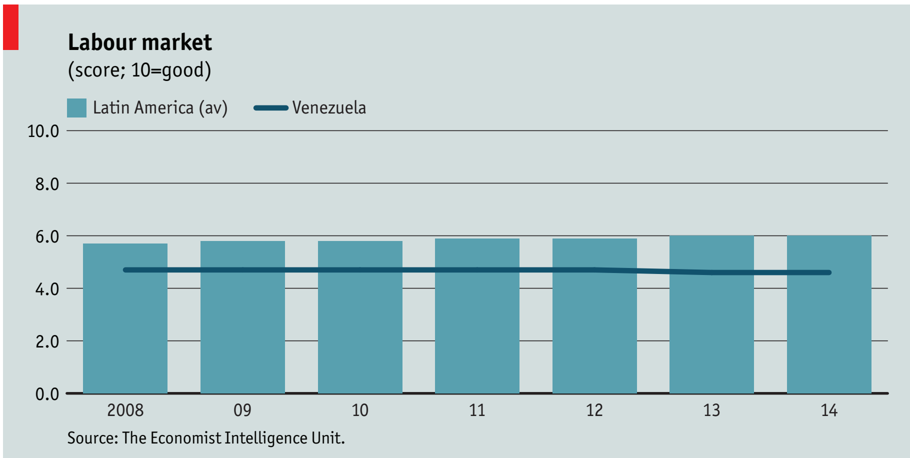
The government has actively encouraged the formation of pro-government unions and has pressured public workers to affiliate with government-sponsored unions and labour federations. Business leaders often complained that unions supporting the late President Hugo Chávez and backed by the labour ministry fomented conflicts with private companies by challenging existing labour contracts. Mr Chávez opposed traditional three-way wage talks among union federations, the government and major business umbrella groups. Since taking office, President Nicolás Maduro has made overtures to business leaders, notably to discuss food shortages. His relationship with some unions has become increasingly strained as the government's inefficient management of key industries begins to show and runaway inflation continues to eat away at workers' salaries.

Tensions in labour relations have been rising in both public and private enterprises since mid-2008 as the local economy deteriorates and real wages fall. Employees of newly nationalised companies are often asked to forgo benefits or accept lower-than-expected pay raises.

Acción Democrática (AD), formerly Venezuela's largest political party, used to control Venezuela's labour movement, but new unions loosely linked with the ruling party have sprung up, undermining the Confederation of Venezuelan Workers (Confederación de Trabajadores de Venezuela—CTV), which had been one of the Chávez government's most outspoken critics. Mr Chávez had worked to isolate the CTV since failing to take control of its leadership in 2000. The CTV had been, and its leaders were, among the main organisers of the anti-government movement that culminated in the national strike of December 2002–January 2003, which attempted to force early general elections.

More than 14,000 unions are registered in the country, though most are inactive. The National Elections Council (Consejo Nacional Electoral—CNE) oversees elections to leadership posts in the labour movement. The Labour Documentation and Analysis Centre estimates that about one-fifth of workers are affiliated with some type of union.

A company with a unionised workforce must enter into a collective contract with the union if more than 50% of the members request it. Most collective agreements are negotiated at the plant level, though there is a trend towards industry-wide bargaining to set minimum conditions for all plants in a given sector (including petroleum, steel, paper and tobacco). Collective contracts run from one to (most often) three years and may cover everything from wages and fringe benefits to work rules, grievance procedures and the prerogatives of union officials. Strikes and lockouts are legal if the aggrieved party presents a summary of complaints to the Labour Inspection Service at least 120 hours in advance. The 1966 Law of Labour Representation requires at least one labour representative to be on the executive board of any company in which the state holds a controlling interest.



Wages and fringe benefits

The minimum wage is usually adjusted around May 1st annually, but the government of the late President Hugo Chávez often enacted increases in two tranches in one year to boost the real spending power of the minimum wage. President Nicolás Maduro has followed this precedent and on February 6th 2015 he decreed a 15% increase in the minimum wage, followed by a 20% increase on May 1st 2015; a third increase of 10% became effective on July 1st 2015. The three increases raised the country's monthly minimum wage to BsF7,421.96 from BsF4,889.3.

Salary increases lagged inflation during the first four years of the Chávez administration (1999–2002), when government finances were tight and wages for Venezuela's bloated civil service were tied to the official minimum wage.

Starting wages for unskilled workers closely follow the minimum wage, and foreign-owned companies use it as a reference point. However, starting wages for skilled industrial workers are typically at least triple the minimum.

Companies doing business with the Venezuelan state and its various agencies must present proof that they have made all payments to workers as mandated by law. Decree 4,248 of January 30th 2006 (published in *Official Gazette* No. 38.371) describes the Labour Solvency Certificate needed for doing business with the state.

Full wages are due for 13 legal holidays (there are 20 banking holidays for bank employees) and all Sundays worked, plus up to three holidays decreed by state and municipal governments. In practice, workers receive a total of 24–33 days annual leave per year. The Law on Labour and Workers (Ley Orgánica del Trabajo de los Trabajadores y Trabajadoras), in force as of May 2012, provides for a mandatory annual-leave bonus of at least 15 days of pay, plus one additional day for each full year of employment, up to a maximum of 30 days of pay. The law makes it mandatory for workers to be away from work on their vacation days. Vacation days may be postponed up to 90 days but may not be voluntarily waived.

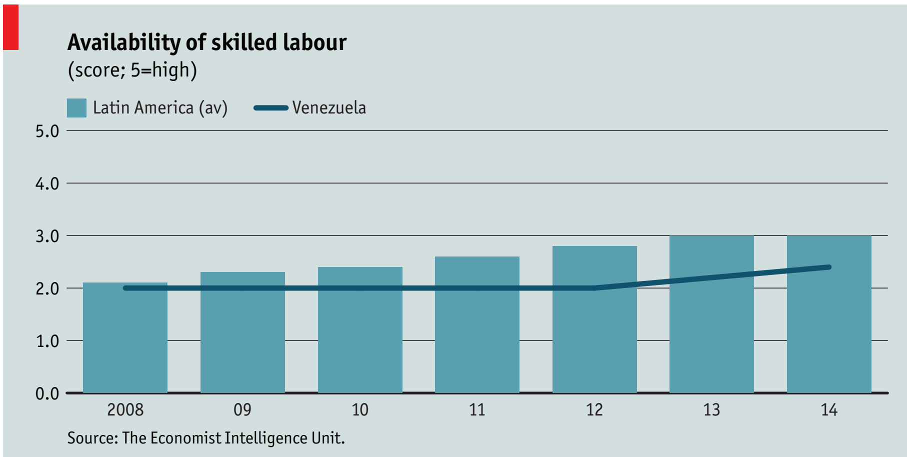
The new law provides for mandatory profit-sharing amounting to up to 15% of the company's net profits each year, to be paid in the form of year-end bonuses (*utilidades*) to the employees. For profit-sharing payment purposes, companies are divided into three categories, with larger companies paying more.

The Social Security Law governs disability, retirement, accident, illness, death, maternity and unemployment benefits, with a levy on the employer and the employee financing these benefits. The company pays 9%, 10% or 11%, depending on the degree of risk assigned by law to the job; the worker pays 4% of the monthly minimum wage. Because of the limited reach of the state-run Venezuelan Social Security Institute (Instituto Venezolano de Seguros Sociales—IVSS), many companies provide private health insurance for employees.

Employers and employees must contribute to a housing savings plan (paying 2% and 1%, respectively, of the monthly wage) and to an unemployment-compensation-insurance plan (employers pay 2% of the previous month's salary; workers, 0.5%).

Companies with more than 1,000 workers must offer their employees' children basic education facilities when these facilities are not available near the workplace. These companies must also provide hospital services, including surgery, when the workplace is more than 100 km from a city or when these services are more than 50 km away and not easily accessible to employees.

Employers must provide up to six weeks of pre-natal and 20 weeks of post-natal leave, and they may not require a pregnancy examination as a prerequisite for employment. New mothers receive special protection from employment termination for one year after the child's birth.



Working hours

Article 90 of the 1999 constitution set the maximum workweek at 44 hours, but the Law on Labour and Workers (Ley Orgánica del Trabajo de los Trabajadores y Trabajadoras), which went into effect in May 2012, reduces the work week to 40 hours and guarantees two consecutive days of rest. Night-time work (from 7pm to 5am) is limited to seven hours per day and no more than 35 hours per week. The minimum premium on pay for overtime (including holidays and Sundays) is 50%. The statutory maximum for overtime hours is ten per week.

Part-time and temporary help

The Law on Labour and Workers (Ley Orgánica del Trabajo de los Trabajadores y Trabajadoras), in force as of May 2012, creates major new barriers to part-time and temporary hiring, effectively banning hiring through third-party agencies (*tercerización*). The law decreed a temporary freeze on firing workers previously employed through such agencies; it also requires that firms incorporate contracted workers into their payrolls within three years (subject to certain conditions). During this three-year period, employers must ensure that workers employed through a third-party agency enjoy identical benefits and working conditions as full-time workers.

Termination of employment

The laws governing the termination of employment in Venezuela are rigid. Decree 2271 of 2002 (*Official Gazette* No. 37.608) banned layoffs until January 2003, but the government has subsequently extended this decree every year. The existing decree was due to expire in December 2014, but was extended for one more year in January 2015.

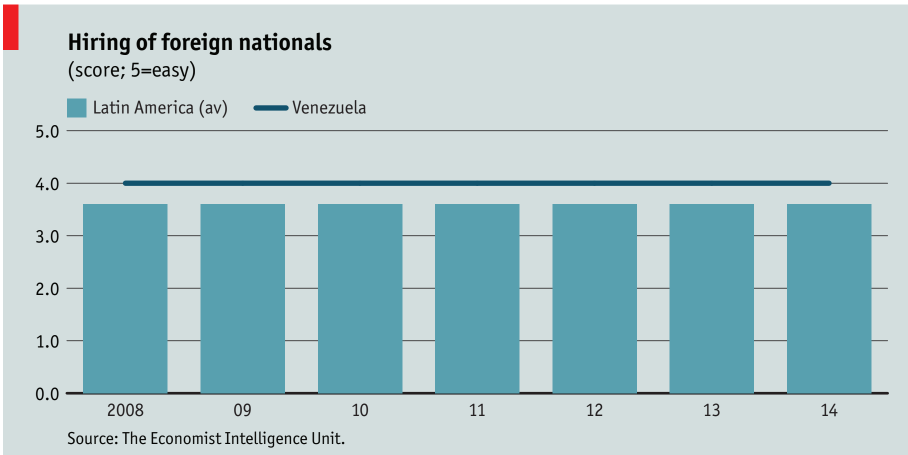
The private sector has criticised the ban on layoffs as excessively restrictive, and labour groups claim it is ineffective. The ban applies to layoffs, not firings for justifiable cause. (When the Chávez administration fired close to 19,000 striking oil workers in early 2003 during the ban on layoffs, it accused workers of abandoning their posts without having previously agreed to a formal strike.)

The new Law on Labour and Workers (Ley Orgánica del Trabajo de los Trabajadores y Trabajadoras), which went into effect in May 2012, overhauls the previous mandatory severance-pay system (*prestaciones por antigüedad*) by combining a final salary scheme with a funded system. Employees are entitled to 30-day payments per year of service, calculated on the basis of their final salary. Employers must also deposit 15 days' salary per quarter into a severance-pay trust fund, plus an additional two days for each year of service. Within five days of the employee's termination, the employer must pay whichever is the higher amount, either the 30-day payment per each year of service or the funds accumulated in the severance-pay trust fund. Workers are entitled to draw up to 75% of the amount accumulated in their severance-pay trust fund before the end of employment.

Employees dismissed without the obligatory three-month notice are now entitled to double severance pay, or may sue to win back their jobs. Following a court ruling in favour of the employee, employers must rehire the employee or face incarceration. Grounds for "justified" dismissal include three days of unexplained absence from the job, gross negligence, intentional damage to company property and other serious offences. Departures in other circumstances require mandatory severance payments.

Employment of foreigners

The Law on Labour and Workers (Ley Orgánica del Trabajo de los Trabajadores y Trabajadoras), in force as of May 2012, maintained provisions under previous legislation regarding employment of foreigners. The labour code applies to all services rendered in Venezuela or to any service or labour contract signed within Venezuela regardless of the employee's nationality or the employer's legal headquarters. Limitations on employment of foreigners are that all managers should be able to give orders in Spanish and that foreigners may work as industrial-relations managers, personnel chiefs, or ship or aircraft captains. The labour code requires that at least 90% of the workforce of a company with ten or more employees be Venezuelan. Foreigners may not receive more than 20% of the company's entire payroll. Certain foreign professionals must obtain Venezuelan credentials before practicing their professions.



National incentives

General incentives

Venezuela offers both foreign and domestic investors a full and equal range of investment incentives, including tax exemptions, special credit financing, export incentives and debt-equity swaps. The federal government opperates a number of state-run lending institutions that focus on micro, small and medium-sized businesses. Nevertheless, the real value of these incentives is waning.

Corruption and poor management have traditionally hampered these bodies, and the loan default rates at public lending institutions often exceed those in the private sector. Besides federal programmes, many states and municipalities offer incentives. Corporación Venezolana de Guayana, the state industrial-holding company, also offers investment incentives.

The Law for the Promotion and Protection of Investment of October 1999 (Decree 356, *Official Gazette* No. 5.390) lets the government sign contracts with investors to guarantee stability of tax terms and investment incentives for up to ten years. It allows for international arbitration of disputes when specified under a bilateral investment treaty with the investor's home country. Otherwise, disputes must be settled in Venezuelan courts. However, the government has been reluctant to offer international arbitration to oil-sector investors as a matter of principle, citing the need to protect national sovereignty. Article 301 of the 1999 constitution forbids foreigners from receiving any benefits not offered to Venezuelans.

The 2001 reform to the Income Tax Law (*Extraordinary Official Gazette* No. 5.566, December 28th 2001) provided a 10% tax deduction on investments that protect or enhance the environment (Article 57). Companies with public works or service contracts are exempt from income tax under Article 49 of the 1994 Law of Concessions on Public Works and Services. Some low-cost financing has traditionally been available from the government under agricultural, industrial and export programmes like the Agricultural Credit Fund and Finexpo.

In December 2010 a new Law of the Communal Economic System (Ley de Economía Comunal, published in *Official Gazette* No. 6.011) created a collective-ownership regime through communal associations where bartering is permitted. The associations are tax-exempt and the law provides for preferential access to public-sector financing and priority consideration for public-procurement tenders.

Industry-specific incentives

Under President Nicolás Maduro, the government exonerated primary-sector industries (agriculture, fishing, forestry and poultry farming, among others) from paying income taxes through Decree No. 285 (*Official Gazette* No. 40.223), which took effect August 7th 2013. The change applies retroactively, from January 1st 2013 through December 2015.

Investments in the tourism sector qualify for a permanent 75% rebate (*Official Gazette* No. 39.955 of June 29th 2012); investments in agriculture are eligible for an 80% rebate if the government deems that the investment provides for "mutual benefit" in the community where the investment was made. The rebates can be claimed within three years of when the investment enters productive service.

An 8% tax deduction applies on new fixed-asset investments in hydrocarbon production and related activities made during the tax year. An additional 4% deduction applies to new investments in exploration drilling; installations related to production, transport and storage; secondary recovery of hydrocarbons; use, conservation and storage of gas; development of hydrocarbons; and spending on research.

The November 13th 2001 Hydrocarbons Law (Decree 1510, published in *Official Gazette* No. 37.323) increased oil-company royalty payments to 30% (from 16%), allowing for a lower rate of 20% for expensive heavy-crude projects. In conjunction with the passage of the new law, the Income Tax Law was revised to lower income taxes for oil companies to 50% (from 67.7%).

The incentive applies only to those companies or individuals who reinvest 100% of the rebate in capital goods, technological investigation or productivity gains. The incentive complies with Article 305 of the 1999 constitution, which makes agricultural development the responsibility of the state.

Up to 75% of investments in hotel construction or remodelling can be applied as tax exemptions over the five years following the investment's completion.

Regional incentives

Venezuela offers tax breaks to small- and medium-sized companies for new industrial investments in Amazonas, Apure, Delta Amacuro, Sucre and Trujillo states, as well as any of the 36 industrial parks throughout Venezuela, per Decree 963 of September 2000. Companies must reinvest 100% of the tax rebate in the specified state or industrial park.

In November 2001 the late President Hugo Chávez approved a Law for Special Zones of Sustainable Development (Decree 1,469, published in *Official Gazette* No. 5.556). The law established a special fund, managed by the planning ministry, to finance development projects in Venezuela's thinly populated interior.

A reform to the Value-Added Tax Law (*Official Gazette* No. 37.006) in August 2000 reintroduced the VAT exemption for Nueva Esparta state, which includes Margarita Island, a popular tourist area. The Paraguaná peninsula enjoys a similar regime.

Many states and cities have local incentive programmes to attract investment. Incentives at the local government level include exemptions, tax holidays, rebates or discounts, and deductions. Other incentives include choice land at low rates, exemption from local real-property taxes, educational and housing facilities for workers, and power and water infrastructure. State investment agencies can be contacted through the Ministry of Commerce or the National Council for Investment Promotion (Consejo Nacional de Promoción de Inversiones—Conapri).

Export incentives and zones

Venezuela offers a number of export incentives; the main one is a tax drawback on goods imported to Venezuela for processing and re-export. Nevertheless, the country's poor economic policymaking, which has led to a non-diversified, oil-based economy and inefficient practices, impedes the competitiveness of Venezuelan exports.

The drawback system provides different treatment for export categories above and below a threshold of US$60m per year. All exporters that exceed this level are entitled to a traditional drawback of the duty paid on their exports. Those below the threshold may receive either a flat 5% or (if the imported components were bought under a programme such as the temporary-admissions regime) a flat 2% drawback rebate. The rebate is implemented through non-interest-earning tax-rebate certificates (*certificados de reintegro tributario*—CERTs), which may be used to pay taxes before their expiry. The National Integrated Tax Service (Servicio Nacional Integrado de Administración Tributaria—Seniat) can now issue CERTs electronically, which alleviates some of the delays in receiving payments.

In addition, a series of special customs procedures exists to promote the non-traditional export industry. These include mechanisms such as the temporary duty-free admission of merchandise for re-export, the duty-free replenishment of inventories similar to merchandise used in export products, and the drawback mechanism.

In-bond storage allows foreign and domestic merchandise to be deposited at a specified place under customs control pending sale on local or international markets. Since the nationalisation of all ports in May 2010, however, and their outsourcing to Cuba's state port authority, import procedures have become notably slower and more cumbersome. Inadequate storage capacity at ports, coupled with long delays, present challenges for export operators.

A cumbersome set of inspection requirements put in place by the National Guard's Drug Enforcement division adds to administrative delays and has become a focal point for corruption. Regulations call for outbound shipments to be inspected for drugs less than 72 hours before being shipped out, at the shipper's expense. This aims to ensure that illegal narcotics are not included in outward shipments. With shipments often delayed for far longer than 72 hours at port, several successive National Guard drug inspections are typically required before exports can be shipped.

To qualify for export incentives, exporters must register with the Ministry of Commerce (Ministerio del Poder Popular para el Comercio), which offers information on free-trade zones. The public-private foreign-trade bank (Banco del Comercio Exterior—Bancoex) provides export credit. All export credit denominated in foreign currencies must comply with the foreign-exchange-control regime.

In an effort to spur free-zone activity, the government enacted a new Free-Zone Law (Decree 2,492, *Official Gazette* of August 17th 2003). The National Integrated Tax Service (Servicio Nacional Integrado de Administración Tributaria—Seniat) has been responsible since September 2003 for reviewing proposals for new free-trade zones. Free zones are classified as industrial, service or commercial. Because of its relatively high labour costs and other drawbacks, Venezuela has had only modest success in making such free zones work. (See Free ports, zones.)

Corporate taxes

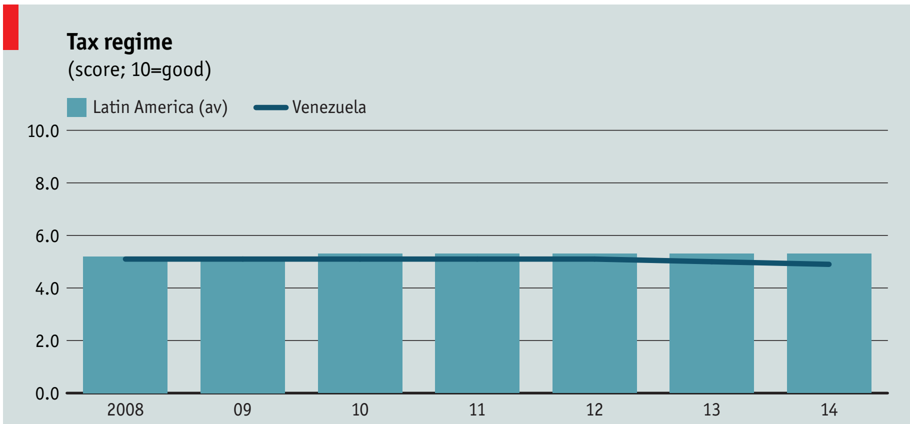
Overview

Venezuela has a progressive corporate-taxation regime—with rates of 15–34%—that applies to all companies except those in the oil and mining industry. Oil companies pay a heftier tax on income in addition to royalty fees.

Public finances are strained because of the country's heavy dependence on oil revenue, a low corporate tax burden (in addition to a shrinking corporate tax base, reflecting the reduced role of the private sector as the government maintains its nationalisation drive) and extensive social-spending commitments. The drop in Venezuela's oil revenue and the rising budget deficit led the government in March 2009 (*Official Gazette* No. 39.147) to raise the value-added tax (VAT) rate from 9% to 12%, where it remained in September 2015. The government sets the VAT rate every year in its annual budget. As a result, the government adjusts the VAT depending on its fiscal position, cutting the rate when fiscal balances are healthy and increasing the rate when deficits loom. The tax range has been 8-16% since 2004.

On November 18th 2014, the government enacted a reform to the VAT Law (Extraordinary Official Gazette, No. 6.152), that confirmed a minimum rate of 8% and a maximum rate of 16.5%; however, the effective VAT rate remained within that range, at 12%, in September 2015. The reform allows the president to fix the rate as needed and to determine different rates for various products and services. The state will also have the power to impose an additional rate of anywhere between 15% and 20% on goods and services considered luxuries.

A principal administration goal is to reduce rampant tax evasion. The National Integrated Tax Service (Servicio Nacional Integrado de Administración Tributaria—Seniat) has relied on heavy-handed surprise audits to improve companies' compliance with record-keeping and other tax regulations. Businesses that fail to produce adequate documentation of their accounts and transactions face the temporary closure of their operations. The surprise-audit campaign began in 2004 and has boosted VAT collection rates, despite complaints by businesses about Seniat's tendency to shut down companies for minor documentation violations. Seniat collections amounted to 11.5% of gross domestic product in 2014, up from 10.9% in 2011 and 8.2% in 2003.



Source: The Economist Intelligence Unit.

Corporate tax rates

Venezuela has a progressive corporate-taxation regime that applies to all companies except those in the oil and mining sector. Corporate income taxes are set at 15% on earnings of up to 2,000 tax units (*unidades tributarias*—UTs) per year; 22% for earnings of 2,001-3,000 UTs; and 34% for earnings exceeding 3,000 UTs. (The value of one UT, which is adjusted annually, was set at BsF150 in February 2015.)

Companies engaged in oil exploration and production pay a 50% tax rate on net income. Mining companies pay 60% tax on net income. Legislation specific to several oil projects operated by foreign companies stipulates that all tax and royalty payments must be at least 50% of projected revenue. Foreign companies with a revenue shortfall must make up the difference. Companies engaged in exploration, exploitation, processing, transport, distribution, storage, marketing and export of natural gas not associated with oil production pay the standard 34% corporate tax rate, as do companies involved in oil refining.

Oil companies are also charged a minimum 30% royalty on all crude oil produced, in accordance with the Hydrocarbons Law approved by Decree 1,510 of November 2001 (*Official Gazette* No. 37.323). The law allows the Ministry of Energy and Petroleum (Ministerio del Poder Popular de Energía y Petróleo) to lower the royalty rate to 20% for heavy-oil projects or marginal fields in special circumstances, but officials have indicated they believe that heavy-oil upgrading projects can be profitable with the standard 30% royalty. The government has the option of receiving its royalties in kind (in barrels of crude oil) at its discretion. Tax and royalty breaks granted to foreign companies in the 1990s prior to the publication of the new law have been phased out through forced renegotiations of operating contracts.

In April 2011 the government announced an expansion of the royalty windfall tax on oil-sector revenues to a top rate of 95% (from 60% previously) when oil is priced at higher than US$100/barrel. Foreign investors already in joint-venture agreements with Petróleos de Venezuela (PDVSA), the state-owned oil company, are exempt from the tax until they have recovered their investment. In January 2013 Venezuela's oil minister announced a partial reform to the windfall-tax brackets in Decree 8807 (*Official Gazette* No. 40.114). A levy of 20% of earnings now applies when Venezuela's export prices average between US$55 and US$80/b; 80% when prices stand between US$80 and US$100/b; 90% when prices stand between US$100 and US$110/b; and 95% when prices top US$110/b. Contributions are made monthly on the basis of the average price of Venezuela's oil-export basket for the previous month. New developments aimed at expanding production are exempt from the tax.

Partnerships do not pay corporate taxes; instead, the partners pay personal income tax on their share of all profits. The same holds true for professional partnerships, such as those of architects, lawyers and accountants.

Corporate taxation, 2015

The following is a simplified example of the tax levied in 2015 on a non-oil company operating in Venezuela with gross income of BsF10.40m. Tax credits shown are assumed to stem from previous tax retentions, anticipated payments and/or capital investments in favoured sectors. The tax unit (*unidad tributaria*—UT) was set at BsF150 in February 2015.

Gross income	BsF10,403,280 (69,355.2 UTs)
Less:	
Expenses	6,447,400
Donations	375,539
Losses on sold assets	218,693
Total deductions	7,041,632

Corporate taxation, 2015

The following is a simplified example of the tax levied in 2015 on a non-oil company operating in Venezuela with gross income of BsF10.40m. Tax credits shown are assumed to stem from previous tax retentions, anticipated payments and/or capital investments in favoured sectors. The tax unit (*unidad tributaria*—UT) was set at BsF150 in February 2015.

Taxable income	BsF3,361,648 (22,410.98 UTs)
Income tax, 34% on taxable income exceeding 3,000 UTs	BsF989,960
Tax credits	278,403
Income tax payable	711,557
As a percent of gross income	6.83%

Sources: Ministry of Economy and Finance figures, with Economist Intelligence Unit calculations.

Taxable income defined

All income earned in Venezuela and abroad (including dividends, royalties and interest) since 1999 is subject to the income tax. Previously, only domestically sourced income was taxable. The definition of taxable income changed when then-President Hugo Chávez decreed an Income Tax Law reform in October 1999.

Taxable income is calculated by deducting from gross receipts all "normal and necessary" expenses incurred in earning the income. These deductible expenses include costs of production and sales, advertising, general and administrative expenses, insurance costs, depreciation and amortisation, royalties and technical-assistance payments, research-and-development expenses (when paid within the fiscal year and for the benefit of the tax-paying company), and interest and wages. Losses may be carried forward for up to three years; foreign-sourced losses may be offset only against foreign-sourced profits made abroad.

All companies, entities and subsidiaries within a group must file separate returns. The sale of shares acquired as dividends is not taxable. Losses on share sales are tax-deductible, subject to conditions established in the law.

Venezuelan law requires all companies to express their accounts in bolívares. High inflation in Venezuela has resulted in the value of corporate assets rising sharply in nominal bolívar terms over the years. Hence, the 2001 Income Tax Law requires almost all companies to revalue non-monetary assets and liabilities in line with the consumer-price index reported by the central bank. Professional service providers (such as architects, engineers and lawyers) are not required to do so but may opt to revalue assets and liabilities.

Amendments to the income tax law enacted in 2007 changed the treatment of foreign-exchange losses; these have hit foreign investors, particularly in capital-intensive industries. Foreign-exchange losses are generated on foreign-currency-denominated debt when the bolívar is devalued. The accounting loss generated by the revaluation of foreign-currency-denominated liabilities was previously fully deductible during the tax year, creating a sizable tax shield. The new reforms now limit the deduction to debt paid during the tax period. No similar changes were enacted to reduce the effect on companies generated by the revaluation of assets, which generates phantom income.

The tax reforms of 2007 also introduced new thin-capitalisation rules designed to reduce tax avoidance. The rules limit the amount of financing Venezuelan companies may obtain from related entities, including shareholders and parent companies. Interest paid on loans from related parties is tax deductible if the Venezuelan company has a debt-equity ratio of 1:1. Any debt from related parties that exceeds the average annual net equity of the company is treated as equity for tax purposes. Consequently, interest payments on "excess" debt are treated as dividends, which are not deductible.

The ammendment to the income tax law of November 18th 2014 (Extraordinary Official Gazette No. 6.152), modified the losses companies can deduct from taxes to those that affect fixed production assets. Losses can be classified as such only when they come from fortuitous events.

Authorities are also insisting on the use of individual tax-registration numbers, as part of the reorganisation of the National Integrated Tax Service (Servicio Nacional Integrado de Administración Tributaria—Seniat). The campaign has had some success since businesses needing foreign currency under the exchange-control regime must prove that they have paid their taxes.

Depreciation

Depreciation based on revalued cost is allowed on tangible assets (like property, machinery and equipment) and intangible assets (like goodwill, trademarks and patents) in Venezuela. Straight-line or unit-of-production methods are permitted, and any other reasonable method may be accepted. Depreciation of fixed assets is calculated on cost in the same manner as the cost of goods acquired for sale. Normal annual depreciation percentages are 3.3% or 4% for industrial buildings, and 10% for plants and machinery. Depreciation of aircraft is limited to 50% of cost if it does not serve the main purpose of a business.

New companies must make an initial valuation of all their assets and liabilities (including shares and depreciable fixed assets) and pay a one-time tax of 3% on the revalued asset adjustment, which must be registered with the Ministry of Economy, Finance and Public Banking's Registry of Revalued Assets. Each year thereafter, companies must adjust their non-monetary assets and liabilities in line with the inflation rate. Depending on the inflation rate and capital structure of the corporation, taxable income will increase or decrease at the fiscal year-end.

Non-monetary assets that can be revalued include land, buildings, machinery, vehicles, installations, inventories, patents and trademarks, credits in foreign currency and investments (but not securities). They are adjusted based on the consumer-price index.

Non-monetary credits and liabilities that can be revalued include debts and debt claims if they are indexed for inflation or denominated in foreign currency.

Capital taxes

No corporate capital taxes are levied in Venezuela.

Treatment of capital gains

Capital gains are typically taxed as part of the taxpayer's ordinary income. However, Article 76 of the Income Tax Law made gross income from the sale of shares registered on the Venezuelan stock exchange subject to a 1% tax. Losses on sales of shares may not be deducted from other income.

The withholding rates on share sales are as follows: resident individuals, 3%; non-resident individuals, 34%; domiciled corporations, 5%; and non-domiciled corporations, 5%.

Taxes on interest and dividends

The tax treatment of interest and premium income on loans varies with the recipient. Article 14 of the income tax law makes residents exempt from paying tax on interest earned from bank deposits, mutual funds (unit trusts) and other savings funds.

For resident recipients, interest is normally taxed as ordinary income; for non-resident recipients, interest is subject to a tax withheld at the source, under Decree 1808, published in May 1997 (*Official Gazette* No. 36.203).

Interest paid to foreign banks and other financial institutions without branches in Venezuela is subject to a 4.95% withholding tax.

Dividends became taxable under the 1999 income tax reform. Dividends are normally taxed at 34% and are subject to mandatory withholding. Dividends paid by companies that produce oil or gas or are active in the downstream oil-and-gas sectors are taxed at 50% and are subject to mandatory withholding.

Taxes on royalties and fees

Royalties and fees paid to non-resident companies are subject to the corporate tax rate of 34%, which applies on 90% of gross payment.

Double-tax treaties

Venezuela had signed double-tax treaties with 32 countries as of September 2015. Among the latest agreements, congress approved an individual double-tax treaty with the state of Palestine in August 2014. Treaties with the United Arab Emirates, Vietnam and Malaysia took effect in May 2011, May 2009 and January 2008, respectively. Venezuela commenced negotiations for an agreement with Pakistan in March 2011.

The income tax law establishes that resident companies or individuals, and non-resident companies or individuals that are permanently established in Venezuela, may credit foreign income taxes paid on foreign-sourced income against their Venezuelan tax obligations.

Decision 578 of May 2004 covers double-taxation rates for member countries of the Andean Community (Comunidad Andina—CAN), which includes Bolivia, Colombia, Ecuador and Peru. Venezuela was a CAN member but officially withdrew from the bloc in April 2011; it has since signed bilateral agreements with all CAN members.

Withholding tax rates under double-tax treaties (%)

Country of recipient	Dividends[a]	Interest[b]	Royalties[c]	Country of recipient	Dividends[a]	Interest[b]	Royalties[c]
Austria	5/15	4.95/10	5	Malaysia	5/10	0/15	10
Barbados	5/10	5/15	10	Netherlands	0/10	5	5/7/10
				Norway	5/10	5/15	9/12
Belarus	5/15	5	5/10	Palestine	10/15	5	10
Belgium	5/15	10	5	Portugal	10	10	10/12
Brazil	10/15	15	15	Qatar	5/10	5	5
Canada	10/15	10	5/10	Russia	10/15	5/10	10/15
China	5/10	5/10	10	South Korea	5/10	5/10	5/10
Cuba	10/15	10	5	Spain	10	4.95/10	5

Withholding tax rates under double-tax treaties (%)

Country of recipient	Dividends[a]	Interest[b]	Royalties[c]	Country of recipient	Dividends[a]	Interest[b]	Royalties[c]
Czech Republic	5/10	10	12	Sweden	5/10	10	7/10
Denmark	5/15	5	5/10	Switzerland	0/10	5	5
France	5/15	5	5	Trinidad & Tobago	5/10	15	10
Germany	5/15	5	5	United Arab Emirates	5/10	10	10
Indonesia	10/15	10	10/20	United Kingdom	0/10	5	5/7
Iran	5/10	5	5	United States	5/15	4.95/10	5/10
Italy	10	10	7/10	Vietnam	5/10	0/10	0/10
Kuwait	5/10	5	20	Non-treaty countries	34%	4.95%	15/34

[a] Where there are alternative rates, the applicable rate depends on the percentage ownership of the company by the beneficial owner; different rates may apply for oil companies. [b] Different rates may apply for banks and other types of companies. [c] Different rates may apply to technical-assistance fees.

Sources: Ministry of Economy and Finance, Economist Intelligence Unit research.

Intercompany charges

Local companies may deduct from taxable income various forms of payment to foreign affiliates, such as payments for direct purchases, shared expenses and management fees. Payments on intercompany loans are subject to thin-capitalisation rules introduced in 2007 (see Taxable income defined). Venezuelan transfer-pricing rules require income and expenses related to transactions conducted between related parties to comply with arm's-length standards. The taxpayer is required to verify the existence of this situation by conducting a transfer-pricing study.

Turnover, sales and excise taxes

The Venezuelan government's main source of non-oil income is the value-added tax (VAT), which has been 12% since March 2009. The latest reform to the VAT law announced in November 18th 2104 (Decree No. 1.436, Extraordinary *Official Gazette* No. 6.152) confirmed that the law would allow for a range between a minimum rate of 8% and a maximum rate of 16.5% but gave the presidency the power to determine the rate and to determine different rates for various products and services. The November law went into effect on January 2015.

The VAT is based on the invoice price of domestic and imported goods. The latter's transport costs, packaging and commissions must be added. Several exemptions exist for exporters and importers and for specific industries. The tax also exempts (among other goods and services) the following: food staples; hydrocarbon-based fuels; vehicles for public transport; medicines; health services; educational costs; sports tickets; cultural tickets, including cinema, theatre and concerts; and all residential utilities (telephone service up to certain limits). The law allows the government to decree exemptions from VAT as it sees fit. Very small retailers, who were previously exempt from collecting and paying the tax under the older law, are no longer exempt. The November 2014 reform eliminates a tax exemption for those goods and services that are used for business purposes if these also happen to be used by a company's owners and employees for personal enjoyment as well.

As per the November 2014 VAT reform, a surtax on sales of various luxury goods can range from 15% to 20%, on top of the VAT tax. The reform leaves the surcharge at 15% for the following goods: cars worth more than US$40,000, or whose factory price in Venezuela is equal to or exceeds 6.000 UTs; and motorcycles worth more than US$20,000, or whose local factory price is equal to or exceeds 2.500 UTs. Aircraft, helicopters and boats for private use, caviar, and jewellery and watches worth more than 2.500 UTs are considered luxuries and carry a 15% surcharge plus the 12% VAT.

The November 2014 tax reform further tightens the types of activities that can be exempt from tax, which now include any activity that is used both for business and leisure purposes, activities related to the purchase of food and beverage services; and activities related to public entertainment.

There is also a 3% tax for transfer of ownership of vehicles, boats and aeroplanes (unless used for commercial transport or fumigation), heavy agricultural or construction machinery, and public transport.

The November 18th 2014 tax reforms changed the Law of Taxes on Alcohol and Alcohol Species (Ley de Impuesto sobre Alcohol y Especies Alcholicas), (Decree No. 1.418, Extraordinary Official Gacette No. 6.151)and sets a 15% tax on beer, 35% on wines, and 50% on other alcoholic beverages, including sangria.

Other taxes

Regional and municipal governments may levy certain taxes, but these tend to be poorly regulated. There is no cap on municipal taxes, and companies and the central government have sought court decisions to establish a limiting precedent. The oil industry is generally exempt from municipal and regional taxes, but companies that provide services to the industry can be taxed.

State taxes are few and are limited principally to road tolls and lottery taxes. Municipal taxes vary by district and type of business but are typically 0.5–10%, with most activities taxed at the lower end of the scale. The municipalities also levy real-property taxes (*derecho de frente*), with rates and bases of assessment varying by location and use of the property. Many municipalities outside Caracas attract companies to their areas by offering exemptions from real-property taxes to manufacturing enterprises.

Personal taxes

Overview

The personal tax rate in Venezuela is assessed on a progressive income scale, at rates of 6–34%. The National Integrated Tax Service (Servicio Nacional Integrado de Administración Tributaria—Seniat) collects taxes. Seniat has stepped up its efforts to reduce tax delinquency—a persistent problem in Venezuela—by auditing more taxpayers. Much of the focus, however, has been on VAT collections and on businesses, rather than on individuals.

Venezuela calculates taxes using so-called tax units (*unidades tributarias*—UTs), which are adjusted annually. In 2015 one UT is equivalent to BsF150. Taxpayers whose net worldwide income is 1,000 tax units or more must file a tax return with Seniat within the legally established time period. Individuals whose income before legally permitted adjustments and deductions exceeds 1,500 UTs also must file, even if their net income is less than 1,000 UTs. Individuals who work in the primary sectors (agriculture, fishing and forestry) must file a return if their gross income exceeds 2,625 UTs. All non-residents must file returns on income earned in Venezuela.

Determination of taxable income

Residents must pay personal taxes on their locally and foreign-sourced income. Foreign diplomats and consular workers are exempt from income tax. Since 1999 Venezuelan citizens or residents living overseas must pay local taxes on foreign income.

A resident is defined as an individual present in the country for more than 183 days during the relevant calendar year or during the immediately preceding calendar year. A person may also be deemed a tax resident in Venezuela if he or she has established a home in the country, unless that person, in the same calendar year, spends more than 183 days in another country and can prove that he or she has obtained tax-residency status in that other country. Resident expatriates are liable for taxes on all income from Venezuelan and foreign sources and are taxed at the same rate as Venezuelans.

All taxpayers get a personal exemption of 10 tax units (*unidades tributarias*—UTs) for themselves and each dependent. They may also get a standard deduction of 774 UTs from their gross income or may itemise deductions from expenses related to education, medical treatment, interest paid on loans to buy a principal residence (up to 1,000 UTs), and rent paid to lease a principal residence (up to 800 UTs), among others.

Various sources of income excluded from the calculation of personal taxes include the interest received by individuals from savings accounts and savings certificates in Venezuelan financial institutions; interest received from government securities; severance pay and interest derived from severance pay; proceeds from trust funds; and retirement or disability payments, among others.

First, the applicable tax rate applies on taxable income. Then, UTs (0–875 UTs, depending on the tax bracket) are subtracted before credits to calculate the pre-credits income tax payable.

Individuals must file tax returns at the tax office before March 31st each year. Returns are on a self-assessment basis, which the tax authorities may investigate. Married couples must report their combined income on a joint tax return, though a spouse may file separately for professional income.

Personal taxes, 2015

Taxable income (UTs)	Flat rate on income (%)	Minus (UTs)	Taxable income (UTs)	Flat rate on income (%)	Minus (UTs)
0–1,000	6	0	2,501–3,000	20	255
1,001–1,500	9	30	3,001–4,000	24	375
1,501–2,000	12	75	4,001–6,000	29	575
2,001–2,500	16	155	6,001 and above	34	875

The following examples illustrate the approximate income tax burden on a married resident with two children, earning a salary of BsF250,000 or BsF500,000. The UT was set at BsF150 in February 2015.

Gross income	250,000	500,000
Less deductions:		
Education*	11,000	16,000
Insurance premiums	6,000	12,000
Medical expenses	8,000	8,000
Mortgage/rent	52,000	90,000
Total deductions	77,000	126,000

Personal taxes, 2015

Taxable income	(1,153.3 UTs) 173,000	(2,493.3 UTs) 374,000
Income tax payable (before subtracting UTs and credits)	(9% tax bracket) 103.7 UTs	(20% tax bracket) 499 UTs
Minus UTs	30.0 UTs	255 UTs
Income tax payable (before credits)	73.7 UTs	244 UTs
Less tax credits:		
Personal	10 UTs	10 UTs
Spouse	10 UTs	10 UTs
Children (10 UTs each)	20 UTs	20 UTs
Total tax credits	40 UTs	40 UTs
Tax due	(33.7 UTs) BsF5,055	(204 UTs) BsF30,600
As a percent of gross income	2.02%	6.12%

* Assuming that the higher-income family sends the children to a more expensive school.

Source: Economist Intelligence Unit calculations.

Personal tax rates

Venezuela's personal-tax-rate regime is assessed progressively on income. There are eight personal-income-tax brackets, with rates of 6–34%. A 34% rate also applies on 30% of professional-fee payments to residents. Non-resident expatriates pay a flat 34% on wages and salaries sourced in Venezuela.

Incomes are reported in tax units (*unidades tributarias*—UTs). The UT is fixed every year and was set at BsF150 in February 2015.

Capital taxes

Capital gains are typically taxed as part of the taxpayer's ordinary income. However, Article 76 of the Income Tax Law made gross income from the sale of shares registered on the Venezuelan stock exchange subject to a 1% tax. Losses on sales of shares may not be deducted from other income.

Competition policy

Overview

Venezuela's 1999 constitution forbids monopolies and the creation of price cartels. President Nicolás Maduro enacted new anti-monopoly legislation on November 26th 2014, as part of a package of laws he approved using special powers given to him by congress. The new anti-monopoly law, or Ley Antimonopolio (Decree No. 1.415, Official Gazette No. 40.549), replaces the previous law in place since May 1992 and sets forth regulations regarding the abuse of a dominant market position. The law creates the Superintendencia Antimonopolio, or Anti-monopoly superintendency, which replaces Procompetencia, the previous regulator. The new superintendency that enforces the law remains under the Ministry of Commerce (Ministerio del Poder Popular para el Comercio). (See Monopolies and market dominance.)

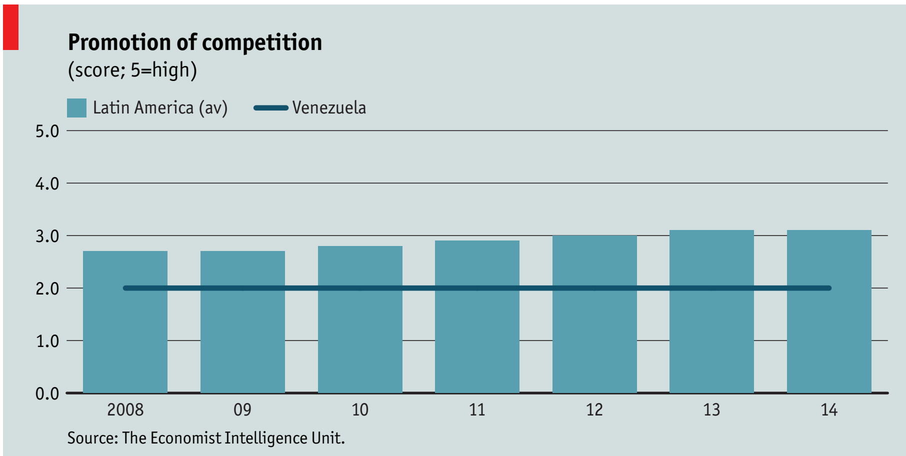
Antimonopoly regulators have had limited successes in addressing anti-competitive practices since poor staff training and scarce resources have hampered the effectiveness of their efforts. The fight against price-fixing has lost its importance in the face of price controls the government has established on hundreds of basic goods and services. Government agencies typically ignore competition complaints when the offender is state-owned, and private-sector competitors complain that the new state companies are often favoured.

Price controls—which have featured prominently in the economy since 2003 as part of Venezuela's economic policies to contain rising inflation—have distorted market competition. The government has on several occasions adjusted prices upward, but the measures have proved insufficient to meet market needs. Periodic shortages of coffee, sugar, beef, toilet paper and other consumer staples are common. The government blames the product shortages on speculation and hoarding, and consequently has seized several food processors since 2008, claiming that they were breaking competition law.

In February 2010, the late President Hugo Chávez signed into law a new Consumer Protection Law (Ley para la Defensa de las Personas en el Acceso a los Bienes y Servicios, published in the *Official Gazette* No. 39.358). The newly renamed consumer-protection agency (Instituto para la Defensa de las Personas en el Acceso a los Bienes y Servicios—Indepabis; formerly known as Indecu) administers this law. The Consumer Protection Law prohibits unjustified price hikes and the hoarding of goods in any industry the government considers strategic. Although it is meant to control rising inflationary pressures, it has proved ineffective—given the government's economic-policy mix of high fiscal spending and distortionary price controls. The law established a maximum punishment of three years in jail for any violations. The government has also applied the law in its seizure of private property—for example, in nationalising Éxito and Cada, in January and May of 2010, respectively. Both of these food retailers remain partially owned by Cativen, a subsidiary of Casino Group of France.

The Organic Law on Fair Prices (Decree 600, published in January 2014 in *Official Gazette* No. 40.340) created the Superintendency for the Defence of Socioeconomic Rights (Superintendencia Nacional para la Defensa de los Derechos Socioeconómicos), which is in effect authorised to set price ceilings for any good or service in the economy. The law stipulates stringent reporting requirements for all businesses, demanding that they report their cost structures in detail and setting fines of between 200 to 20,000 tax units for violations ranging from failing to cooperate with regulators or not providing necessary information to the Superintendency, to selling expired food products. The law opens the door for the ultimate takeover of a company's assets for law violations and also sets a maximum 30% profit for economic agents positioned all along the commercial value chain. The law stipulates jail time of eight to ten years for companies and commercial outlets found to be violating established price controls. (See Price controls.)

Although Venezuela does not have traditional cartels and private monopolies (there are some quasi-monopolies, and informal cartels are common), ownership of many businesses is concentrated among a few families.



Monopolies and market dominance

Venezuela's 1999 constitution strictly forbids speculation and the creation of cartels (Article 114). It also forbids monopolies and guarantees the protection of consumers' rights (Article 113).

The 2014 anti-monopoly law focuses on the abuse of a dominant market position. Major provisions include bans on all of the following practices:

- horizontal agreements to limit competition, including (1) price-fixing, (2) limits on the production, distribution or technological development of an item, (3) limiting investment for innovation and research and development, (4) collusive allocation of markets, and (5) unequal treatment of service providers that may give advantage to some competitors over others;
- vertical agreements that set minimum prices or limit production, distribution or development of an item; and
- attempts by companies in dominant market positions to discriminate by price, create unjustified production limits (artificial scarcity), constrain distribution or development, or refuse to satisfy demand. The law excludes companies considered small and medium sized as well as cooperatives. It also excludes state-owned companies and mixed companies, which the government considers "strategic". "

Article 49 of the 2014 anti-monopoly law empowers the antimonopoly superintendency under the Ministry of Commerce (Ministerio del Poder Popular para el Comercio), to impose fines of as much as 10% of an offending company's gross income in the year prior to the decision and as much as 20% depending on the gravity of the case (up to 40% for repeat offenders). The law does not provide for prison penalties.

The 2014 law establishes the illegality of a dominant market position and the collusion of various market participants to achieve dominance. The decree sets guidelines in areas such as exclusive-distribution agreements (franchises), technological co-operation and rationalisation of production. The law lays out the parameters to evaluate the existence of "effective competition" between various market participants in the sale or purchase of a good or service.

Mergers

The anti-monopoly law of 2014 forbids all mergers and acquisitions that lead to excessive concentration of market power. The law has yet to establish a set of rules that lay out how the notification, evaluation and approval procedures will work for different cases. The 2014 antimonopoly law replaces the previous free competition law passed in 1992.

The Antimonopoly Superintendency may prohibit a concentration and annul an existing concentration if it deems it likely to create a potential abuse of a dominant market position or restrict competition. Factors considered include whether the merger would significantly increase concentration in a specific area, thus producing an overly concentrated market; facilitate practices that can restrict free competition; permit the resulting company to raise prices unilaterally without competitors being able to counter such practices effectively; or impede the entry into the market of new competition. Critics still note that the judiciary lacks trained staff to deal with specialised anti-monopoly cases.

Freedom to sell

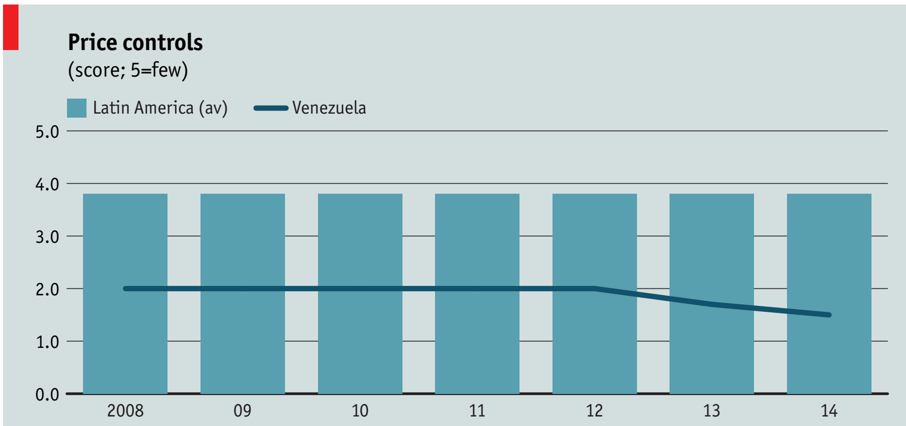
No laws limit the right of a manufacturer to sell to whomever it wishes. Exclusive rights for distribution and franchises are permitted unless they infringe upon free competition. Except in the food, pharmaceutical and some other sectors, manufacturers may sell the same merchandise to different dealers at varying prices; larger distributors (especially multinational companies) often get substantial discounts. Over the past two years, however, the government has begun monitoring the distribution logistics of major companies to curb the smuggling of price-controlled goods to neighbouring countries. Often the government will force producers of food and hygienix goods to direct merchandise to state-owned distribution chains.

Price controls

Price controls are a central component of the government's economic policies, used as a means to manage high inflation. Shortly after the government introduced foreign-exchange controls in February 2003, it began reintroducing maximum prices for goods and services. As of May 2015 (latest available) price controls were in place on some 1,400 pharmaceutical goods; 242 personal-hygiene products; 140 food products; over 40 construction materials; and on education, energy, public transport and telephony, among other services.

The government in January 2014 passed the Organic Law of Fair Prices (Decree 600, published in the *Official Gazette* No. 40.340), which limits the profitability of companies along the commercial value chain to 30% and introduces an open-ended price-control regime under which mark-ups on any products (even those not explicitly subject to price controls) can incur penalties. The law also created the Superintendency for the Defence of Socioeconomic Rights (Superintendencia Nacional para la Defensa de los Derechos Socioeconómicos), charged with analysing product prices and company cost structures to determine fair prices and profit-margin levels.

Venezuela's petrol prices are among the lowest in the world, with a subsidised market price of about US$0.06 per gallon at end-September 2015 (unchanged from September 2013). Nominal prices in bolívares have remained constant amid devaluation. The International Energy Agency has estimated the cost of Venezuela's 2012 petrol subsidy (latest available) at US$24.2bn, or 6.3% of gross domestic product. Although President Nicolás Maduro indicated in January 2015 that the government would raise petrol prices, and though he launched a campaign to prepare Venezuelans for a price hike, he did not specify the amount. The increase had yet to take place as of September 2015. The last nominal petrol-price hike was in 1997.



Source: The Economist Intelligence Unit.

Exchange controls

Overview

Under the administration of the late President Hugo Chávez, a presidential decree created the Currency Administration Commission (Comisión de Administración de Divisas—Cadivi) on February 5th 2003 (*Official Gazette* No. 37.625) to regulate the flow of foreign currency in the local economy. President Nicolás Maduro eliminated Cadivi as part of a new exchange-regime law, Ley del Régimen Cambiario y sus Ilicitos, Decree No. 798 (*Extraordinary Official Gazette* No. 6.126) on February 19th 2014 and transferred its responsibilites to the Centre for Foreign Commerce (Centro Nacional de Comercio Exterior, Cencoex), which was created on November 29th 2013 (*Extraordinary Official Gazette* No. 6.116). Cadivi was responsible for authorizing the purchase of foreign currency by individuals or legal entities for transfers, remittances, or payments for imports of goods and services, and approving capital and interest payments on duly registered private external debts. In April 2015 (*Official Gazette* No. 40.636, Providencia No. 011) the government set a maximum US$3,000 per year of foreign currency available to Venezuelans. Of this total, up to US$300 can be used for internet purchases, with a limit of US$100 to be spent per quarter, and US$200 received in cash. The new ruling also restricts how many dollars can be obtained for travel depending on destination and length of stay. Venezuelans travelling anywhere in the United States for more than eight days receive a maximum of US$700.

In 2014 Cencoex approved purchases for US20.38 bn, down 31.5% from US$29.75 bn in 2013, but no data is available regarding how much was actually liquidated. Importers have long complained of problems getting foreign currency for trade finance. During the first four months of 2015 (latest available data) Cencoex disbursed US$40.6m a day for companies in sectors considered a priority by the government, a 71% declined from the same period a year earlier, according to local analysis firm Ecoanaltica. As of end-July 2015 Cencoex had an official rate of BsF6.3:US$1.

There are two more routes to securing foreign currency. The newest one is known as the Sistema Marginal de Divisas (SIMADI) administered by the central bank (Banco Central de Venezuela—BCV) as established by the Convenio Cambiario No. 33, published in the *Extraordinary Official Gazette* No. 6.171 on February 10th 2015. In this government-supervised platform, companies and individuals can trade foreign exchange and dollar-denominated debt with one another, the central bank and state-owned oil company Petróleos de Venezuela (PDVSA). Along with the creation of SIMADI, the government also merged the first and second versions of the foreign-currency auction system Sistema Complementario de Divisas (SICAD) which were originally designed to be used by the private sector and begin at a rate of BsF12:US$1. The rules for the SIMADI operations allow for trading at a maximum US$300 daily, a maximum US$2,000 monthly, and US$10,000 in a calendar year. As of early August 2015 SIMADI had an implicit rate of roughly BsF197.92:US$1.

According to the latest World Economic Forum's *Global Competitiveness Report 2014–15*, foreign-exchange regulations were identified as the most problematic aspect of doing business in Venezuela by 28% of businesspeople—more than twice as often as any other issue.

Dollar buyers unable to use Cencoex, SICAD or SIMADI are forced to turn to an opaque and risky—but flourishing—black market, where dollars traded at BsF700–703.29:US$1 in mid-September 2015. Certain sectors (such as consumer electronics and branded clothing) that are barely profitable at the black market rate are lucrative at the official rates.

Entities are required to demonstrate to Cencoex, SIMADI and SICAD their compliance with tax payments and contributions to social-security and worker benefits before obtaining approval to purchase foreign exchange.

Repatriation of capital

There are no restrictions on capital inflows, but foreign investments must be registered with the Superintendency of Foreign Investment (Superintendencia de Inversión Extranjera—Siex) within 60 days.

Profit remittances

Profits may not be remitted out of Venezuela without obtaining approval from the Centre for Foreign Commerce (Centro Nacional de Comercio Exterior—Cencoex) to purchase foreign currency. There are no controls on remitting dividends and profits locally if they are denominated in bolívares. Venezuelan subsidiaries generally remit profits to overseas parent companies through the payment of dividends, but they have been facing problems over the past few years because the government will not make foreign exchange available for dividend repatriation.

Venezuelan law restricts the amount that can be paid as a dividend to no more than the current year's profits, and it requires capital and reserve accounts to be at statutory levels before dividends can be paid. In practice, companies have found it almost impossible to obtain foreign exchange, making overseas profit remittances more difficult.

Loan inflows and repayment

Although funds from foreign sources (such as loans) may enter the country without prior authorisation or registration, interest payments remitted from Venezuela to other countries are subject to strict regulation by the Centre for Foreign Commerce (Centro Nacional de Comercio Exterior—Cencoex).

Remittance of royalties and fees

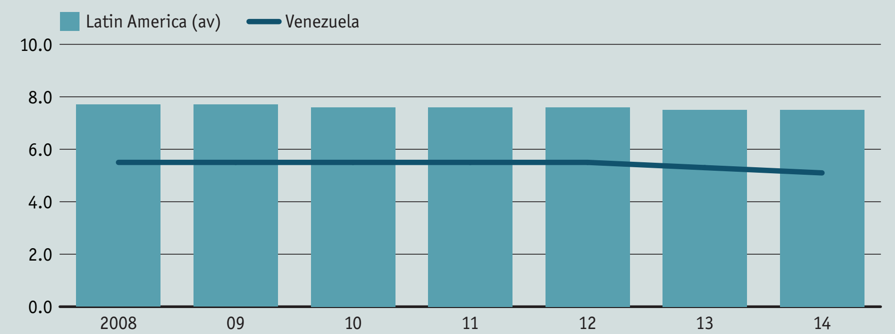
Transfers of royalties and fees need approval from the Centre for Foreign Commerce (Centro Nacional de Comercio Exterior—Cencoex).

Restrictions on trade-related payments

All exports must be denominated in dollars, euros or other major currencies. No bolívar-denominated export sales are permitted. Foreign exchange obtained from the export of goods and services must be sold to the central bank (except for 60%, which may be retained to cover export-related expenses, as per a change published in the *Official Gazette* No. 40.368 on March 10th 2014).

Multilateral and bilateral netting are permitted. All such transactions require prior approval from the Centre for Foreign Commerce (Centro Nacional de Comercio Exterior—Cencoex).

Policy towards foreign trade and exchange controls
(score; 10=good)



Source: The Economist Intelligence Unit.

Trade policy

Overview

The total value of exported goods fell to US$60.5bn in the first nine months of 2014, down from US$66.9bn in the same period of 2013, according to latest figures available from the central bank (Banco Central de Venezuela—BCV). Of the total exports of goods in the first nine months of 2014, oil and oil products were worth US$58.3bn, or 96.4% of revenues. Non-oil exports, largely metals and petrochemicals, made up the remaining share, valued at US$2.17bn. In full-year terms, the value of Venezuela's exports totalled US$91.16bn for 2013 (latest available data), down from US$99.5bn in 2012. Oil and oil products accounted for 96.2% of the country's exports in 2013.

The value of imported goods on a cost-insurance-freight (cif) basis during the first nine months of 2014 reached US$35.8bn, down from US$44bn in the same period in 2013, according to latest data from the central bank. Non-oil products accounted for 73.9% of all imports during the period. In full-year terms, Venezuela's import bill in 2013 totalled US$72.8bn, compared with US$77.5bn in 2012. Non-oil products accounted for 73% of all imports in 2013.

The National Statistics Institute (Instituto Nacional de Estadística—INE) no longer reports the destination of exports in the oil sector. According to latest data available from state-owned Petróleos de Venezuela (PDVSA), Venezuelan crude oil exports to the US amounted to roughly 733,000 barrels/day in 2014. This is lower than the 755,000 b/d that the US Energy Information Administration (EIA) reported for 2013.

As for non-oil exports, in the first ten months of 2014 Venezuela's leading markets by share of export value were the United States (25.2%), Switzerland (13.1%), Brazil (9.8%), Colombia (9.3%), and the Netherlands (8.2%), according to the latest available data from the INE. The US supplied 24% of Venezuela's total import bill in the first ten months of 2014. It was followed by China (14.5%), Brazil (10.7%), Colombia (5.5%), Argentina (4.9%) and Mexico (4.7%).

Venezuela officially exited the Andean Community of Nations (Comunidad Andina de Naciones—CAN) in April 2011. Following its departure, Venezuela formed a series of bilateral tariff deals with all CAN members—Bolivia, Colombia, Ecuador and Peru. The bilateral agreement with Peru, referred to as a Partial Reach Agreement (Acuerdo de Alcance Parcial), re-established CAN tariff rates between the two countries, with Venezuela maintaining exemptions to retain tariffs of 40–100% for 328 sensitive tariff lines and Peru keeping exemptions to retain tariffs of 40–100% for 251 tariff lines.

During the administration of the late President Hugo Chávez, Venezuela used oil-export revenues as a fiscal and political tool. Venezuela is one of OPEC's most strident advocates of output curbs as a way to maintain high oil prices and hefty government tax revenues. Since taking office in April 2013, President Nicolás Maduro has already threatened to cut off oil supplies to the US should the latter attempt to intervene in Venezuelan affairs. Mr Chávez regularly issued these types of threats during his time in office, but never carried them out. In May 2011 the United States imposed mild trade sanctions against PDVSA after finding that the company had helped to break the US embargo on Iran by shipping fuel there. The penalties added substantially to bilateral tensions but had little actual effect on PDVSA, given that they excluded Citgo, the company's US subsidiary.

The government has actively sought new oil-export markets, such as China and India, in order to reduce dependency on the United States. However, such a move requires discounting to cover the cost of shipping oil to Asia. According to Oil Minister Asdrubal Chávez, as of January 2015 (latest available data) Venezuelan exports to China stood at 536,000 b/d, a figure that is difficult to verify since the government does not systematically report disaggregated figures on the destination of oil exports. Most Venezuelan oil exports to China have been of low-value heavy fuel oil, which has limited use in the United States because of US environmental regulations.

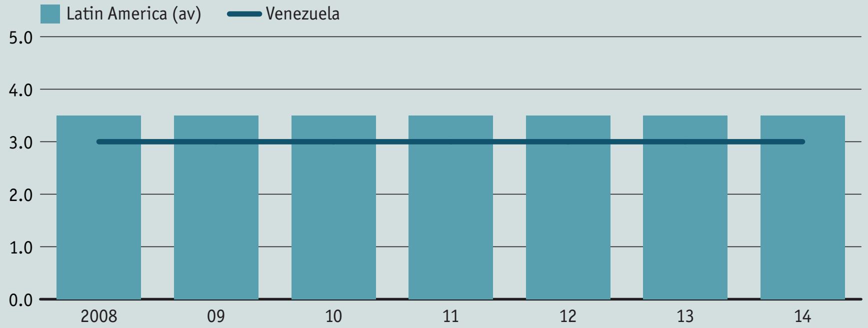
Venezuela's accession to the Southern Common Market (Mercado Común del Sur—Mercosur) regional trading bloc in July 2012 requires substantial changes in the country's trade regime. Under the Asunción treaty that governs Mercosur, Venezuela must adopt the group's Common External Tariff for no less than 3% of tariff lines within 60 days of accession, 20% of tariff lines within one year, and the remaining tariff lines in no less than four years. Venezuela must also implement a trade-liberalisation programme to allow access to its market to other Mercosur members. The country adopted the Mercosur nomenclature and tariffs following publication in the *Extraordinary Official Gazette* No. 6.097 on March 25th 2013.

Tariffs and import taxes

All imports are assessed a 2% customs-handling charge as well as a value-added tax (whose rate, 12% since March 2009, is set every year in the government budget), calculated on the basis of the cost-insurance-freight (cif) import price. However, many basic products, including essential foodstuffs, are exempt from this charge.

Venezuela announced its withdrawal from the Andean Community of Nations (Comunidad Andina de Naciones—CAN), which comprises Bolivia, Colombia, Ecuador and Peru, in April 2006 to protest trade negotiations with the United States conducted by Peru and Colombia. Tariff rules under CAN remained in place, however, until April 2011, when Venezuela officially withdrew from the bloc. Bilateral trade agreements with Ecuador and Bolivia were signed that same month, maintaining commercial ties. An ad-hoc agreement with Colombia was reached in August 2012, and a Partial Reach Agreement (Acuerdo de Alcance Parcial) re-establishing CAN tariff rates with Peru was published in the *Extraordinary Official Gazette* No. 6.087 on November 7th 2012.

Tariff and non-tariff barriers
(score; 5=low)



Source: The Economist Intelligence Unit.

Import restrictions

The administration of President Nicolás Maduro has maintained the import-control and price-restriction policies created under the late President Hugo Chávez to protect domestic agriculture and industry. Since 1999 Venezuela has required importers of agricultural products to register with the Ministry of Agriculture and Lands (Ministerio del Poder Popular para la Agricultura y Tierras), thus establishing another non-tariff barrier to trade. Importers of agricultural goods have complained that the process for obtaining import permits is too slow and cumbersome, leading to unexpected shortages of supplies. Government policy has tended towards greater central planning and administration of food production and imports.

The government has been in informal talks since August 2009 to control all imports of basic foods by becoming the sole import agent. Although the government has gained importance as an importer, particularly through Productora y Distribuidora Venezolana de Alimentos (PDVAL)—a subsidiary of state-owned oil company Petróleos de Venezuela (PDVSA) in charge of food import and distribution—it is still far from becoming the sole importer of food and agricultural goods. Still, capital controls and a lack of foreign exchange have limited the private sector's importing power over the past few years.

Decree 239 of May 1989 ended the practice of banning some imports and reserving others for the national government. Even so, several requirements still exist, including a health or "sanitary" certificate and a certificate of origin, as well as the respective permits from the ministries of Health, Light Industry and Commerce, Agriculture, Defence, Interior and Environment (depending on the product to be imported).

Decree 939 of December 1995 details which products require such certificates. Importers must also comply with quality-control standards set by the Venezuelan Commission on Industrial Norms (under the Ministry of Commerce). In most industrial areas, in order to obtain permission to import products similar to those produced in Venezuela, the products must be accompanied by certificates of quality from their countries of origin.

An anti-dumping law (Law on Disloyal Practices in International Trade, passed in 1992) aligns Venezuela's trade practices with the rules of the World Trade Organisation. The law protects domestic producers against imports made at dumping or subsidised prices, and it allows for legal retaliation in the event that international trade disputes arise.

Venezuela prohibits the import of used cars and other vehicles, as well as used tyres and clothing. The domestic automotive industry continues to be hit hard by government policies. Tightened foreign-exchange controls and the government's decision in 2008 not to issue import licences for new cars have led to a shortage of parts and forced car assemblers to shut down operations. On August 13th 2013 the National Assembly passed the Law to Regulate the Purchase and Sale of New and Used Vehicles, Domestic or Imported, which would regulate prices for newly assembled cars in Venezuela and brand-new imported vehicles, and for used cars manufactured in Venezuela within two years of their assembly. The law also forces the industry to offer more transparency along the production chain, including obliging manufacturers and dealerships to regularly publish price lists and the number of cars produced. Legislation regulating the prices of 144 different car models came into effect in January 2014 after it was published in the *Extraordinary Official Gazette* No. 6.117 on December 4th 2013. In early 2014, the government began talks with Ford (US) to let it sell vehicles in US dollars, but this had not occurred as of September 2015.

Taxes on exports

Exports of goods and services have been subject to the value-added tax (VAT) since 1999. VAT payments are typically refunded to exporters.

Free ports, zones

The Free-Zone Law (Decree 2492 published in the *Official Gazette* on August 17th 2003 and implemented on September 16th 2003) regulates the establishment and operation of free zones. Under the law, the National Integrated Tax Service (Servicio Nacional Integrado de Administración Aduanera y Tributaria—Seniat) receives and approves proposals for creating new free-trade zones.

Free zones are classified as industrial, service or commercial (trade), and a single zone may include all three categories. The following activities are permissible in a free zone: (1) bottling of liquids, packing and labelling, repairing and restoring, refining, assembling, processing and manufacturing; (2) displaying, demonstrating and marketing, testing merchandise, supplying services, and organising fairs related to zone activities; and (3) operating any bonded deposit or warehouse under customs regulations.

Imports to be used in free zones enter free of tariffs, internal taxes, sales taxes, fees for customs services and most restrictions. Venezuelan goods may enter a free zone for as long as six months for use in the above activities. Goods may be exported or re-exported from the zone; sold for consumption on boats or aircraft leaving for foreign ports or airports; or sold to other free zones, free ports or similar Venezuelan destinations. Enterprises established in free zones can receive any export incentives applicable in the rest of Venezuela. These companies also qualify for tax exemptions on income from the export of their own products, interest from loans to finance investments, and income from other transactions specified by the government.

The two free ports in Venezuela are Santa Elena de Uairén in Bolívar state, on the Brazilian border, and the free port of Nueva Esparta state, which includes the tourist island of Margarita. There are two "free zones"—the Paraguaná Peninsula Free Zone for Tourism Investment in Falcón state and the Miranda State Free Zone for Culture, Science and Technology—in which certain goods are exempt from various taxes and levies. There are three industrial and commercial free zones: one in the Paraguaná peninsula; another in the municipality of San Francisco, which forms part of the city of Maracaibo, in Zulia state; and a third one in Cumaná, in Sucre state. These three zones are generally designed to facilitate the growth of export-related businesses. Venezuela's free zones have had only limited success in attracting businesses because of poor international perceptions of the country's business climate.

Export restrictions

All exporters must register with the National Integrated Tax Service (Servicio Nacional Integrado de Administración Aduanera y Tributaria—Seniat), which administers the National Register of Exporters. Seniat shares its list of exporters with the currency-control board to ensure that exporters are complying with requirements to remit foreign-currency earnings back to Venezuela. As per the Convenio Cambiario No. 27 approved in March 2014 (Official Gazette No. 40.368 published on March 11th 2014), exporters may retain as much as 60% of the foreign exchange received from their exports to cover the costs incurred in their export activity.

Export licences are required for several products, such as radioactive material and diamonds. The Ministry of Commerce (Ministerio del Poder Popular para el Comercio) provides a list of these products. Export permits are needed for gold (from the central bank), petroleum derivatives (Ministry of Petroleum and Mining), and coffee and cocoa (Ministry of Commerce). From time to time the Ministry of Agriculture and Lands forbids the export of certain foodstuffs in order to ensure domestic supplies, though Venezuela's agricultural sector does not focus on the export market. The re-export of capital goods is normally not permitted. Certificates of origin for Venezuelan export products are not mandatory but are available from the Ministry of Commerce. This ministry and the Ministry of Health issue obligatory health, and animal and plant certificates.

Export insurance and credit

The Foreign Trade Bank (Banco de Comercio Exterior—Bancoex), which began operating in October 1997, provides financing, technical assistance and managerial consulting to exporters. The 1996 Foreign Trade Bank Law (*Official Gazette* No. 35.999) created Bancoex. The same law also permits the creation of export insurance and reinsurance companies. The former Chávez administration modified the Foreign Trade Bank Law in November 2001 (*Official Gazette* No. 37.330, Decree 1455 of November 2001) to promote non-oil exports.

Bancoex normally provides short-term dollar loans for working capital but may finance the acquisitions of capital goods with a maturity of up to three years. It charges interest of 0.5–3 percentage points over LIBOR (the London interbank offered rate) to the banks through which it channels its financing; they re-lend at less than 3 percentage points above this rate. Under the foreign-exchange controls, companies applying for dollar-based loans must first receive government approval.

Intellectual property and e-commerce

IPR overview

Venezuelan legislation has traditionally distinguished between intellectual-property rights (IPR) and industrial-property rights. The former include literature, graphic arts, audio and visual productions, which are protected by the August 1993 Copyright Law. The latter include patents and trademarks, and had been guaranteed by the Andean Community of Nations (Comunidad Andina de Naciones—CAN) Decision 486 of September 2000 until Venezuela officially exited the bloc in April 2011. Venezuela's departure from CAN threw the country's industrial-property regime into considerable confusion. CAN legislation had long governed intellectual- and industrial-property rights, bringing Venezuela closer to compliance with the agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPs) of the World Trade Organisation. Venezuela's exit from CAN meant a return to the previous IPR regime, based on Venezuela's 1955 Industrial Property Law. In practice, however, this has resulted in the collapse of any effective patent and trademark regime.

The 1955 legislation is outdated and does not comply with the TRIPs agreement. It does not, for example, allow for patents on food and beverages, medicine and software. Moreover, the status of trademarks previously registered under the

CAN law remains undetermined. The head of Venezuela's IPR agency, the Servicio Autónomo de Propiedad Intelectual (SAPI), has pledged to introduce a reform to the law based on Cuba's IPR regime, and in July 2012 the Supreme Tribunal of Justice urged the National Assembly to reform the 1955 law as a matter of urgency. However, no further details were available as of September 2015.

Much of foreign investment in Venezuela is registered as (or accompanied by) a trademark, patent or transfer of technology. Most companies choose between licensing/importing or establishing a local venture, depending on their particular marketing strategies. Many of those unfamiliar with the Venezuelan market first licence a local distributor to sell the product or service and then test the market before deciding whether to invest substantial capital. Licensing is common in such industries as apparel, cement, chemicals, cosmetics, motor vehicles, paints, pharmaceuticals and processed foods.

The government created SAPI in 1997. This service centralises the registration of copyright and industrial property, previously divided between the justice and the former development ministries. Nevertheless, SAPI is not much more efficient than earlier arrangements.

Since the administration of the late President Hugo Chávez, SAPI has moved to promote "alternatives" to traditional concepts of intellectual property. The agency has worked to promote open-source software and to protect Venezuelan innovation by granting preference to local products at the expense of imports. Companies have complained that SAPI officials have generally adopted attitudes that are at times overtly hostile to the protection of IP rights. SAPI registered 47 requests for industrial-design patents and 424 for invention patents in 2011 (latest data available), but no information is available on the number of requests that have been approved.

Since 2002 Venezuelan authorities have permitted the manufacture and sale of copies of patented medicine if manufacturers can demonstrate that their medicine is the bioequivalent of the existing patented medicine. This in effect allows manufacturers to copy medicines. SAPI does not permit companies to obtain so-called second-use patents for innovations.

Protection of intellectual property

Venezuela's lax enforcement of intellectual-property (IP) laws remains a problem, and violations of IP rights are widespread. There were modest improvements during the 1990s in reducing patent and trademark abuses, but enforcement declined under the 15-year government of the late Hugo Chávez, largely as a result of corruption and a lack of trained personnel in customs, the judiciary and the police force. The World Economic Forum's *Global Competitiveness Report 2014–15* ranks Venezuela last among 144 countries in terms of the strength of IP protections, unchanged from the previous year's study.

Venezuela has been on the US Trade Representative's (USTR) 12-country Priority Watch List for violations of intellectual-property rights since 2005. In the agency's April 2015 report, the USTR noted that concerns about ongoing widespread piracy, including piracy over the internet, remained. The USTR also raised concerns over the ambiguity surrounding Venezuela's IP legislation, including the failure to register patents for pharmaceutical products.

Annual losses due to copyright piracy in Venezuela are significant. Illegally copied music and films are widely available, and street vendors selling such goods work in full view of police and other officials. The 2013 Global Software Piracy study, the latest one available from the Business Software Alliance (BSA) and International Data Corp (IDC), estimated that the software-piracy rate in Venezuela at 88% in 2013, unchanged from 2011. The study estimated that losses from unlicensed software reached US$1.03bn during the year, up from US$668m in 2011.

The federal Criminal Investigative Police formed the anti-piracy command (Comando Antipiratería—Comanpi) in 1996 to fight piracy as a joint effort among the police, the justice ministry and the private sector. Once a model for the region, Comanpi has suffered from budget restrictions and staff changes, limiting its ability to pursue offenders. The overburdened and corrupt judicial system results in lengthy delays for prosecuting infringers and generally fails to impose penalties. Hence, the National Guard and the National Tax Institute have taken over many of Comanpi's functions.

Intellectual-property law

Conventions and basic laws. Venezuela's 1955 Industrial Property Law regulates patents and trademarks. Domestic legislation (Decree 2095 of 1992) regulates foreign investment, the import of technology, and the use of trademarks and patents. International treaties concerning intellectual property are the Bern Convention and Universal Copyright Convention, the Geneva Phonograms Convention and the Paris Convention for the Protection of Industrial Property, as well as the WTO's Marrakesh Agreement.

Patents

Types and duration. Under the 1955 Industrial Property Law, patents of invention, improvement, model or industrial drawing can last five or ten years depending on the will of the filer. Patents of introduction of technologies developed abroad are for five years or, until the original foreign patent term expires, whichever is less. Patent durations under the 1955 law are in clear violation of the 20-year patent-term standard provided for under the WTO's Trade-Related Aspects of Intellectual Property Rights (TRIPs) Agreement.

Novelty. Not known, patented or put to use in Venezuela; not already in the public domain by use, sale or advertisement inside or outside Venezuela prior to date of filing an application.

Unpatentable. Article 15 of the 1955 Industrial Property Law stipulates that the following are not considered patentable: food and drink, including animal feed; any type of medicine; financial systems and plans; naturally occurring substances or forces; second-uses for known objects, substances or elements; industrial processes; speculative or theoretical inventions; the juxtaposition of elements already in the public domain; published inventions.

Fees. The 1955 Industrial Property Law was drafted before the introduction of the *unidad tributaria* (UT) system, where the currency value of the UT is adjusted on an annual basis. Prices are therefore cited in pre-devaluation bolívares (BsF)—one of the many obsolete aspects of the law. The registrar is instructed to charge BsF50 per year for patents of invention and improvement in agriculture, BsF100 per year for industrial models or drawings, and BsF200 per year for patents relating to luxury products.

Industrial designs and models

Coverage is granted to industrial models and to industrial designs for periods of five to ten years. Application procedures and fees are the same as for patents.

Trademarks

Types and duration. Article 30 of the Industrial Property Law extends the definition of “commercial marks” to include signs, figures, drawings, words or combinations of words, captions or any other signal that embodies novelty. The duration is 15 years from the date of registration, renewable for additional 15-year periods. Renewals must be filed within six months of expiration.

Legal effect. Decision 486 stipulates that registration is compulsory to obtain protection. Under Venezuelan law, a trademark may be forfeited if not used for five consecutive years or if the registration-renewal request is not filed within six months following expiry.

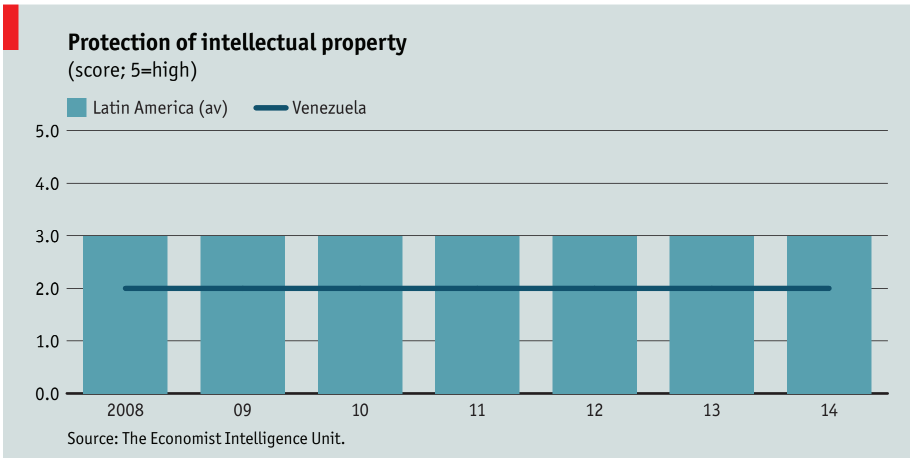
Not registrable. Trademarks that “suggest immoral ideas” or distinguish immoral products, national symbols, the Red Cross symbol, national symbols of foreign countries, geographic names, colors, standard geometric shapes, satirical caricatures, terms and expressions in general usage, first and last names, marks similar to or likely to be confused for previously registered marks, purely descriptive combinations of words, and slogans that include allusions to competitors’ brands or products.

Fees. Application and trademark search, around Bs50.

Copyrights

Duration. Copyright protection lasts 60 years following the death of the author. For anonymous works and computer programmes, protection lasts for 60 years from the date of publication.

Fees. Fees are variable. A schedule of fees is available on the Autonomous Intellectual Property Service (Servicio Autónomo de la Propiedad Intelectual—SAPI) website (http://www.sapi.gob.ve/).



Registering property

The Autonomous Intellectual Property Service (Servicio Autónomo de la Propiedad Intelectual—SAPI) is the public entity in charge of registering patents, trademarks and copyrights. It is headquartered in Caracas and associated with the Ministry of Commerce.

Venezuela’s patent-filing process is arduous and time-consuming. Although SAPI continues to tally requests for patents, no information is available on how many have been granted. Patent registration has been especially complicated following Venezuela’s official departure from the Andean Community of Nations (Comunidad Andina de Naciones—CAN) in April 2011. Since then, Venezuela has reinstated its 1955 Industrial Property Law, which does not comply with the Trade-Related Aspects of Intellectual Property Rights (TRIPs) agreement of the World Trade Organisation. SAPI once pledged to introduce a reform to the law based on Cuba’s IPR regime, and in July 2012 the Supreme Tribunal of Justice urged the National Assembly to reform the 1955 law as a matter of urgency. However, no further details were available as of September 2015.

Even under Venezuela's previous IPR regime through CAN, long delays contributed to the system's problems. Many companies preferred to make patent applications in the United States or Europe, where approval takes one year, rather than risk losing their rights in the Venezuelan system. Applications and other official business with SAPI had to be channelled through a registered industrial-property agent (usually a lawyer or an economist).

Acquiring a patent involves several stages, including a preliminary analysis and testing process by SAPI. The patent is then published in the office's monthly bulletin before the approval process begins. Parties with a "legitimate interest" can oppose a patent application within 30–60 working days of its publication. Patents and trademarks may be cancelled after five consecutive years of non-use if a third party takes a non-use action. The application to SAPI must include the following: identification of the inventor or his/her agent; the title or name of the invention; a clear and complete designation of the invention in a form by which a qualified examiner can execute the application; one or more claims that previously specify the applicant; a summary of the purpose of the invention; and proof that the appropriate fees have been paid. Qualified personnel conduct the examination.

Trademarks have the same application procedure as patents. Information filed must include identification of the applicant, a clear and accurate description of the trademark, a list of goods or services in their appropriate classes, and proof that the official fees have been paid. Parties with a legitimate interest may file opposition within 30 days of the application's publication in the industrial-property bulletin. Examination is undertaken only if there is opposition.

The 1993 Copyright Law provides for establishing the Registry of Intellectual Production. SAPI will accept the copyright registrations if the work exists and those who have registered are the owners of the right.

Two examples or reproductions of a work may be deposited at SAPI; one will be sent to the National Library. However, failure to register or deposit does not affect rights established in the law. Corporate holders of copyrights should file byelaws and statutes with the registry along with tariffs, internal regulations and norms covering charges and distribution, and contracts of representation with foreign entities.

Recent licensing agreements

Licensing agreements in Venezuela are limited given the country's economic uncertainty and its poor protection of intellectual property. Although the currency-control regime permits purchases of foreign currency to make licence payments, companies note that there is no guarantee that the exchange-control regime will not be tightened further in the future, which could curb licensing revenues. Most licences are issued by foreign parent companies to local subsidiaries to permit the use of trademarks and standard business processes. Companies seeking to export goods to Venezuela will often use licensing agreements with local marketing companies.

Licence payments have come under scrutiny from the National Tax Service (Servicio Nacional Integrado de Administración Tributaria—Seniat), which has cracked down on perceived abuses of licensing payments by subsidiaries of foreign companies. Local investors generally seek businesses that provide strong cashflows with limited capital investment and rapid payback times. The licensing of products for local manufacture remains limited because of the poor profitability of local manufacturing compared with the import of goods manufactured overseas. As such, most licensing agreements tend to be between small foreign manufacturers who are seeking local sales and distribution agents.

Negotiating a licence

Licensing agreements are negotiated between the contracting parties. No prior approval is required, but contracts must be registered with the Superintendency of Foreign Investment (Superintendencia de Inversión Extranjera–Siex) within 60 days. Contracts must comply with Decree 2095 of 1992, which prohibits certain tie-in or restrictive clauses.

The Technology Transfer Department of Siex maintains a registry of contracts; it lists the contracting parties, the product involved, the payment terms and the duration. Interested parties can obtain statistical information from this registry, though individual licensing contracts are considered classified information. Other sources of licensing information are the various law firms in Caracas that offer intellectual-property services.

Technology-transfer contracts can cover technical assistance; know-how; engineering and general consulting services; personnel training; technical, administrative and management-advisory services; the use in Venezuela of patents and trademarks owned by foreign individuals and/or companies; and the distribution of finished products bearing trademarks owned by foreign persons. Payments to overseas licence holders are permitted by the present exchange-control regime, but government permission is needed before payments can be remitted overseas.

Administrative restrictions

Decree 2095 of 1992 stipulates that a local subsidiary may pay royalties and fees on patent and trademark licences, technical know-how and assistance contracts to a foreign parent or related company. There is no limit on royalty payments and no need for prior approval. Technology-transfer agreements are treated in the same way as a commercial sales contract between companies. Payment of fees is permitted for technical assistance in the form of specific services. Payment of royalties or fees is not allowed for the use of an expired patent or technology that has become public knowledge.

Technical-assistance fees must be backed by tangible proof of the assistance received. The request must usually come from a local company, and the payments to technicians or managers providing the assistance in Venezuela must be in line with normal compensation abroad. One of the main concerns of the Superintendency of Foreign Investment (Superintendencia de Inversión Extranjera–Siex) is the "effective transfer of technology" (that is, the licensee's thorough assimilation of the technology being licensed). The licenser and the licensee may work out their own payment arrangements, which may be made without interference from Siex after registration. However, Siex must receive notice of all royalty or fee payments within 60 days. Payments must be made through a bank transfer from a local commercial entity, and applicable income tax must be withheld at the source.

Under Decree 2095, most technology contracts and patent and trademark licences no longer require prior approval, though they must still be registered with Siex within 60 days of signing. Decree 2095 requires contracts to be very specific concerning the following: parties involved; duration; payment conditions; currency; and the patent, trademark or technology under licence. All contracts for technical assistance and know-how must provide for a training programme for employees (except for occasional or specific services). All contracts are subject to the currency controls imposed in February 2003 that restrict the funds that may leave Venezuela.

Decree 2095 specifies that licensing contracts may not include certain tie-in or restrictive clauses, as outlined in Article 14 of Andean Community Decision 291 of 1991. The prohibited clauses are as follows:

- requirements for royalty payments on unused technology;
- commitments by the licensee to turn over to the licenser any technical improvements derived from use of the technology;
- requirements that the licensee sell production to the licenser;
- prohibitions on using competing technologies;
- restrictions on the volume or structure of production;
- permission for the technology/trademark supplier to price the product manufactured;
- requirements that the recipient of the technology or trademark must acquire capital goods, intermediary products, raw materials or other technologies from a particular source or must permanently employ personnel specified by the supplier.

Forms of e-commerce

Although mobile penetration rates have risen sharply in recent years, low personal-computer (PC) and internet penetration is a barrier to the growth of e-commerce, and political and economic uncertainty has discouraged investment flows into the sector.

Not surprisingly, the oil sector leads in e-commerce penetration. State-owned oil company Petróleos de Venezuela (PDVSA) interacts electronically with its larger suppliers, though managers often still insist on paper confirmation of transactions. Banks have encouraged their customers to shift transactions online where possible. Local banks such as Mercantil Banco Universal aggressively market their online banking services.

Some specialist internet companies have proved popular with middle-class Venezuelans. Most prominent among these is the Venezuelan version of Mercado Libre (mercadolibre.com.ve), an online auction room with offices in Argentina, Brazil, Chile, Colombia, Ecuador, Mexico, Peru, Uruguay and the US. A local used-car site (www.tucarro.com) has been successful enough to encourage its owners to create new ventures, such as a real-property portal, and to spawn a number of copycat competitors. Price controls on vehicles imposed in 2014, however, have forced users of tucarro.com to stop publishing prices for vehicles and instead ask buyers to consult prices directly with the buyer.

The national media and many regional outlets have largely established themselves online. Several newspapers, such as *Tal Cual* and *El Nacional*, have designed their websites as subscription-based services but have had little success in building significant revenue streams.

Growth of e-commerce

The expansion of e-commerce in Venezuela remains limited by the population's low access to information and communication technologies. Government-supported telecoms-infrastructure programmes, backed by oil revenue, began to spur internet use across the country in 2008. Internet subscriptions reached about 3.66m in the first half of 2014, from 3.61m in 2013, according to the 2014 year-end report of the National Telecommunications Commission (Comisión Nacional de Telecomunicaciones—Conatel). Venezuela had about 13m internet users as of the first half of 2014, up from 12.4m in 2012 and unchanged from 2013. Internet penetration reached 44% during the first six months of 2014, according to Conatel data.

Access is being widened gradually via the spread of cyber-cafés, connection centres operated by CANTV (the large telecoms company that was renationalised in 2007) and Movistar (run by Spain's Telefónica), and by government-backed *infocentros*. Venezuela has also seen a shift towards broadband in recent years. Nearly 93% of internet users have access to broadband connectivity service, and the vast majority of users connect at public internet cafés, according to Conatel.

Venezuela had 43 internet service providers (ISPs) in 2014, but CANTV remains the dominant one—via CANTV.net. The main competitors to CANTV are Intercable and Supercable (both locally owned cable TV companies), which have been aggressively promoting their broadband services. Telecom Venezuela, a state-owned fibre-optics company, is still in a formative stage and remains part of the Ministry of Science, Technology and Innovation (Ministerio de Ciencia, Tecnología e Innovación). CANTV.net provides broadband access via asymmetric digital subscriber line (ADSL); Intercable and Supercable provide broadband via cable modem; and Movilnet uses wireless local-loop (WLL) technology.

Despite growing internet penetration, e-commerce will probably remain underdeveloped because of a persistent lack of confidence in payment methods, uncertainty about product quality and delivery, limited credit-card penetration, weakening purchasing power, and restrictions on US-dollar internet purchases; Venezuela tightened its foreign-exchange controls in April 2014, cutting the annual limit on US-dollar internet purchases to US$300 (from US$400) given a tighter availability of foreign exchange.

E-government trends

Nearly all government ministries, departments, state-owned enterprises and autonomous institutes operate their own websites. However, the government has been slow to launch e-government sites, since most Venezuelans still do not have regular internet access. Venezuela ranked 67th of 193 countries in the 2014 United Nations e-Government Survey (latest available), dropping four spots from the 2012 study.

Venezuela has had foreign-exchange controls in place since 2003. Individuals and businesses must access foreign exchange from the Foreign Commerce Centre (Centro de Comercio Exterior—Cencoex), a new agency created in late 2013 to replace the currency administration commission. Travellers, international students and individuals or companies that want to send remittances abroad now must conduct many of the procedures through Cencoex.

As of February 2015, the brand new Sistema Marginal de Divisas (SIMADI)—established by the Convenio Cambiario No. 33, published in the Extraordinary Official Gazette No. 6.171 on February 10th 2015—became the newest alternative to Cencoex. The new foreign-exchange mechanism is run by the central bank (Banco Central de Venezuela-BCV). In this government-supervised platform, companies and individuals can trade foreign exchange and dollar-denominated debt with each other and with BCV and state-owned Petróleos de Venezuela (PDVSA). SIMADI also included the merger of the two versions of the Sistema Complementario de Administracion de Divisas (SICAD), which had been run concurrently by the Central Bank.

Some other services have migrated online. For example, the government has improved access to identification documents. The identification and migration department (Servicio Administrativo de Identificación, Migración y Extranjería—SAIME) established a digital platform to improve organisation and boost efficiency for all ID and migration procedures. The National Elections Council allows citizens to check their registration and voting stations online. The Venezuelan Institute for Social Security (Instituto Venezolano de Seguros Sociales—IVSS) keeps records of citizens' contributions on its website. A few municipal governments allow citizens to pay property tax online.

SAIME's passport division launched a portal in 2005 to take over the old paper-based system for arranging appointments to obtain passports. The National Tax Service (Servicio Nacional Integrado de Administración Tributaria) is expanding its capacity for taxpayers to file their taxes electronically, though acceptance among taxpayers has been low owing to Venezuelans' traditional mistrust of the civil service and an ingrained insistence on paper receipts and official stamps confirming delivery of important documents. As part of President Nicolás Maduro's move to address food shortages, the government announced in August 2014 that it would use digital-fingerprint technology to track and ration consumption by Venezuelans in supermarkets, implementing a similar system to the one used to recognize voters during elections.

The quality of information and services offered varies greatly. Many official government entities feature political propaganda on behalf of the ruling political party on their websites, whether or not the subject matter has any bearing on the institute's stated mission.

Consumer protection

Venezuela has no specific legislation governing consumer rights on the internet. There is also at present no legal protection for transactions involving sensitive personal information, such as credit-card numbers. Consumers must rely on encryption techniques at their own terminal or network, or security precautions provided by e-commerce sites. Some banks have responded by upgrading the security on their websites to levels that are at times burdensome for consumers. The entity in charge of consumer protection, the Superintendency for the Defense of Socioeconomic Rights, also known as the Superintendency of Just Prices (Superintendencia Nacional para la Defensa de los Derechos Socioeconomicos, and Superintendencia de Precios Justos) handles cases in which consumers feel their rights have been infringed.

Contract law and dispute resolution

Electronic messages and signatures were granted the same legal status as written contracts when the late President Hugo Chávez issued by decree the Law of Data Messages and Electronic Signatures in February 2001 (*Official Gazette* No. 37.148). The law stipulates that an electronic contract requires an authorised agent (a so-called service provider) to "bear witness" to the identity of the signatory by issuing a special certificate to make the contract legally binding. The Superintendency for Electronic Certification Services (Superintendencia de Servicios de Certificación Electrónica - Suscerte), controlled by the Ministry of University Education, Science and Technology (Ministerio para la Educación Universitaria, Ciencia y Tecnología), regulates these special electronic-document providers. The law also established legal guidelines on what constitutes the sending and receiving of an electronic contract.

The legislation leaves it to the independent parties to ensure that their information is subject to effective encryption techniques. The legal status of goods acquired in Venezuela via the internet from foreign companies is somewhat blurred. Most large foreign companies offering goods online specify where contracts are liable for legal settlement. Contractual disputes for Venezuelan companies selling goods or services would be in local courts.

Basis of taxation

The same tax laws that apply to buying goods in a local shop in Venezuela also apply to internet purchases. The value-added tax (VAT) applies at the rate established in the government's annual budget (set at 12% since March 2009) on most consumer products in Venezuela, aside from books, medicines and several other exempt items.

Foreign goods purchased online are subject to Venezuelan VAT, levied at customs on the product's cost-insurance-freight (cif) value. The tariff is generally included in the cost of purchase. Companies based in Venezuela and selling goods over the internet must register with the local tax authority, the National Integrated Tax Service (Servicio Nacional Integrado de Administración Tributaria—Seniat), to receive a tax-registration code and pay income tax, and also register in the Seniat's Exporters' Database for accounting of foreign-currency receipts.

The Law of Data Messages and Electronic Signatures of February 2001 (*Official Gazette* No. 37.148) lets individuals and businesses declare and pay income taxes online. However, mistrust of the civil service and poorly functioning government internet portals lead most taxpayers to insist on paper delivery to obtain receipts.

Key contacts

- ***Autonomous Intellectual Property Service*** (Servicio Autónomo de la Propiedad Intelectual—SAPI), Centro Simón Bolívar, Edificio Norte, Piso 4, Caracas; tel: (58.212) 481-6478; 484-9761; 484-6478; 484-2907; fax: (58.212) 483-1391; internet: http://www.sapi.gob.ve.
- ***Central Bank of Venezuela*** (Banco Central de Venezuela—BCV), Avenida Urdaneta, Esquina Carmelitas, Caracas; tel: (58.212) 801-5111; fax: (58.212) 861-1649; internet: http://www.bcv.org.ve.
- ***Centro Nacional de Comercio Exterior*** (Cecoex), Av. Leonardo Da Vinci Edf. Anexo B-1 P.B. Urb. Los Caguaramos, Caracas; tel: (58.212) 597-7011; internet: http://www.cencoex.gob.ve/.

- ***Ministry of Commerce*** (Ministerio del Poder Popular para el Comercio), Avenida Lecuna, Parque Central, Torre Oeste, Piso 10, Caracas; tel: (58.212) 509-6861; internet: http://www.mincomercio.gob.ve.
- ***Ministry of Economics, Finance and Public Banking*** (Ministerio del Poder Popular para la Economía, Finanzas y Banca Pública de Planificación y Finanzas—MEFBP), Edificio Sede Central Ministerio de Finanzas, Avenida Urdaneta, Esquina Carmelitas, Caracas; tel: (58.212) 802-1000/2000; internet: http://www.mefbp.gob.ve/ (Spanish only).
- ***Ministry of Energy and Petroleum*** (Ministerio del Poder Popular para la Energía y Petróleo), Torre Oeste, Edificio Petróleos de Venezuela, La Campiña, Caracas; tel: (58.212) 708-4111; internet: http://www.menpet.gob.ve/.
- ***Ministry of the Environment*** (Ministerio del Poder Popular para el Ambiente), Centro Simón Bolívar, Torre Sur, Piso 25, Caracas; tel: (58.212) 408-1111/1104; fax: (58.212) 483-1148; internet: http://www.minamb.gob.ve.
- ***National Council for Investment Promotion*** (Consejo Nacional de Promoción de Inversiones—Conapri), Edificio Alimer, Piso 1, Calle Orinoco con Avenica Principal Las Mercedes, Urbanización Las Mercedes, Caracas; tel: (58.212) 993-3501; fax: (58.212) 993-1591; internet: http://www.conapri.org/English/index.asp.
- ***National Securities Superintendency*** (Superintendencia Nacional de Valores—SNV), Edificio SNV, Avenida Francisco Solano López, Esquina Calle San Gerónimo y Los Jabillos, Caracas; tel: (58.212) 761-9666/9126/9137; fax: (58.212) 762-2796/9975; internet: http://www.snv.gob.ve/.
- ***National Telecommunications Commission*** (Comisión Nacional de Telecomunicaciones—Conatel), Avenida Veracruz y Calle Cali, Edificio Conatel, Planta Baja, Las Mercedes, Caracas; tel: (58.212) 909-0493, 0-800-266-2835; fax: (58.212) 993-0019; internet: http://www.conatel.gob.ve/.
- ***Superintendency of Foreign Investment*** (Superintendencia de Inversión Extranjera—Siex), Edificio La Perla, Pisos 3, 5 y PH, Esquina Bolsa a Mercaderes, Caracas; tel: (58.212) 483-6666/6751/6519; fax: (58.212) 484-4368; postal address: Apartado 1064 Caracas; internet: http://www.siex.gob.ve/.
- ***Venezuelan-American Chamber of Commerce and Industry*** (VenAmCham), Torre Credival, Piso 10, Oficina A, Avenida de Campo Alegre, Caracas; tel: (58.212) 263-0833; fax: (58.212) 263-1829; internet: http://www.venamcham.org.
- ***Venezuelan Corporation of Guayana*** (Corporación Venezolana de Guayana—CVG), Avenida la Estancia, Edificio General, Piso 2, Chuao, Caracas; tel: (58.212) 991-3080; fax: (58.212) 992-1813; internet: http://www.cvg.com.
- ***Venezuelan Social and Economic Development Bank*** (Banco de Desarrollo Económico y Social de Venezuela—Bandes), Avenida Universidad, Esquina de Traspasos a Colón, Piso 01, Caracas; tel: (58.212) 505-8010; fax: (58.212) 505-8126; internet: http://www.bandes.gov.ve/.