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VENEZUELA

The following is a review of recent legal and economic developments in Venezuela.

POLITICAL DEVELOPMENTS

Carlos Andres Pérez and Eduardo Fernández were nominated as the 1988 Presidential candidates by the Acción Democrática and COPEI parties, respectively, and in each case by substantial majorities over Octavio Lepage and Rafael Caldera. Carlos Andres Pérez is the favorite to win the election in December 1988.

NEW MINISTER OF FINANCE AND NEW PRESIDENT OF THE CENTRAL BANK

At the end of October, Hector Hurtado replaced Manuel Azpurua as Minister of Finance, and Mauricio Garcia Araujo replaced Hernan Anzola as President of the Central Bank. Hurtado is a very experienced politician who has held a number of Ministerial and government posts in Acción Democrática administrations, including Minister of Development and President of the Venezuelan Investment Fund under the Lusinchi government. Mauricio Garcia Araujo is a respected economist who played an important part in the renegotiation of the Venezuelan foreign debt. The appointments have been well received in the business community.

FOREIGN DEBT RENEGOTIATION

On November 13, 1987 the last of Venezuela's more than 450 private creditor banks signed the public sector debt rescheduling agreement, thus bringing the provisions of the agreement (originally signed in February 1987, and amended in September 1987) into effect. The Venezuelan government delayed signing of the agreement and insisted that the problems caused by the failure of Banco de Los Trabajadores de Venezuela and Banco de Comercio be satisfactorily resolved. In the end, all the creditor banks signed the agreement.

FOREIGN INVESTMENT

On November 12, 1987 Exchange Agreement No. 6 appeared in the Official Gazette. The Agreement applies only to new industrial projects or the reactivation of existing plants in the areas of metallurgy, chemical/mechanical industries, paper and wood pulp, and petrochemicals and mining, at least eighty percent of whose production will be exported. It partially exempts the enterprises from the obligation to sell their export earnings to the Central Bank at 14.50 bolivars to the dollar. The exemption applies to the extent that the enterprises do not need the export earnings to finance investments, costs, and any other local expenses related to their production operations. The Agreement further provides that the capital for the foreign investment and the proceeds of foreign loans made to finance the investment must be sold to the Central Bank at the same rate. In addition, the enterprises to which the Agreement applies may not buy currency on the controlled market, except in connection with payment of export incentives, may not buy or sell foreign currency on the free market, may not use local credit except to finance local sales, and may not use the debt-equity conversion mechanism. The Agreement is not particularly favorable to the foreign investor and provides only a limited exception to the general obligation to repatriate export earnings at the 14.50 exchange rate.

Presumably, Exchange Agreement No. 6 was made in part to accommodate Kobe Steel of Japan, which proposed to invest approximately US\$ 100 million in Minerales Ordaz, C.A. (Minorca), one of the steel producers of the Guayana region.

IMPORTS

At the end of December, the Central Bank decided to increase the amount of preferential dollars to be supplied for imports paid for by letter of credit to eighty percent.

The Ministries of Finance and Development held extensive discussions with the private sector to determine, by industry, the amount of preferential dollars to be allotted for imports for 1988.

Henceforth, private banks are authorized to handle the payment of preferential dollars for raw materials and spare parts. The purpose of the rule is to reduce red tape in connection with imports, in particular the "conformidades" (import licenses).

The flow of contraband goods from Venezuela to Colombia led the government to pass Decree 1795 (Official Gazette of October 21). This reversal in the historic trend is a sign of the decline in the Venezuelan economy since 1983. This Decree sets strict limits on frontier trade in goods of "prime necessity," hydrocarbons, and similar goods. For example, it restricts the purchase and sale of such goods in frontier areas and the functioning of stores and cargo trucks.

PRIVATE SECTOR FOREIGN DEBT

Exchange Agreement No. 2 permits private sector debtors to repay their foreign debt at the guaranteed preferential exchange rate of 7.50 bolivars to the dollar, if certain conditions are fulfilled. The conditions include the signing of an exchange contract with the Central Bank, the payment of an insurance premium, and the making of a trust ("fideicomiso") into which the premiums are paid.

The process of signing exchange contracts has been slow. By early December 1987, approximately 386 contracts were signed. The original time limit for debtors to opt for the guaranteed rate mechanism expired in June, but was extended twice. Resolution 87-12-02 of the Central Bank (Official Gazette of December 8, 1987) extends the time limit to March 15, 1988 (in the case of debtors who, as of the date of the Resolution, had signed exchange contracts), or three months after the signing of the exchange contracts (in the remaining cases). The period within which debtors must prove to the Central Bank that they have obtained a restructuring of the foreign debt on appropriate terms was also extended to April 15, 1988, or four months after the signing of the exchange contracts, respectively.

The premiums paid to obtain the guaranteed rate of exchange may be paid all at once, or by installments during the capital repayment period of eight years. In the latter case, the debtor must pay interest at the commercial rate on the premiums. Resolution 87-12-04 of the Central Bank (Official Gazette of December 28, 1987) specifies in detail when the premiums are to be paid, and how premiums paid in 1988 for the 1987/88 period are to be paid.

TAX

Decree 1829 (Official Gazette of November 12, 1987) exempts from income tax the interest on loans made by foreign banks for various purposes, including industrial, agricultural and fishing investments, and for construction, provided the loans were made before February 18, 1983 (the "Black Friday" of devaluation of the Bolivar) and were refinanced or restructured. This Decree is broader than earlier decrees having similar purposes. It essentially preserves the tax-exempt status of the loans, provided they have been renegotiated.

On December 29, 1987, the United States and Venezuela signed a double taxation treaty relating to maritime and air transportation. Venezuela has signed such treaties with several other countries as well.

CARBOZULIA COAL PROJECT

Inaugurated by President Lusinchi on November 23, 1987, this project is expected to produce up to several million tons of coal annually. A consortium formed by Atlantic Richfield of the United States and Agip of Italy has a substantial investment in Carbozulia.

YEAR-END STATISTICS: 1987

On the free market, the dollar was worth between thirty and thirty-one bolivars.

Inflation was estimated in excess of thirty-five percent.

According to the Central Bank, the Gross National Product increased by 3.2% in all sectors except for hydrocarbons.

Earnings for oil exports were US\$ 9.43 billion, at an average price per barrel of US\$ 16.47.

Total exports were approximately US\$ 10.4 billion. Total imports were approximately US\$ 8.1 billion.

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