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VENEZUELA BRIEFING

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ITINERARY

VISIT TO VENEZUELA - AUGUST 13 TO 15, 1974

F. [illegible]

	DATE	TIME		REMARKS
2130 0155	Aug. 13 (Tues.)	~~1715~~ 1730 2155	Depart Washington (Dulles) Arrive Caracas	VA 753 (DC-8) Hilton Hotel
	Aug. 14 (Wed.)	0800	Meeting with the Minister of Planning and Governor of the Bank, Mr. Gumersindo Rodríguez	
		0900	Signature of Agreement with the Venezuelan Investment Fund - Meeting with the President and Directors of the VIF. President of VIF will sign.	
		1015	Signature of Agreement with the Central Bank: (Fiscal Agent Agreement). President of Central Bank will sign.	
		1100	Meeting with the President of the Republic in the President's Office.	
	14 Foreign Ministry	1230	Luncheon hosted by the Governor of the Bank, Mr. Gumersindo Rodríguez. Ministers dealing with economic matters will attend.	
		1500	Meeting with high level members of the central Government and autonomous agencies to discuss areas of possible Venezuela/Bank cooperation and Bank technical assistance to Venezuela. Meeting to be held in the Planning Ministry - CORDIPLAN. (Joint statement on Program of Technical Cooperation may be issued after the meeting).	
		1800	Meeting with the Minister of Finance and Alternate Governor of the Bank, Mr. Héctor Hurtado.	
		1930	Cocktail-party hosted by the President of the Venezuelan Investment Fund. (Circulo Militar)	
1330 1750	Aug. 15 (Thurs.)	0930 1350	Depart Caracas Arrive Washington (Dulles)	VA 752 (DC-8)

ITINERARY

VISIT TO VENEZUELA - AUGUST 13 TO 15, 1974

DATE	TIME		REMARKS
Aug. 13 (Tues.)	1713	Depart Washington (Dulles)	VA 753 (DC-8)
	2155	Arrive Caracas	Hilton Hotel
Aug. 14 (Wed.)	0830	Meeting with the Minister of Planning and Governor of the Bank, Mr. Gumersindo Rodríguez	
	0930	Signature of the Agreement with the Venezuelan Investment Fund - Meeting with the President and Directors of the VIF.	
	1100	Meeting with the President of the Republic in the President's Office	
	1230	Luncheon hosted by the Governor of the Bank, Mr. Gumersindo Rodríguez. Ministers dealing with economic matters will attend	
	1430	Meeting with the President of the Central Bank, Mr. Alfredo Lafee	
	1500	Meeting with high level members of the central Government and autonomous agencies to discuss areas of possible Venezuela/Bank operation and Bank technical assistance to Venezuela (speech not expected). Meeting to be held in the Planning Ministry - CORDIPLAN	
	1800	Meeting with the Minister of Finance and Alternate Governor of the Bank, Mr. Héctor Hurtado	
	1930	Cocktail-party hosted by the President of the Venezuelan Investment Fund. (Circulo Militar)	
Aug. 15 (Thurs.)	0930	Depart Caracas	VA 752 (DC-8)
	1350	Arrive Washington (Dulles)	

NOTE: Program as of August 9, 1974 transmitted from Caracas by Mr. Roberto Gonzalez-Cofiño, Chief, Venezuela/Ecuador Division.

B

DRAFT

AIRPORT STATEMENT

This is my second visit to Venezuela as President of the World Bank. Many dramatic events in the world economy have occurred since I was here in December 1969 and our own relations with Venezuela have moved into a new phase.

The Bank's main function is to assist member countries in their development efforts. We have been involved in several aspects of Venezuela's development, and expect to continue doing so.

Our cooperation with Venezuela will be under different circumstances, however. Although it still requires substantial investments to strengthen and accelerate its development, Venezuela does not need an inflow of external capital. But Venezuela is expected to continue to borrow from the Bank because of the non-financial aspects associated with Bank lending in the way of broad technical assistance.

At the same time the Bank is expected to receive funds from Venezuela. Thus, we will be joining forces to work together in assisting other Bank member nations which are feeling the impact of recent developments in such a way that makes it imperative to provide them with increased financial assistance.

Venezuela is in a position to do so on its own in association with finance institutions such as the World Bank. Your country has already begun supporting the Bank's efforts to maintain and expand its assistance to needy developing countries. Last March, the Bank was authorized by your Government to place an issue with a group of Venezuelan banks for a total of Bs. 100 million.

I look forward to my meetings and talks with President Carlos Andrés Pérez and leaders of your Government. I believe that our contacts will result in strong and mutually beneficial relationships to further what I am sure will become our common endeavor -- to help others in the family of nations who need our joint aid.

(Until after my conversations with the President of the Republic, I will not make any other statement)

DRAFT

STATEMENT AT THE SIGNING OF BORROWING DOCUMENTS

8/14/74 JFL

(Salutations, as appropriate)

The signing of these documents constitutes the beginning of a new and historical phase in the long and fruitful relations between Venezuela and the Bank. It marks the decision of Venezuela to assume a major role among oil exporting countries in making available financial resources to assist developing nations through the World Bank. We, at the World Bank, are pleased and proud that our institution has been chosen as one of the vehicles through which Venezuelan funds will flow into development.

Last March Venezuela opened its capital market to the World Bank (and the Inter-American Development Bank) making possible for the Bank to borrow through the Venezuelan banking system. The loan agreement that we have signed today with the Venezuelan Investment Fund is, therefore, the second of what we expect to become a series of financial transactions which will make possible for Venezuela to invest safely and with a reasonable rate of return part of its balance of payment surpluses while, at the same time, helping the developing countries of the world. Venezuela has publicly stated that among these countries one of its main concerns is to assist its neighbor sister nations in the Latin American region. We, at the World Bank, understand and share this sentiment. We expect Venezuela and the Bank to work jointly in this endeavor in the months ahead.

The major changes which we are witnessing in the world economy will place Venezuela among the richer countries of the world. Here lies the challenge and the historical opportunity for this generation of Venezuelans under the leadership of the Government of President Pérez. And here also lies an opportunity for the World Bank to help one of its member countries to reach the "take-off" stage. This is a case in which our Institution can operate more in its capacity as a developmental rather than as a financial organization ~~purely~~ because what is important for Venezuela is not our financial aid, but our experience and technical know-how. The Venezuelan Government has an ambitious program to speed up the rate of growth and the process of transformation of its economic and social system.

Your President, in his inaugural address of March 12 of this year said, "I hope to become the Head of State of a country of citizens proud of their political system and of its social and economic well-being". I trust that the World Bank will have the opportunity to cooperate with him and his Government -- to the extent that Venezuela deems it necessary -- to accomplish this goal.

C

background
notes

Venezuela

department of state * june 1974

OFFICIAL NAME: Republic of Venezuela

GEOGRAPHY

Venezuela, located on the northern coast of South America, is bounded by Colombia, Brazil, and Guyana and lies astride the major sea and air routes linking the northern and southern portions of the Western Hemisphere. With a coastline of 1,750 miles on the Caribbean Sea and Atlantic Ocean and an area of 352,143 square miles, Venezuela is about the size of Texas and Oklahoma combined. Venezuela claims additionally the territory east of the present boundary to the Essequibo River which was allocated to Guyana by the Arbitral Award of 1899.

Venezuela's four distinct geographic regions are: (1) the Andes Mountains and adjacent hill country in the northwest; (2) the coastal zone north of the mountains bordering Lake Maracaibo and the Caribbean Sea, including the Orinoco Delta; (3) the plains, or *llanos*, which extend from the mountains south and east to the Orinoco River;

PROFILE

Geography

AREA: 352,000 sq. mi. (including Margarita Island and other minor islands in the Caribbean). One-third larger than Texas. CAPITAL: Caracas (2.4 million). OTHER CITIES: Maracaibo (900,000); Barquisimeto (350,000); Valencia (367,000); Maracay (220,000).

People

POPULATION: 12 million (1974 est.). ANNUAL GROWTH RATE: 3.4%. DENSITY: 34 per sq. mi. ETHNIC GROUPS: Spanish, Portuguese, Italian, German, American Indian. RELIGION: Roman Catholic (96%), Protestant (2%), and Jewish (2%). LITERACY: 78% of population 15 years of age and older. LANGUAGE: Spanish (Indian dialects spoken by some of the 36,000 Amerindians living in the remote interior).

LABOR FORCE: 3.2 million (35% in agriculture; 24.5% in services; 13% in commerce; 13% in manufacturing; 8% in construction; 4% in transport and communications; 1.5% in petroleum and mining; 1% in utilities). Unemployment averages 13%, principally in urban areas.

Government

TYPE: Federal Republic. INDEPENDENCE: July 5, 1811. CONSTITUTION: January 23, 1961.

BRANCHES: *Executive*—President (Head of Government and Chief of State) elected for a single 5-year term, assisted by a 16-member cabinet which meets as the Council of Ministers. *Legislative*—bicameral congress. Chamber of Deputies has 203 members; Senate has 49, including the 2 living ex-Presidents. Members of both houses elected for 5-year terms concurrent with President. *Judicial*—15-member Supreme Court appointed by Congress.

POLITICAL SUBDIVISIONS: 20 states, 2 federal territories, the Federal District, and 72 islands in the Caribbean administered as federal dependencies. SUFFRAGE: Universal adult.

FLAG: Three horizontal bands of yellow, blue, and red, with a crest in the left corner of the yellow stripe and a semicircle of seven stars in the middle of the blue stripe. The colors came from the banner flown by Simon Bolivar. The stars symbolize the nation's original seven provinces.

Economy

GROSS NATIONAL PRODUCT (GNP): $12.4 billion. ANNUAL GROWTH RATE: 7.2% (1973). PER CAPITA INCOME: $1200.

AGRICULTURE: Total farm area 29.5%. *Products*—sugar, bananas, corn, rice, coffee, cocoa, dairy products.

INDUSTRY: *Products*—petrochemicals, iron and steel, paper and paper products, non-metallic metals, textiles, clothing, transport equipment, other consumer goods.

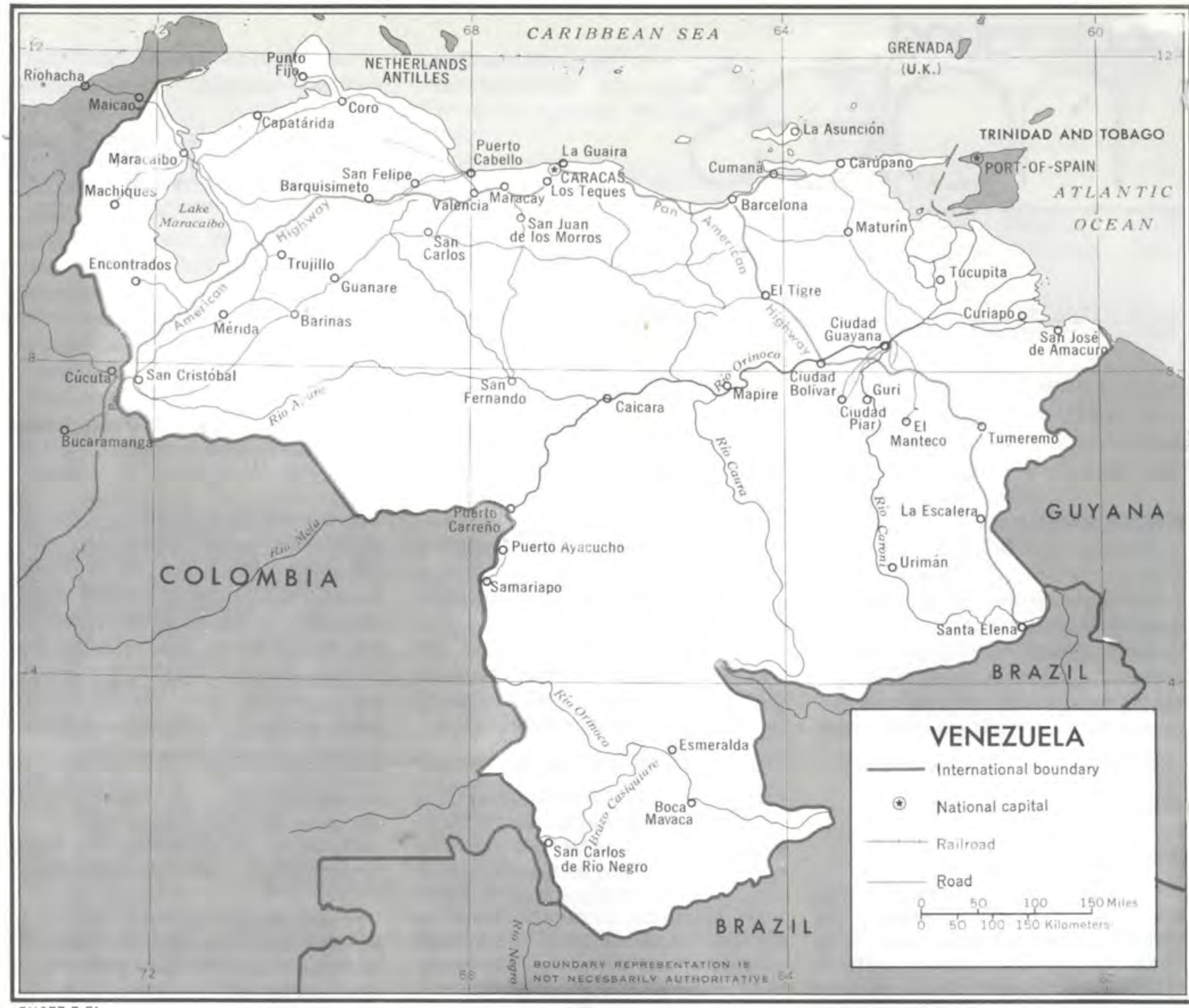
NATURAL RESOURCES: Petroleum, iron ore, gold, other minerals, hydro-electric power.

TRADE: *Exports*—$5.3 billion (1973 est.): petroleum $4.9 billion, iron ore, coffee, cocoa, sugar. *Partners:*—U.S. $1.6 billion (does not include November and December petroleum exports). *Imports*—$2.9 billion (1973 est.): machinery and transport equipment $1.2 billion (1972), manufactures $440 million (1972), chemicals $260 million (1972), foodstuffs $170 million (1972). *Partners (1972)*—U. S. 44%, F.R.G. 11%, Japan 9%.

OFFICIAL EXCHANGE RATE: 4.28 Bolivars=US $1. 4.20 Bolivars =US $1 for petroleum exports.

MEMBERSHIP IN INTERNATIONAL ORGANIZATIONS: United Nations, Organization of American States (OAS), International Monetary Fund (IMF), International Bank for Reconstruction and Development (IBRD), Inter-American Development Bank (IDB), International Coffee Agreement, Latin American Free Trade Association (LAFTA), Andean Pact, Rio Pact, Organization of Petroleum Exporting Countries (OPEC).

ECONOMIC PROGRAMS: *FY 1973*—A.I.D. grants $382,000. *1972*—Food for Peace $4.7 million, Peace Corps $1.4 million, Ex-Im Bank Loans $36.9 million, International Development Agencies $104 million.



and (4) the Guyana Highlands, a vast area of high plateaus and rolling plains south and east of the Orinoco. Angel Falls, the world's highest waterfall, is in this area.

Although the entire country lies in the Torrid Zone, the temperature varies with the altitude. The lowland coastal area is hot and humid, as are the inland river valleys. The highlands generally are warm during the day and cool at night. For most of the country the rainy season is from May through November; the rest of the year is dry.

PEOPLE

With an estimated 12 million people in 1973, Venezuela is one of the least densely populated countries of the Western Hemisphere (about 34 persons per square mile). However, the population is concentrated in the Andes and along the coast and is rapidly increasing. Although nearly half of the country lies south and east of the Orinoco, that area contains only 4 percent of the population. The annual population increase since 1950 has been about 3.4 percent, showing a very slight decline in the most recent years. Thus the country has one of the highest growth rates in the world.

The population is also rapidly changing from rural to urban; whereas in 1936 only 35 percent of the population lived in cities and towns of more than 1,000 inhabitants, today 75.5 percent do. One out of every five Venezuelans lives in the capital city of Caracas.

The majority of the population is of European, Indian, and/or Negro extraction. The influx of European immigration dates from World War II when Venezuela was among the first American countries to open its doors to refugees and displaced persons. According to the 1961 census, 93 percent of the population are native-born; of the 542,000 foreign-born almost two-thirds were from Spain, Italy, and Portugal, and one-fifth from Colombia. In 1973 20,000 U.S. citizens were estimated living in Venezuela. Unlike many of its neighbors, Venezuela does not have a large indigenous Indian population; the 1961 census showed only 31,800.

About 96 percent of the Venezuelans are Roman Catholic; Protestants number about 26,000 and Jews 10,000. Spanish is the official language. The literacy rate is estimated at 80 percent.

HISTORY

Venezuela was discovered by Columbus on his third voyage in 1498. It was one of the first colonies in the New World to revolt against Spain (1810), but it was not until 1821 that independence was achieved under the leadership of Simon Bolívar, Venezuela's national hero and native son. Venezuela, together with what are now Colombia, Panama, and Ecuador, was part of the "Great Colombia" union until 1830, when it separated and began its own existence as a sovereign state.

Venezuela's 19th-century history was characterized by frequent periods of political instability, dictatorships, and revoluntionary turbulence. The 20th century has been marked by long periods of authoritarianism, as represented by the dictatorships of Gen. Juan Vicente GOMEZ (1908-35) and Gen. Marcos PEREZ Jiménez (1952-58) and by the efforts made between 1936 and 1948 and since 1958 to develop effective representative government. Since the overthrow of Pérez Jiménez on January 23, 1958, consecutive democratic elections have been held—1958, 1963, 1968, and 1973. Romulo BETANCOURT (1959-65) of the Democratic Action (AD) Party became the first popularly elected President in Venezuelan history to complete his term of office. He was succeeded by Raul LEONI (1964-69), also of AD, who became the first President to preside over the peaceful transfer of power to a successor from another political party. Rafael CALDERA of the Social Christian Party (COPEI), a 54-year-old university professor and internationally recognized labor law expert took office on March 11, 1969. Caldera was succeeded on March 12, 1974 by 51-year-old Carlos Andres Perez.

GOVERNMENT

The present Constitution of Venezuela, adopted on January 23, 1961, is the country's 26th since independence. It guarantees freedom of religion, speech, assembly, and assigns substantial economic development responsibility to the Federal Government.

National elections are held on the same day every 5 years at which time the President and members of Congress, the state legislatures, and the city councils are directly elected; there are no midterm or byelections. The President can be elected to only one term and may not be reelected until 10 years following the end of that term. Ex-Presidents are life members of the Senate. Voting is mandatory for all Venezuelan citizens who are at least 18 years of age and who are not members of the armed forces or serving a prison sentence. Generally more than 80 percent vote; 96 percent of the registered voters voted in 1973. Each political party has its own ballot with a distinctive color and symbol, so that illiterates may vote. Elections are supervised by an independent, federally appointed electoral commission.

The government is composed of separate executive, legislative, and judicial branches. The powers which the President (Chief of State and Head of Government) may legally exercise are very extensive. These include the power to appoint the Council of Ministers (cabinet) and state and territorial governors by decree, without congressional confirmation. There is no Vice President; in the event the presidency becomes vacant, the President of the Senate acts as chief executive for not more than 30 days, during which Congress, in joint session, must elect a new President of the Republic to complete the term.

Legislative power is vested in the bicameral Congress, which consists of a 49-member Senate and a Chamber of Deputies with 203 members. Congress is in session from March 2 to July 6 and from October 1 to November 30, except in election years, when there is a single session from March 2 to August 15. Congress may vote to prolong its meetings, and the President may call special sessions.

Judicial power is exercised by a Supreme Court of Justice and by the other courts whose functions are similar to those of the judiciary of other countries. Justices of the Supreme Court are elected by Congress. Lower court judges are appointed by a judicial council consisting of representatives of the three branches of government.

Venezuela consists of 20 States, a Federal District (Caracas), two Federal Territories, and certain islands in the Caribbean which are designated Federal Dependencies. Governors and other state officials are considered agents of the National Government, although their powers are somewhat limited by the states' constitutions and elected legislatures.

Principal Government Officials

President—Carlos Andres Perez

Minister of Foreign Affairs—Dr. Efrain Schacht Aristiguieta

Minister of Interior—Dr. Luis Pinerua Ordaz

Minister of Finance—Hector Hurtado

Minister of Defense—Maj. Gen. Homero Leal Torres

Minister of Development—Dr. Carmelo Lauria

Minister of Public Works—Dr. Arnaldo Gabaldon

Minister of Education—Dr. Luis Manuel Penalver

Minister of Health and Social Welfare—Dr. Blas Bruni Celli

Minister of Agriculture—Dr. Froilan Alvarez Vepez

Minister of Labor—Dr. Antonio Leidenz

Minister of Communications—Dr. Armando Sanchez Bueno

Minister of Justice—Dr. Otto Marin Gomez

Minister of Mines and Hydrocarbons—Valentin Hernandez Acosta

Minister of State for Information—Dr. Simon Alberto Consalvi

Secretary-General of the Presidency—Dr. Ramon Escovar Salom

Director of National Planning Organization—Dr. Gumersindo Rodriguez

Governor of the Federal District—Dr. Diego Arria

Minister of State for International Economic Affairs—Dr. Manuel Perez Guerrero

Venezuela maintains an Embassy in the United States at 2445 Massachusetts Avenue, NW., Washington, D. C. 20008. There are also Consulates at Baltimore, Chicago, Houston, Los Angeles, Miami, Mobile, New Orleans, New York, Philadelphia, Portland, San Francisco, and Savannah. Visas are issued only by Consulates.

POLITICAL CONDITIONS

On taking office in February 1959, President Romulo Betancourt formed a coalition government composed of his own *Democratic Action (AD) Party*, the *Social Christian Party (COPEI)*, and the *Democratic Republican Union (URD)*, which together had received 91 percent of the votes in the 1958 election.

From its inception, that government faced serious threats from extremists of both right and left. More than a dozen rightist-oriented attempts to seize political power by force were thwarted, and the leading military and civilian dissidents were jailed or exiled. The support of the government by the armed forces was sustained, and the government's ability to fend off attacks from the right extremists steadily grew stronger.

An equivalent subversive threat has been posed since late 1959 by extremists of the left, financed and trained by the Castro regime in Cuba, who attempted, through terrorist activities, sabotage, insurrections in connivance with disgruntled military men, and guerrilla activities, to overthrow the Betancourt government and its successor. These insurgent activities evoked no popular support and served to discredit further the Communists and their allies. Responsible sectors in Venezuela, including the overwhelming majority of the organized rural and urban labor movement, the military, and members of the business community, strongly supported the government in its efforts to counter the left-extremist insurgency.

In mid-1960 leftwing elements who had been ousted from AD formed their own political party, *Movement of the Revolutionary Left (MIR)*, an extreme Marxist and pro-Fidel Castro organization. MIR closely allied itself with the *Communist Party of Venezuela (PCV)* in attempts to overthrow the Venezuelan Government by subversion and insurrection. The PCV is numerically weak (6 percent of the 1958 vote, 3 percent in 1968, and less than 2 percent in 1973) and has had its once-influential positions in the communications media, labor organizations, and the teaching profession greatly reduced. Its strength was further reduced by a split in early 1971 between the pro- and anti-Moscow factions, with the loss of much student support to a new faction, the *Movement to Socialism (MAS)*.

As the result of their involvement in a major insurrection in May 1962, the PCV and MIR parties were banned by executive decree from engaging in political activities, their party offices were closed, and their files were confiscated. Although membership in either party is not itself illegal, individual members of these parties who were caught in insurrectional activities were prosecuted and jailed. Many of these prisoners have since been released on parole; a few have been exiled. The PCV regained its political rights in March 1969, having publicly disavowed the active guerrilla movement, and agreed to the "pacification policy" instituted by President Caldera shortly after he came to power.

The "pacification policy," which afforded amnesty to those insurgents who renounced armed force as a political instrument, has further diminished the extremist insurgent threat.

The PCV-MIR effort to overthrow the Betancourt government by force received two severe setbacks in quick succession at the end of 1963. In November the government captured a large shipment of arms and ammunition from Cuba which had been secretly landed on the Paraguana Peninsula as a part of a detailed plan for the insurgents to take over the city of Caracas on election day. This discovery led to the imposition of sanctions against Cuba by the Organization of American States. In December the people of Venezuela dealt the insurgents a major psychological blow by flocking to the polls in disregard of Communist threats to kill anyone who dared to vote. Demoralized for several years after this, MIR most recently took advantage of the pacification program and has become a legalized political party.

The 5-year coalition government of AD and COPEI ended in March 1964 with the inauguration of AD leader Raúl LEONI as President. Having failed to regain a majority in the Chamber of Deputies in the 1963 elections, AD formed an alliance with URD and a new center party, the *Democratic National Front (FND)*, led by Arturo USLAR Pietri. FND withdrew from the coalition in March 1966. In late 1967 rivalry over the choice of the AD candidate in the 1968 presidential elections between Gonzalo BARRIOS and Luis Beltrán PRIETO, both longtime AD leaders, brought about yet another split in that party. Dr. Prieto formed a new party, the *Electoral Movement of the People (MEP)*, which like AD is social democratic in orientation. This split and the withdrawal of URD from its coalition with AD in April 1968 again deprived the government of a majority in the Chamber of Deputies and, for the first time in Venezuelan history, in the Senate as well.

The December 1968 elections were won by Dr. Rafael Caldera (COPEI) by a narrow margin over Barrios (AD), 29 to 28 percent. Miguel Angel BURELLI, the candidate of the URD, FND, and Popular Democratic Force (FDP) coalition, received 22 percent of the votes, and Prieto of MEP, 19 percent. The elections for Congress, however, gave AD a slight edge. AD held 85 seats in Congress compared to COPEI's 75, 30 for MEP, 21 for URD, 12 for FDP, 6 for the PCV, and 3 for FND. The *Nationalist Civic Crusade (CCN)*, a party organized by supporters of former dictator Marcos Pérez Jiménez, captured 25 seats, but it was weakened when a group of 11 Congressmen broke away to form the Popular Justicalist Movement (MPJ). Independents and minor parties accounted for the remaining seats.

National elections were held in Venezuela on December 9, 1973. Votes numbering 4.5 million, representing 96 percent of the electorate, were cast. On December 12, Lorenzo Fernandez candidate of the government party COPEI, conceded victory to the Democratic Action candidate Carlos Andres Perez, who received 48.6 percent of the vote in his landslide victory. Unlike Caldera's Social Christian Administration, Perez enjoys a majority in both the Senate and Chamber of Deputies. In contrast, Lorenzo Fernandez won 36.8 percent of the presidential vote, while COPEI garnered 30.3 percent of the congressional vote.

Of possible significance to the hemisphere is the fact that: (1) The election was a model, without violence or fraud, and (2) 85 percent of the voters rejected the extremes of the right and left to support the two parties committed to reform within a democratic framework. The elections demonstrated the political maturity and sophistication of the Venezuelan electorate and have contributed to the institutionalization of democratic government in Venezuela.

The 1973 presidential election resulted in the following percentages of votes: AD 48, COPEI 36, MEP together with the PCV 5, MAS 4, and URD 3. Of the congressional vote, AD 45, COPEI 31, the left 13 and the right 7.

Current Political Problems

The development of popular self-government in Venezuela has taken place only since 1945. Government previously was characterized by the personal rule of dictators, usually military *caudillos*. An authoritarian tradition developed, and there was little experience in the free play of representative democracy.

The major, basic task of the present popularly based administration is to foster institutions and conditions for continued rapid economic and social development to convince the people that their standard of living can best be improved under a democratic system of government. Castro-inspired insurgency and subversion in Venezuela has been directed at thwarting this objective and at the overthrow of representative, constitutional government. Former President CALDERA declared, however, that his administration did not feel threatened by any form of Cuban insurgency. Moreover, Caldera made an abortive attempt to establish diplomatic relations with Cuba within the framework of the Organization of American States (OAS).

President Perez has indicated that his government will take a harder line with Cuba. Shortly after his election he stated that "it was not Venezuela's place to assume the risk, the responsibility of unilaterally breaking this agreement (OAS) because it could lead to the total and irreparable breakdown of the Inter-American system."

The landslide proportions of Carlos Andres Perez' victory in the presidential election and the unprecedented majority his Democratic Action Party won in Congress give his government the potential to be the strongest Venezuela has had since the 1958-63 government of Romulo Betancourt. With insurgency at its lowest level in years, and with Venezuela's economy reaping the benefits of increased petroleum prices, prospects for Venezuela's continuing political, social, and economic development are excellent.

ECONOMY

Natural Resources and Agriculture

Venezuela is one of the world's leading oil exporting countries and in 1970 became the fifth largest producer (after the United States, the Soviet Union, Iran, and Saudi Arabia). Oil accounts for 93 percent of Venezuela's foreign exchange earnings, almost two-thirds of government revenue, and about 26 percent of its gross national product (GNP). It has more foreign private investment—U.S. $5.5 billion in 1972—than any other developing country in the world, and 85 percent of it is in oil. Oil production in Venezuela has grown from 2.8 million barrels a day in 1957 to 3.3 million in 1973. The recent years, however, have witnessed a steady decline in crude petroleum production. Venezuelan output has not grown as fast as the rest of the world's; its share of world production dropped from 15 percent in 1957 to 6 percent in 1972, and its share of world exports even more sharply from 37 to 10 percent. Venezuela's oil reserves fell from 6 to 2 percent of total world reserves in the same period.

This drop in part reflects the dramatic increase in the world supply of oil which has reduced Venezuela's role, but it is also due to the decline in activity of the private oil companies since the Venezuelan Government's announcement in 1958 that it would not grant any more concessions for oil exploration. Although the government recognizes the validity of existing concessions—granted in 1943-44 and 1956-57 for 40-year periods—the number of exploratory wells drilled fell from 598 in 1958 to 75 in 1967 but recouped to 169 in 1972. Foreign investment in petroleum fell from a high of $6.1 billion in 1961 to $4.4 billion in 1966. However, in July 1967 the Venezuelan Congress passed laws which authorized the executive to negotiate "service contracts" in place of concessions and to offer tax incentives to the oil companies for the construction of plants which would remove the sulphur from Venezuela's oil, making it more salable on the world market. As a result, contracts were signed in early 1968 with the two largest companies, Creole (Standard Oil of New Jersey) and Shell, by which they invested $160 million in desulphurization facilities. Bids for "service contracts" for further petroleum exploration in the south Lake Maracaibo region were made in mid-1969 by 17 foreign companies. Congress approved generalized "bases" in August 1970. In July 1971 contracts were negotiated with three companies, and legislation was passed regarding the ground rules for the reversion of petroleum assets, a process which will commence in 1983. Legislation to reserve the development of the natural gas industry to the state was also passed in 1971.

Venezuela is a major producer of iron ore, which constitutes about 5 percent of its exports. Despite the fact that mining and petroleum together provide 98 percent of Venezuela's exports, they employ less than 2 percent of the labor force.

Agriculture, which supplies only 7 percent of the GNP, employs one-third of the working population. In recent years food production has expanded slightly. In 1972 and 1973, however, the agricultural sector experienced a general state of stagnation.

The principal crops are coffee, cocoa, sugar, rice, corn, cotton, bananas, and yucca. Rice production has increased more than 15 times since 1958, and corn almost 70 percent. The number of cattle has risen 64 percent and milk production 90 percent. These increases were due at least in part to the $470 million in loans the government extended to farmers since 1959. Government funds have also financed one of the most successful agrarian reforms in Latin America, under which more than 100,000 families have been resettled on land of their own. The area of land under irrigation doubled between 1957 and 1960 and doubled again by 1964. By 1971 the rate of conversion to irrigated land had decreased. The area of potentially irrigable land is now slightly less than one and a half times as great as the land under irrigation.

Industry, GNP, and Budget

Manufacturing, which has been growing at the rate of almost 8 percent a year, accounts for 20 percent of the GNP and 16 percent of the labor force. Important industries include food and beverages, petroleum products, textiles and clothing, automobile assembly, tires and tubes, pharmaceuticals, metals, and paper and other wood products. Venezuela ranks fourth in Latin America in electric power production and first on a per capita basis. The Guri Dam, on the Caroni River in eastern Venezuela, began generating

525,000 kilowatts of electricity in late 1968 and will expand to 1,750,000 kilowatts by 1977 and eventually to 6 million kilowatts.

In 1973 the GNP was equivalent to approximately $12.4 billion, the fourth highest GNP in Latin America. The GNP increased about 7.2 percent in 1973. Per capita GNP in 1973 was over $1,200, the highest in Latin America.

Government income in 1973 is estimated at $3.9 billion, while expenditures were $3.2 billion, resulting in a budget surplus of about $700 million. In 1973, about 73 percent of government income came from taxes and royalties paid by foreign oil companies, 13 percent from income taxes on other foreign and Venezuelan companies and private individuals, and the rest from tariffs, fees, and sales taxes. Revenue from income taxes on individuals and nonextrative industries more than doubled between 1961 and 1967 as the result of tax reform and improved collection methods.

Of total expenditures by the Federal Government in 1973, 18 percent went for education, 7 percent for agriculture, 10 percent for defense, 16 percent for public works, and 7 percent for health.

Investment, Currency, Trade

Venezuela has a mixed economy, with approximately 60 percent of gross fixed investment coming from private enterprise and 40 percent from the government. Public and private investment has averaged 20 percent of the gross domestic product (GDP) since the Alliance for Progress was initiated. Of the major public services, only the railroads, telephone and telegraph, and water supply are wholly government-owned. The government also owns a steel mill, one of the two domestic airlines and a part of the international airline (VIASA), a chain of hotels, an oil company, and a petrochemical company.

U. S. private investment in Venezuela, estimated at about $3 billion, is greater than in any other country except Canada, the United Kingdom, the Federal Republic of Germany, and Australia and represents about one-fourth of all U. S. investment in Latin America. The current outlook for most new investments is good, although foreign investment in stock insurance companies has been restricted to not more than 49 percent of any one company. The Bank Law of December 1970 provides that foreign banks (i.e., with more than 20 percent foreign ownership) may no longer accept savings deposits, issue negotiable deposit certificates, or sell foreign exchange acquired from the Central Bank.

The currency of Venezuela is the *bolivar*, historically one of the most stable in the world. The restrictions on exchanging *bolivars* for other currencies, initiated in 1960 to correct a temporary balance-of-payments disequilibrium, were abolished in January 1964, and a rate of 4.48 *bolivars* per U. S. dollar was established for almost all transactions.

The *bolivar* was revalued to 4.40 in response to the 1973 dollar devaluation. Monetary policy is notably conservative. External public debt at the end of 1973 amounted to $932 million, less than half Venezuela's official gold and dollar reserves of $2.2 billion.

These reserves are the highest in Latin America, and on a per capita basis, they are higher than those of the United States and among the highest in the world. The price level in Venezuela has been stable since 1960, increasing at an average annual rate of less than 2 percent in that period. The cost of living rose by 5 percent during 1973.

U. S. total trade (exports plus imports) with Venezuela is greater than with any other country in Latin America. In 1973 Venezuela's total exports were valued at $5.3 billion, about one-third of which went to the United States in direct and indirect exports; its total imports were valued at $2.9 billion, of which slightly less than 50 percent came from the United States. Major export commodities are petroleum and petroleum derivatives, iron ore, coffee, and cocoa. Major imports are foodstuffs, raw materials, tools, and machinery.

In August 1966 Venezuela joined the Latin American Free Trade Area (LAFTA), and it has negotiated a series of agreements for a reciprocal lowering of tariffs with other Latin American countries. In May 1968 Bolivia, Colombia, Chile, Ecuador, and Peru agreed to create the Andean Common Market. Venezuela terminated the bilateral Trade Agreement with the U. S. in January 1972, and joined the Andean Pact in December 1973.

Venezuela has a rapidly growing consumer market, the highest per capita buying power in Latin America, ample natural resources, a freely convertible currency and stable prices, and an active program of encouraging foreign investment, particularly in manufacturing. A recent trend is toward joint Venezuelan Government-foreign company investments, particularly in petrochemicals. Wages are comparatively high—the average monthly wage in manufacturing in 1973 was $189 for blue collar workers and $475 for white collar—and there is a shorage of skilled labor.

Social and Economic Problems

Venezuela had already begun programs of the Alliance for Progress type before the signing of the Punta del Este Charter in August 1961, and since that time has undertaken reforms in all the fields signaled for special attention in the charter. Its record in carrying out the political and economic objectives of the alliance has in general been outstanding. However, Venezuela is still in the process of development and major socio-economic problems remain. Venezuela's high national income is distributed very unevenly, and about one-third of the people are ill-fed, ill-housed, ill-clothed, and ill-schooled.

These problems are made more difficult by the tremendous pressures created by rapid population growth. Venezuela doubles its population every 20 years. Nearly half are under 15 years of age and 70 percent are under 30. The simple mechanics of educating such a large school-age population are enormous. About 1,571,000 children between the ages of 5 and 19 were unable to attend school in 1967 because of the shortage of teachers and classrooms, and 1,425,000 persons more than 6 years of age were illiterate. Of those who enter the first grade, less than one in four can expect to enter high school and only one in five of those will enter a university. Notwithstanding, great progress has been made in education in recent years. The proportion of children of school age enrolled in elementary and secondary schools has risen from 33.6 percent in 1957-58 to 52 percent in 1960-61 and 54.3 percent in

1966-67. Illiteracy has fallen from 49 percent in 1950 to 35 percent in 1961 and 21 percent in 1967. University enrollment doubled between 1958 and 1962 and doubled again between 1962 and 1968. Four new public universities have been founded: the University of Carabobo in 1958, the University of the East in 1960, the Central-Western Regional University in 1967, and Simón Bolívar University, which opened in 1970, bringing the total number of universities to five public and two private. Half of the nation's college students are enrolled at Central University at Caracas.

Unemployment continues to be a serious problem, particularly at Caracas and other urban centers, due in large measure to the migration from countryside to towns which has prevailed in recent years. The great imbalance in development between urban and rural areas is another major problem, as is the problem of developing an adequately trained and skilled labor and management force necessary for economic progress and carrying out institutional reforms.

Venezuelan Government Objectives

In domestic affairs it is the policy of the Venezuelan Government to: (1) preserve and protect free and democratic institutions and to maintain public order; (2) promote, expand, and diversify agricultural and industrial production; (3) create new jobs, carry out agrarian reform, and expand education, housing, public health, social welfare, and community services; (4) develop hydroelectric power, communication and transportation facilities, and a heavy industry complex in the Guyana region; (5) assume control of the petroleum industry.

FOREIGN RELATIONS

The Venezuelan Government has stated that its international conduct will be governed by these principles: (1) respect for human rights; (2) the right of all peoples to self-determination; (3) nonintervention in the internal affairs of other nations; (4) peaceful settlement of disputes between nations; (5) the right of all peoples to peace and security; (6) support for the elimination of colonialism; and (7) defense of the export prices of primary products, particularly petroleum.

A serious problem exists in relations with Guyana. This problem arises from Venezuela's claim of the area up to the Essequibo River, more than half the size of Guyana as now constituted. The dispute was under discussion by a Guyana/Venezuela Mixed Commission established by the Geneva agreement of 1966. The agreement provided for other means of peaceful settlement in accordance with Article 33 of the U. N. Charter if the commission did not agree on a solution to the dispute by the termination date of the mixed commission whose final report was completed in May 1970. In June 1970 the two countries agreed, via the Protocol of Port-of-Spain, to a 2-year moratorium on the issue.

In late 1970 and during 1971 Venezuela and Colombia held diplomatic talks over the delineation of the maritime border in the Gulf of Venezuela. The talks, which have most recently shifted to Rome, have been temporarily suspended in April 1973.

Among the international and regional organizations of which Venezuela is a member are the United Nations and several of its specialized agencies, the Organization of American States (OAS), and the Inter-American Development Bank (IDB). It is one of the original and most active members of the Organization of Petroleum Exporting Countries.

U.S.-VENEZUELA RELATIONS

The first U. S. diplomatic representative to Venezuela was accredited on March 3, 1835. The United States desires to maintain the traditionally friendly relations toward Venezuela and its peoples in order to further the mutual objectives of the two countries: (1) strengthening democratic institutions; (2) accelerating sound economic, social, and cultural development through orderly and progressive changes within the framework of a free society; and (3) cooperating in the defense and security of the Western Hemisphere against aggression or subversion. President Caldera made a state visit to the United States in June 1970.

U. S. loans contracted by Venezuela under the Alliance for Progress include: (a) Export-Import Bank—$250.6 million for commercial arrearages and acquisition of new goods and services and for public and private projects in industry, agriculture, and water supply; (b) Agency for International Development (A.I.D.)—$10 million to establish savings and loan system, $10 million for agrarian reform, and $35 million for housing and urban renewal; (c) U.S.-supplied Social Progress Trust Fund of the Inter-American Development Bank—$32 million for rural and urban housing, $30 million for water supply facilities, $10 million for agrarian reform, and $1 million for higher education.

Grant technical assistance given Venezuela by A. I. D. in such fields as education, labor, public safety, public administration, agricultural credit, and low-cost housing and urban renewal totaled $13.8 million in 1961-72. Food for Peace (Public Law 480 program) donations to Venezuelan charitable organizations totaled $24.6 million in 1961-68, when it was phased out. The A.I.D. Mission to Venezuela will be terminated by the end of fiscal 1974. Some 1,500 Peace Corps volunteers have served in Venezuela since the program began there in June 1962. That figure includes the 132 volunteers who were in Venezuela in mid-1970 working to strengthen agricultural and consumer cooperatives, agrarian reform settlements, municipal administration, and rural public health programs. The cost of Peace Corps programs to date has been slightly more than $16.9 million.

Military equipment valued at $105 million had been purchased and delivered to Venezuela in the period of FY 1950 through FY 1971. In FY 1972 total cash and credit orders taken amounted to about $50 million. In the same period FY 1950 through FY 1971, Venezuela received via the Military Assistance grant program, equipment and training valued at $10 million. In FY 1972 this program amounted to $766,000 of military training.

Principal U. S. Officials

Ambassador—Robert McClintock
Deputy Chief of Mission—John Fisher
Counselor for Public Affairs—John R. Higgins
Economic and Commercial Counselor; A.I.D. Representative—Christopher A. Norred, Jr.

Commercial Attaché—George Falk
Administrative Counselor—Weikko Forsten
Political Counselor—Virgil Randolph III
Defense Attaché—Col. Newell D. Mitchell, USAF
Army Attaché—Col. Paul A. Roach
Naval Attaché—Capt. James Parce
Commander, U.S. Military Group—Col. F. J. Bush
Agricultural Attaché—Douglas Crawford
Consul General—George Phelan
Consul, Maracaibo—Francis S. Hall
Director, Peace Corps—Donald H. Alder

The U.S. Embassy in Venezuela is located at Avenida Francisco de Miranda and Avenida Principal de la Floresta, Caracas.

READING LIST

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DEPARTMENT OF STATE PUBLICATION 7749, Revised June 1974
Office of Media Services, Bureau of Public Affairs


VENEZUELA
Caribbean Sea
(Netherlands Antilles)
ARUBA
CURAÇAO
BONAIRE
GRANADA
TOBAGO
TRINIDAD
Orchila
Margarita
Tortuga
Gulf of Venezuela
Gulf of Paria
AMUAY
PTA. CARDON
MORON
PUERTO LA CRUZ
TIA JUANA
LAGUNILLAS
BACHAQUERO
LAKE MARACAIBO
Maicao
Maracaibo
Altagracia
Cajaseca
Villa del Rosario
El Tucuco
Encontrados
Sta. Barbara de Zulia
El Vigia
Merida
Valera
Barinas
San Cristobal
To Bucaramanga
El Amparo
Coro
Carora
Barquisimeto
San Felipe
Valencia
Pto. Cabello
Tocuyito
CARACAS
DTO. FEDERAL
Higuerote
San Carlos
Acarigua
Turen
Baul
San Juan de los Morros
Calabozo
Altagracia de Orituco
Zaraza
Puerto de Nutrias
Achaguas
San Fernando de Apure
Cabruta
Apure River
Orinoco River
Meta River
Caura River
Caroni River
Cumana
Carupano
Guiria
Caripito
Maturin
El Tigre
Barrancas
San Felix
Ciudad Bolivar
Ciudad Pilar
El Dorado
COLOMBIA
GUYANA
BRAZIL
OILFIELDS
REFINERIES
ORINOCO OIL BELT
MAIN ROADS
RIVERS
STATE BOUNDARIES
INTERNATIONAL BOUNDARIES
ELEVATION IN METERS:
0–200
200–500
OVER 500
0 50 100 150 200
KILOMETERS
72°
68°
64°
60°
10°
6°
2°
The boundaries shown on this map do not imply endorsement or acceptance by the World Bank and its affiliates.
Caribbean Sea
VENEZUELA
SOUTH AMERICA
PACIFIC OCEAN
ATLANTIC OCEAN
IBRD 10553
AUGUST 1973


VENEZUELA
Caribbean Sea
ARUBA
(Netherlands Antilles)
CURAÇAO
BONAIRE
GRANADA
TOBAGO
TRINIDAD
Orchila
Margarita
Tortuga
AMUAY
PTA. CARDON
Gulf of Venezuela
Maicao
Coro
Maracaibo
Altagracia
Cajaseca
Villa del Rosario
TIA JUANA
LAGUNILLAS
BACHAQUERO
El Tucuco
LAKE MARACAIBO
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El Vigia
Merida
Valera
Carora
Barquisimeto
San Felipe
MORON
Pto. Cabello
Valencia
Tocuyito
CARACAS
DTO. FEDERAL
Higuerote
PUERTO LA CRUZ
Cumana
Carupano
Guiria
Gulf of Paria
Caripito
Maturin
San Carlos
Acarigua
Turen
Barinas
San Juan de los Morros
Altagracia de Orituco
Zaraza
El Tigre
Barrancas
Baul
Calabozo
Puerto de Nutrias
Apure River
Achaguas
San Fernando de Apure
Cabruta
Orinoco River
Ciudad Bolivar
San Felix
Caroni River
Ciudad Pilar
El Dorado
Caura River
San Cristobal
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VENEZUELA
Caribbean Sea
SOUTH AMERICA
PACIFIC OCEAN
ATLANTIC OCEAN
IBRD 10553
AUGUST 1973

background notes

Venezuela

department of state * june 1974

OFFICIAL NAME: Republic of Venezuela

GEOGRAPHY

Venezuela, located on the northern coast of South America, is bounded by Colombia, Brazil, and Guyana and lies astride the major sea and air routes linking the northern and southern portions of the Western Hemisphere. With a coastline of 1,750 miles on the Caribbean Sea and Atlantic Ocean and an area of 352,143 square miles, Venezuela is about the size of Texas and Oklahoma combined. Venezuela claims additionally the territory east of the present boundary to the Essequibo River which was allocated to Guyana by the Arbitral Award of 1899.

Venezuela's four distinct geographic regions are: (1) the Andes Mountains and adjacent hill country in the northwest; (2) the coastal zone north of the mountains bordering Lake Maracaibo and the Caribbean Sea, including the Orinoco Delta; (3) the plains, or *llanos*, which extend from the mountains south and east to the Orinoco River;

PROFILE

Geography

AREA: 352,000 sq. mi. (including Margarita Island and other minor islands in the Caribbean). One-third larger than Texas. CAPITAL: Caracas (2.4 million). OTHER CITIES: Maracaibo (900,000); Barquisimeto (350,000); Valencia (367,000); Maracay (220,000).

People

POPULATION: 12 million (1974 est.). ANNUAL GROWTH RATE: 3.4%. DENSITY: 34 per sq. mi. ETHNIC GROUPS: Spanish, Portuguese, Italian, German, American Indian. RELIGION: Roman Catholic (96%), Protestant (2%), and Jewish (2%). LITERACY: 78% of population 15 years of age and older. LANGUAGE: Spanish (Indian dialects spoken by some of the 36,000 Amerindians living in the remote interior).

LABOR FORCE: 3.2 million (35% in agriculture; 24.5% in services; 13% in commerce; 13% in manufacturing; 8% in construction; 4% in transport and communications; 1.5% in petroleum and mining; 1% in utilities). Unemployment averages 13%, principally in urban areas.

Government

TYPE: Federal Republic. INDEPENDENCE: July 5, 1811. CONSTITUTION: January 23, 1961.

BRANCHES: *Executive*—President (Head of Government and Chief of State) elected for a single 5-year term, assisted by a 16-member cabinet which meets as the Council of Ministers. *Legislative*—bicameral congress. Chamber of Deputies has 203 members; Senate has 49, including the 2 living ex-Presidents. Members of both houses elected for 5-year terms concurrent with President. *Judicial*—15-member Supreme Court appointed by Congress.

POLITICAL SUBDIVISIONS: 20 states, 2 federal territories, the Federal District, and 72 islands in the Caribbean administered as federal dependencies. SUFFRAGE: Universal adult.

FLAG: Three horizontal bands of yellow, blue, and red, with a crest in the left corner of the yellow stripe and a semicircle of seven stars in the middle of the blue stripe. The colors came from the banner flown by Simon Bolivar. The stars symbolize the nation's original seven provinces.

Economy

GROSS NATIONAL PRODUCT (GNP): $12.4 billion. ANNUAL GROWTH RATE: 7.2% (1973). PER CAPITA INCOME: $1200.

AGRICULTURE: Total farm area 29.5%. *Products*—sugar, bananas, corn, rice, coffee, cocoa, dairy products.

INDUSTRY: *Products*—petrochemicals, iron and steel, paper and paper products, non-metallic metals, textiles, clothing, transport equipment, other consumer goods.

NATURAL RESOURCES: Petroleum, iron ore, gold, other minerals, hydro-electric power.

TRADE: *Exports*—$5.3 billion (1973 est.): petroleum $4.9 billion, iron ore, coffee, cocoa, sugar. *Partners:*—U.S. $1.6 billion (does not include November and December petroleum exports). *Imports*—$2.9 billion (1973 est.): machinery and transport equipment $1.2 billion (1972), manufactures $440 million (1972), chemicals $260 million (1972), foodstuffs $170 million (1972). *Partners (1972)*—U. S. 44%, F.R.G. 11%, Japan 9%.

OFFICIAL EXCHANGE RATE: 4.28 Bolivars=US $1. 4.20 Bolivars =US $1 for petroleum exports.

MEMBERSHIP IN INTERNATIONAL ORGANIZATIONS: United Nations, Organization of American States (OAS), International Monetary Fund (IMF), International Bank for Reconstruction and Development (IBRD), Inter-American Development Bank (IDB), International Coffee Agreement, Latin American Free Trade Association (LAFTA), Andean Pact, Rio Pact, Organization of Petroleum Exporting Countries (OPEC).

ECONOMIC PROGRAMS: *FY 1973*—A.I.D. grants $382,000. *1972*—Food for Peace $4.7 million, Peace Corps $1.4 million, Ex-Im Bank Loans $36.9 million, International Development Agencies $104 million.

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and (4) the Guyana Highlands, a vast area of high plateaus and rolling plains south and east of the Orinoco. Angel Falls, the world's highest waterfall, is in this area.

Although the entire country lies in the Torrid Zone, the temperature varies with the altitude. The lowland coastal area is hot and humid, as are the inland river valleys. The highlands generally are warm during the day and cool at night. For most of the country the rainy season is from May through November; the rest of the year is dry.

PEOPLE

With an estimated 12 million people in 1973, Venezuela is one of the least densely populated countries of the Western Hemisphere (about 34 persons per square mile). However, the population is concentrated in the Andes and along the coast and is rapidly increasing. Although nearly half of the country lies south and east of the Orinoco, that area contains only 4 percent of the population. The annual population increase since 1950 has been about 3.4 percent, showing a very slight decline in the most recent years. Thus the country has one of the highest growth rates in the world.

The population is also rapidly changing from rural to urban; whereas in 1936 only 35 percent of the population lived in cities and towns of more than 1,000 inhabitants, today 75.5 percent do. One out of every five Venezuelans lives in the capital city of Caracas.

The majority of the population is of European, Indian, and/or Negro extraction. The influx of European immigration dates from World War II when Venezuela was among the first American countries to open its doors to refugees and displaced persons. According to the 1961 census, 93 percent of the population are native-born; of the 542,000 foreign-born almost two-thirds were from Spain, Italy, and Portugal, and one-fifth from Colombia. In 1973 20,000 U.S. citizens were estimated living in Venezuela. Unlike many of its neighbors, Venezuela does not have a large indigenous Indian population; the 1961 census showed only 31,800.

About 96 percent of the Venezuelans are Roman Catholic; Protestants number about 26,000 and Jews 10,000. Spanish is the official language. The literacy rate is estimated at 80 percent.

HISTORY

Venezuela was discovered by Columbus on his third voyage in 1498. It was one of the first colonies in the New World to revolt against Spain (1810), but it was not until 1821 that independence was achieved under the leadership of Simon Bolívar, Venezuela's national hero and native son. Venezuela, together with what are now Colombia, Panama, and Ecuador, was part of the "Great Colombia" union until 1830, when it separated and began its own existence as a sovereign state.

Venezuela's 19th-century history was characterized by frequent periods of political instability, dictatorships, and revoluntionary turbulence. The 20th century has been marked by long periods of authoritarianism, as represented by the dictatorships of Gen. Juan Vicente GOMEZ (1908-35) and Gen. Marcos PEREZ Jiménez (1952-58) and by the efforts made between 1936 and 1948 and since 1958 to develop effective representative government. Since the overthrow of Pérez Jiménez on January 23, 1958, consecutive democratic elections have been held—1958, 1963, 1968, and 1973. Romulo BETANCOURT (1959-65) of the Democratic Action (AD) Party became the first popularly elected President in Venezuelan history to complete his term of office. He was succeeded by Raul LEONI (1964-69), also of AD, who became the first President to preside over the peaceful transfer of power to a successor from another political party. Rafael CALDERA of the Social Christian Party (COPEI), a 54-year-old university professor and internationally recognized labor law expert took office on March 11, 1969. Caldera was succeeded on March 12, 1974 by 51-year-old Carlos Andres Perez.

GOVERNMENT

The present Constitution of Venezuela, adopted on January 23, 1961, is the country's 26th since independence. It guarantees freedom of religion, speech, assembly, and assigns substantial economic development responsibility to the Federal Government.

National elections are held on the same day every 5 years at which time the President and members of Congress, the state legislatures, and the city councils are directly elected; there are no midterm or byelections. The President can be elected to only one term and may not be reelected until 10 years following the end of that term. Ex-Presidents are life members of the Senate. Voting is mandatory for all Venezuelan citizens who are at least 18 years of age and who are not members of the armed forces or serving a prison sentence. Generally more than 80 percent vote; 96 percent of the registered voters voted in 1973. Each political party has its own ballot with a distinctive color and symbol, so that illiterates may vote. Elections are supervised by an independent, federally appointed electoral commission.

The government is composed of separate executive, legislative, and judicial branches. The powers which the President (Chief of State and Head of Government) may legally exercise are very extensive. These include the power to appoint the Council of Ministers (cabinet) and state and territorial governors by decree, without congressional confirmation. There is no Vice President; in the event the presidency becomes vacant, the President of the Senate acts as chief executive for not more than 30 days, during which Congress, in joint session, must elect a new President of the Republic to complete the term.

Legislative power is vested in the bicameral Congress, which consists of a 49-member Senate and a Chamber of Deputies with 203 members. Congress is in session from March 2 to July 6 and from October 1 to November 30, except in election years, when there is a single session from March 2 to August 15. Congress may vote to prolong its meetings, and the President may call special sessions.

Judicial power is exercised by a Supreme Court of Justice and by the other courts whose functions are similar to those of the judiciary of other countries. Justices of the Supreme Court are elected by Congress. Lower court judges are appointed by a judicial council consisting of representatives of the three branches of government.

Venezuela consists of 20 States, a Federal District (Caracas), two Federal Territories, and certain islands in the Caribbean which are designated Federal Dependencies. Governors and other state officials are considered agents of the National Government, although their powers are somewhat limited by the states' constitutions and elected legislatures.

Principal Government Officials

President—Carlos Andres Perez

Minister of Foreign Affairs—Dr. Efrain Schacht Aristiguieta

Minister of Interior—Dr. Luis Pinerua Ordaz

Minister of Finance—Hector Hurtado

Minister of Defense—Maj. Gen. Homero Leal Torres

Minister of Development—Dr. Carmelo Lauria

Minister of Public Works—Dr. Arnaldo Gabaldon

Minister of Education—Dr. Luis Manuel Penalver

Minister of Health and Social Welfare—Dr. Blas Bruni Celli

Minister of Agriculture—Dr. Froilan Alvarez Vepez

Minister of Labor—Dr. Antonio Leidenz

Minister of Communications—Dr. Armando Sanchez Bueno

Minister of Justice—Dr. Otto Marin Gomez

Minister of Mines and Hydrocarbons—Valentin Hernandez Acosta

Minister of State for Information—Dr. Simon Alberto Consalvi

Secretary-General of the Presidency—Dr. Ramon Escovar Salom

Director of National Planning Organization—Dr. Gumersindo Rodriguez

Governor of the Federal District—Dr. Diego Arria

Minister of State for International Economic Affairs—Dr. Manuel Perez Guerrero

Venezuela maintains an Embassy in the United States at 2445 Massachusetts Avenue, NW., Washington, D. C. 20008. There are also Consulates at Baltimore, Chicago, Houston, Los Angeles, Miami, Mobile, New Orleans, New York, Philadelphia, Portland, San Francisco, and Savannah. Visas are issued only by Consulates.

POLITICAL CONDITIONS

On taking office in February 1959, President Romulo Betancourt formed a coalition government composed of his own *Democratic Action (AD) Party*, the *Social Christian Party (COPEI)*, and the *Democratic Republican Union (URD)*, which together had received 91 percent of the votes in the 1958 election.

From its inception, that government faced serious threats from extremists of both right and left. More than a dozen rightist-oriented attempts to seize political power by force were thwarted, and the leading military and civilian dissidents were jailed or exiled. The support of the government by the armed forces was sustained, and the government's ability to fend off attacks from the right extremists steadily grew stronger.

An equivalent subversive threat has been posed since late 1959 by extremists of the left, financed and trained by the Castro regime in Cuba, who attempted, through terrorist activities, sabotage, insurrections in connivance with disgruntled military men, and guerrilla activities, to overthrow the Betancourt government and its successor. These insurgent activities evoked no popular support and served to discredit further the Communists and their allies. Responsible sectors in Venezuela, including the overwhelming majority of the organized rural and urban labor movement, the military, and members of the business community, strongly supported the government in its efforts to counter the left-extremist insurgency.

In mid-1960 leftwing elements who had been ousted from AD formed their own political party, *Movement of the Revolutionary Left (MIR)*, an extreme Marxist and pro-Fidel Castro organization. MIR closely allied itself with the *Communist Party of Venezuela (PCV)* in attempts to overthrow the Venezuelan Government by subversion and insurrection. The PCV is numerically weak (6 percent of the 1958 vote, 3 percent in 1968, and less than 2 percent in 1973) and has had its once-influential positions in the communications media, labor organizations, and the teaching profession greatly reduced. Its strength was further reduced by a split in early 1971 between the pro- and anti-Moscow factions, with the loss of much student support to a new faction, the *Movement to Socialism (MAS)*.

As the result of their involvement in a major insurrection in May 1962, the PCV and MIR parties were banned by executive decree from engaging in political activities, their party offices were closed, and their files were confiscated. Although membership in either party is not itself illegal, individual members of these parties who were caught in insurrectional activities were prosecuted and jailed. Many of these prisoners have since been released on parole; a few have been exiled. The PCV regained its political rights in March 1969, having publicly disavowed the active guerrilla movement, and agreed to the "pacification policy" instituted by President Caldera shortly after he came to power.

The "pacification policy," which afforded amnesty to those insurgents who renounced armed force as a political instrument, has further diminished the extremist insurgent threat.

The PCV-MIR effort to overthrow the Betancourt government by force received two severe setbacks in quick succession at the end of 1963. In November the government captured a large shipment of arms and ammunition from Cuba which had been secretly landed on the Paraguana Peninsula as a part of a detailed plan for the insurgents to take over the city of Caracas on election day. This discovery led to the imposition of sanctions against Cuba by the Organization of American States. In December the people of Venezuela dealt the insurgents a major psychological blow by flocking to the polls in disregard of Communist threats to kill anyone who dared to vote. Demoralized for several years after this, MIR most recently took advantage of the pacification program and has become a legalized political party.

The 5-year coalition government of AD and COPEI ended in March 1964 with the inauguration of AD leader Raúl LEONI as President. Having failed to regain a majority in the Chamber of Deputies in the 1963 elections, AD formed an alliance with URD and a new center party, the *Democratic National Front (FND)*, led by Arturo USLAR Pietri. FND withdrew from the coalition in March 1966. In late 1967 rivalry over the choice of the AD candidate in the 1968 presidential elections between Gonzalo BARRIOS and Luis Beltrán PRIETO, both longtime AD leaders, brought about yet another split in that party. Dr. Prieto formed a new party, the *Electoral Movement of the People (MEP)*, which like AD is social democratic in orientation. This split and the withdrawal of URD from its coalition with AD in April 1968 again deprived the government of a majority in the Chamber of Deputies and, for the first time in Venezuelan history, in the Senate as well.

The December 1968 elections were won by Dr. Rafael Caldera (COPEI) by a narrow margin over Barrios (AD), 29 to 28 percent. Miguel Angel BURELLI, the candidate of the URD, FND, and Popular Democratic Force (FDP) coalition, received 22 percent of the votes, and Prieto of MEP, 19 percent. The elections for Congress, however, gave AD a slight edge. AD held 85 seats in Congress compared to COPEI's 75, 30 for MEP, 21 for URD, 12 for FDP, 6 for the PCV, and 3 for FND. The *Nationalist Civic Crusade (CCN)*, a party organized by supporters of former dictator Marcos Pérez Jiménez, captured 25 seats, but it was weakened when a group of 11 Congressmen broke away to form the Popular Justicalist Movement (MPJ). Independents and minor parties accounted for the remaining seats.

National elections were held in Venezuela on December 9, 1973. Votes numbering 4.5 million, representing 96 percent of the electorate, were cast. On December 12, Lorenzo Fernandez, candidate of the government party COPEI, conceded victory to the Democratic Action candidate Carlos Andres Perez, who received 48.6 percent of the vote in his landslide victory. Unlike Caldera's Social Christian Administration, Perez enjoys a majority in both the Senate and Chamber of Deputies. In contrast, Lorenzo Fernandez won 36.8 percent of the presidential vote, while COPEI garnered 30.3 percent of the congressional vote.

Of possible significance to the hemisphere is the fact that: (1) The election was a model, without violence or fraud, and (2) 85 percent of the voters rejected the extremes of the right and left to support the two parties committed to reform within a democratic framework. The elections demonstrated the political maturity and sophistication of the Venezuelan electorate and have contributed to the institutionalization of democratic government in Venezuela.

The 1973 presidential election resulted in the following percentages of votes: AD 48, COPEI 36, MEP together with the PCV 5, MAS 4, and URD 3. Of the congressional vote, AD 45, COPEI 31, the left 13 and the right 7.

Current Political Problems

The development of popular self-government in Venezuela has taken place only since 1945. Government previously was characterized by the personal rule of dictators, usually military *caudillos*. An authoritarian tradition developed, and there was little experience in the free play of representative democracy.

The major, basic task of the present popularly based administration is to foster institutions and conditions for continued rapid economic and social development to convince the people that their standard of living can best be improved under a democratic system of government. Castro-inspired insurgency and subversion in Venezuela has been directed at thwarting this objective and at the overthrow of representative, constitutional government. Former President CALDERA declared, however, that his administration did not feel threatened by any form of Cuban insurgency. Moreover, Caldera made an abortive attempt to establish diplomatic relations with Cuba within the framework of the Organization of American States (OAS).

President Perez has indicated that his government will take a harder line with Cuba. Shortly after his election he stated that "it was not Venezuela's place to assume the risk, the responsibility of unilaterally breaking this agreement (OAS) because it could lead to the total and irreparable breakdown of the Inter-American system."

The landslide proportions of Carlos Andres Perez' victory in the presidential election and the unprecedented majority his Democratic Action Party won in Congress give his government the potential to be the strongest Venezuela has had since the 1958-63 government of Romulo Betancourt. With insurgency at its lowest level in years, and with Venezuela's economy reaping the benefits of increased petroleum prices, prospects for Venezuela's continuing political, social, and economic development are excellent.

ECONOMY

Natural Resources and Agriculture

Venezuela is one of the world's leading oil exporting countries and in 1970 became the fifth largest producer (after the United States, the Soviet Union, Iran, and Saudi Arabia). Oil accounts for 93 percent of Venezuela's foreign exchange earnings, almost two-thirds of government revenue, and about 26 percent of its gross national product (GNP). It has more foreign private investment—U.S. $5.5 billion in 1972—than any other developing country in the world, and 85 percent of it is in oil. Oil production in Venezuela has grown from 2.8 million barrels a day in 1957 to 3.3 million in 1973. The recent years, however, have witnessed a steady decline in crude petroleum production. Venezuelan output has not grown as fast as the rest of the world's; its share of world production dropped from 15 percent in 1957 to 6 percent in 1972, and its share of world exports even more sharply from 37 to 10 percent. Venezuela's oil reserves fell from 6 to 2 percent of total world reserves in the same period.

This drop in part reflects the dramatic increase in the world supply of oil which has reduced Venezuela's role, but it is also due to the decline in activity of the private oil companies since the Venezuelan Government's announcement in 1958 that it would not grant any more concessions for oil exploration. Although the government recognizes the validity of existing concessions—granted in 1943-44 and 1956-57 for 40-year periods—the number of exploratory wells drilled fell from 598 in 1958 to 75 in 1967 but recouped to 169 in 1972. Foreign investment in petroleum fell from a high of $6.1 billion in 1961 to $4.4 billion in 1966. However, in July 1967 the Venezuelan Congress passed laws which authorized the executive to negotiate "service contracts" in place of concessions and to offer tax incentives to the oil companies for the construction of plants which would remove the sulphur from Venezuela's oil, making it more salable on the world market. As a result, contracts were signed in early 1968 with the two largest companies, Creole (Standard Oil of New Jersey) and Shell, by which they invested $160 million in desulphurization facilities. Bids for "service contracts" for further petroleum exploration in the south Lake Maracaibo region were made in mid-1969 by 17 foreign companies. Congress approved generalized "bases" in August 1970. In July 1971 contracts were negotiated with three companies, and legislation was passed regarding the ground rules for the reversion of petroleum assets, a process which will commence in 1983. Legislation to reserve the development of the natural gas industry to the state was also passed in 1971.

Venezuela is a major producer of iron ore, which constitutes about 5 percent of its exports. Despite the fact that mining and petroleum together provide 98 percent of Venezuela's exports, they employ less than 2 percent of the labor force.

Agriculture, which supplies only 7 percent of the GNP, employs one-third of the working population. In recent years food production has expanded slightly. In 1972 and 1973, however, the agricultural sector experienced a general state of stagnation.

The principal crops are coffee, cocoa, sugar, rice, corn, cotton, bananas, and yucca. Rice production has increased more than 15 times since 1958, and corn almost 70 percent. The number of cattle has risen 64 percent and milk production 90 percent. These increases were due at least in part to the $470 million in loans the government extended to farmers since 1959. Government funds have also financed one of the most successful agrarian reforms in Latin America, under which more than 100,000 families have been resettled on land of their own. The area of land under irrigation doubled between 1957 and 1960 and doubled again by 1964. By 1971 the rate of conversion to irrigated land had decreased. The area of potentially irrigable land is now slightly less than one and a half times as great as the land under irrigation.

Industry, GNP, and Budget

Manufacturing, which has been growing at the rate of almost 8 percent a year, accounts for 20 percent of the GNP and 16 percent of the labor force. Important industries include food and beverages, petroleum products, textiles and clothing, automobile assembly, tires and tubes, pharmaceuticals, metals, and paper and other wood products. Venezuela ranks fourth in Latin America in electric power production and first on a per capita basis. The Guri Dam, on the Caroni River in eastern Venezuela, began generating

525,000 kilowatts of electricity in late 1968 and will expand to 1,750,000 kilowatts by 1977 and eventually to 6 million kilowatts.

In 1973 the GNP was equivalent to approximately $12.4 billion, the fourth highest GNP in Latin America. The GNP increased about 7.2 percent in 1973. Per capita GNP in 1973 was over $1,200, the highest in Latin America.

Government income in 1973 is estimated at $3.9 billion, while expenditures were $3.2 billion, resulting in a budget surplus of about $700 million. In 1973, about 73 percent of government income came from taxes and royalties paid by foreign oil companies, 13 percent from income taxes on other foreign and Venezuelan companies and private individuals, and the rest from tariffs, fees, and sales taxes. Revenue from income taxes on individuals and nonextrative industries more than doubled between 1961 and 1967 as the result of tax reform and improved collection methods.

Of total expenditures by the Federal Government in 1973, 18 percent went for education, 7 percent for agriculture, 10 percent for defense, 16 percent for public works, and 7 percent for health.

Investment, Currency, Trade

Venezuela has a mixed economy, with approximately 60 percent of gross fixed investment coming from private enterprise and 40 percent from the government. Public and private investment has averaged 20 percent of the gross domestic product (GDP) since the Alliance for Progress was initiated. Of the major public services, only the railroads, telephone and telegraph, and water supply are wholly government-owned. The government also owns a steel mill, one of the two domestic airlines and a part of the international airline (VIASA), a chain of hotels, an oil company, and a petrochemical company.

U. S. private investment in Venezuela, estimated at about $3 billion, is greater than in any other country except Canada, the United Kingdom, the Federal Republic of Germany, and Australia and represents about one-fourth of all U. S. investment in Latin America. The current outlook for most new investments is good, although foreign investment in stock insurance companies has been restricted to not more than 49 percent of any one company. The Bank Law of December 1970 provides that foreign banks (i.e., with more than 20 percent foreign ownership) may no longer accept savings deposits, issue negotiable deposit certificates, or sell foreign exchange acquired from the Central Bank.

The currency of Venezuela is the *bolivar*, historically one of the most stable in the world. The restrictions on exchanging *bolivars* for other currencies, initiated in 1960 to correct a temporary balance-of-payments disequilibrium, were abolished in January 1964, and a rate of 4.48 *bolivars* per U. S. dollar was established for almost all transactions.

The *bolivar* was revalued to 4.40 in response to the 1973 dollar devaluation. Monetary policy is notably conservative. External public debt at the end of 1973 amounted to $932 million, less than half Venezuela's official gold and dollar reserves of $2.2 billion.

These reserves are the highest in Latin America, and on a per capita basis, they are higher than those of the United States and among the highest in the world. The price level in Venezuela has been stable since 1960, increasing at an average annual rate of less than 2 percent in that period. The cost of living rose by 5 percent during 1973.

U. S. total trade (exports plus imports) with Venezuela is greater than with any other country in Latin America. In 1973 Venezuela's total exports were valued at $5.3 billion, about one-third of which went to the United States in direct and indirect exports; its total imports were valued at $2.9 billion, of which slightly less than 50 percent came from the United States. Major export commodities are petroleum and petroleum derivatives, iron ore, coffee, and cocoa. Major imports are foodstuffs, raw materials, tools, and machinery.

In August 1966 Venezuela joined the Latin American Free Trade Area (LAFTA), and it has negotiated a series of agreements for a reciprocal lowering of tariffs with other Latin American countries. In May 1968 Bolivia, Colombia, Chile, Ecuador, and Peru agreed to create the Andean Common Market. Venezuela terminated the bilateral Trade Agreement with the U. S. in January 1972, and joined the Andean Pact in December 1973.

Venezuela has a rapidly growing consumer market, the highest per capita buying power in Latin America, ample natural resources, a freely convertible currency and stable prices, and an active program of encouraging foreign investment, particularly in manufacturing. A recent trend is toward joint Venezuelan Government-foreign company investments, particularly in petrochemicals. Wages are comparatively high—the average monthly wage in manufacturing in 1973 was $189 for blue collar workers and $475 for white collar—and there is a shorage of skilled labor.

Social and Economic Problems

Venezuela had already begun programs of the Alliance for Progress type before the signing of the Punta del Este Charter in August 1961, and since that time has undertaken reforms in all the fields signaled for special attention in the charter. Its record in carrying out the political and economic objectives of the alliance has in general been outstanding. However, Venezuela is still in the process of development and major socio-economic problems remain. Venezuela's high national income is distributed very unevenly, and about one-third of the people are ill-fed, ill-housed, ill-clothed, and ill-schooled.

These problems are made more difficult by the tremendous pressures created by rapid population growth. Venezuela doubles its population every 20 years. Nearly half are under 15 years of age and 70 percent are under 30. The simple mechanics of educating such a large school-age population are enormous. About 1,571,000 children between the ages of 5 and 19 were unable to attend school in 1967 because of the shortage of teachers and classrooms, and 1,425,000 persons more than 6 years of age were illiterate. Of those who enter the first grade, less than one in four can expect to enter high school and only one in five of those will enter a university. Notwithstanding, great progress has been made in education in recent years. The proportion of children of school age enrolled in elementary and secondary schools has risen from 33.6 percent in 1957-58 to 52 percent in 1960-61 and 54.3 percent in

1966-67. Illiteracy has fallen from 49 percent in 1950 to 35 percent in 1961 and 21 percent in 1967. University enrollment doubled between 1958 and 1962 and doubled again between 1962 and 1968. Four new public universities have been founded: the University of Carabobo in 1958, the University of the East in 1960, the Central-Western Regional University in 1967, and Simón Bolívar University, which opened in 1970, bringing the total number of universities to five public and two private. Half of the nation's college students are enrolled at Central University at Caracas.

Unemployment continues to be a serious problem, particularly at Caracas and other urban centers, due in large measure to the migration from countryside to towns which has prevailed in recent years. The great imbalance in development between urban and rural areas is another major problem, as is the problem of developing an adequately trained and skilled labor and management force necessary for economic progress and carrying out institutional reforms.

Venezuelan Government Objectives

In domestic affairs it is the policy of the Venezuelan Government to: (1) preserve and protect free and democratic institutions and to maintain public order; (2) promote, expand, and diversify agricultural and industrial production; (3) create new jobs, carry out agrarian reform, and expand education, housing, public health, social welfare, and community services; (4) develop hydroelectric power, communication and transportation facilities, and a heavy industry complex in the Guyana region; (5) assume control of the petroleum industry.

FOREIGN RELATIONS

The Venezuelan Government has stated that its international conduct will be governed by these principles: (1) respect for human rights; (2) the right of all peoples to self-determination; (3) nonintervention in the internal affairs of other nations; (4) peaceful settlement of disputes between nations; (5) the right of all peoples to peace and security; (6) support for the elimination of colonialism; and (7) defense of the export prices of primary products, particularly petroleum.

A serious problem exists in relations with Guyana. This problem arises from Venezuela's claim of the area up to the Essequibo River, more than half the size of Guyana as now constituted. The dispute was under discussion by a Guyana/Venezuela Mixed Commission established by the Geneva agreement of 1966. The agreement provided for other means of peaceful settlement in accordance with Article 33 of the U. N. Charter if the commission did not agree on a solution to the dispute by the termination date of the mixed commission whose final report was completed in May 1970. In June 1970 the two countries agreed, via the Protocol of Port-of-Spain, to a 2-year moratorium on the issue.

In late 1970 and during 1971 Venezuela and Colombia held diplomatic talks over the delineation of the maritime border in the Gulf of Venezuela. The talks, which have most recently shifted to Rome, have been temporarily suspended in April 1973.

Among the international and regional organizations of which Venezuela is a member are the United Nations and several of its specialized agencies, the Organization of American States (OAS), and the Inter-American Development Bank (IDB). It is one of the original and most active members of the Organization of Petroleum Exporting Countries.

U.S.-VENEZUELA RELATIONS

The first U. S. diplomatic representative to Venezuela was accredited on March 3, 1835. The United States desires to maintain the traditionally friendly relations toward Venezuela and its peoples in order to further the mutual objectives of the two countries: (1) strengthening democratic institutions; (2) accelerating sound economic, social, and cultural development through orderly and progressive changes within the framework of a free society; and (3) cooperating in the defense and security of the Western Hemisphere against aggression or subversion. President Caldera made a state visit to the United States in June 1970.

U. S. loans contracted by Venezuela under the Alliance for Progress include: (a) Export-Import Bank—$250.6 million for commercial arrearages and acquisition of new goods and services and for public and private projects in industry, agriculture, and water supply; (b) Agency for International Development (A.I.D.)—$10 million to establish savings and loan system, $10 million for agrarian reform, and $35 million for housing and urban renewal; (c) U.S.-supplied Social Progress Trust Fund of the Inter-American Development Bank—$32 million for rural and urban housing, $30 million for water supply facilities, $10 million for agrarian reform, and $1 million for higher education.

Grant technical assistance given Venezuela by A. I. D. in such fields as education, labor, public safety, public administration, agricultural credit, and low-cost housing and urban renewal totaled $13.8 million in 1961-72. Food for Peace (Public Law 480 program) donations to Venezuelan charitable organizations totaled $24.6 million in 1961-68, when it was phased out. The A.I.D. Mission to Venezuela will be terminated by the end of fiscal 1974. Some 1,500 Peace Corps volunteers have served in Venezuela since the program began there in June 1962. That figure includes the 132 volunteers who were in Venezuela in mid-1970 working to strengthen agricultural and consumer cooperatives, agrarian reform settlements, municipal administration, and rural public health programs. The cost of Peace Corps programs to date has been slightly more than $16.9 million.

Military equipment valued at $105 million had been purchased and delivered to Venezuela in the period of FY 1950 through FY 1971. In FY 1972 total cash and credit orders taken amounted to about $50 million. In the same period FY 1950 through FY 1971, Venezuela received via the Military Assistance grant program, equipment and training valued at $10 million. In FY 1972 this program amounted to $766,000 of military training.

Principal U. S. Officials

Ambassador—Robert McClintock
Deputy Chief of Mission—John Fisher
Counselor for Public Affairs—John R. Higgins
Economic and Commercial Counselor; A.I.D. Representative—Christopher A. Norred, Jr.

Commercial Attaché—George Falk
Administrative Counselor—Weikko Forsten
Political Counselor—Virgil Randolph III
Defense Attaché—Col. Newell D. Mitchell, USAF
Army Attaché—Col. Paul A. Roach
Naval Attaché—Capt. James Parce
Commander, U.S. Military Group—Col. F. J. Bush
Agricultural Attaché—Douglas Crawford
Consul General—George Phelan
Consul, Maracaibo—Francis S. Hall
Director, Peace Corps—Donald H. Alder

The U.S. Embassy in Venezuela is located at Avenida Francisco de Miranda and Avenida Principal de la Floresta, Caracas.

READING LIST

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V E N E Z U E L A

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**Dr. Carlos Guillermo Rangel	Minister and President of the Venezuelan Investment Fund
*Dr. Diego Arria	Governor of the Federal District (Caracas)

**Dr. Alfredo Lafee	President of the Central Bank

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* Bibliographical sketches included.

** Tentative appointments made.

Dr. Carlos Andrés Pérez - President of the Republic

Dr. Carlos Andrés Perez, aged 51, was born in the Andean State of Táchira, where his father was a coffee grower. Dr. Pérez, the eleventh of twelve children, completed his primary studies in his home town of Rubio. After completing his primary studies, he moved to Caracas where he lived with relatives while attending secondary school. From 1944 to 1947, Dr. Pèrez studied Law at the Central University in Venezuela. Political events in 1948 made it impossible for him to complete his studies. While in exile from 1948 to 1958, Dr. Pèrez continued his Law studies at the Free University of Colombia and at the National University of Costa Rica. Dr. Pèrez never completed his education.

Dr. Pérez has a long political career and is one of the founding members of the Acción Democrática Party. At the age of 15, he entered the Democratic National Party - later Acción Democrática (AD) - then operating clandestinely under a military government. This was the turning point in the life of Dr. Pérez, for this early involvement in politics set him on the road to a lifelong career. Throughout his years of secondary school, he was President of the Student Center.

In 1946, he won his first election as Deputy to both the State Legislative Assembly in Táchira and to the Chamber of Deputies of the National Constitutional Convention.

After the military coup which overthrew the democratically elected Government of AD President Gallegos in 1948, Dr. Pérez, along with other political leaders, suffered imprisonment and subsequently went into exile for nearly a decade.

After the overthrow of Pérez Jimenez in January 1958, he returned to Venezuela and began to work on the reorganization of the AD whose ranks had been depleted by the long years of dictatorship.

The following year, he again won election to the National Congress as Deputy representing his home state. In 1960, Dr. Pérez was appointed as first Director General in the Ministry of Interior, a post which he held until December 1961, when he returned to Congress. He was appointed Minister of Interior in 1962 and exercised a firm hand in controlling the activities of various extremist groups.

In February 1963, while President Betancourt was on an official visit to the United States and the Caribbean, he assumed the interim Presidency in his absence. Resigning as Minister of the Interior in August of that same year, he joined AD's National Executive Committee. Concurrently, he served his third term in Congress and led his party's Congressional delegates.

At the AD's National Convention in 1968, he was named Secretary-General of the National Executive Committee. Under his control, AD developed its position as an alternative to the incumbent COPEI administration.

In 1969 he was reelected Congressional Deputy from Táchira for a fourth time. Nominated by the AD Party as a presidential candidate on August 20, 1972, he was elected President on December 9, 1973.

The President has been married for 26 years to his cousin, Blanca Rodriguez. They have six children (five girls and a boy) and one grandchild.

Dr. Gumersindo Rodríguez - Minister (of Planning) and Director of CORDIPLAN - Office of Coordination and Planning of the Presidency

Dr. Gumersindo Rodríguez, aged 41, studied at the University of Manchester, where he obtained a B.Sc. in Economics (1965) and at the London School of Economics, where he obtained an M.Sc. in Economics (1966). Dr. Rodríguez is the Governor of the Bank. Dr. Rodríguez has been a political activist since his youth. He was jailed during the Pérez Jimenez dictatorship, which led to an interruption of his studies in Venezuela. He finished his secondary education during the fifties, but he was mostly involved in political activities designed to overthrow the Government of General Pérez Jimenez with other members of the Acción Democrática Group. He began his university education in Venezuela after the overthrow of Pérez Jimenez, but he became associated with far left groups of AD who, unhappy about the moderate approach taken by the party under President Betancourt, attempted to overthrow the AD Government through terrorist activities (this group later formed a separate political party - the Movement of the Revolutionary Left). In an effort to bring Dr. Rodríguez back into the Party and to "neutralize" his political activities at home, the Acción Democrática Party sent him to study in England in 1961. Upon his return from England he rejoined the Party.

Dr. Rodríguez' public life began after his return from England. In 1968-69 he was Coordinator of Fiscal and Monetary policy of the Ministry of Finance and the Central Bank of Venezuela. He was elected to Congress in 1969 for a five-year term as an AD delegate. In 1974 he was appointed Minister of Planning. Dr. Rodríguez is a personal friend and advisor of the President and had considerable power within the Government. He represents the more radical group within the Government. He is considered intelligent, competent but inexperienced in Government. Speaks English.

Dr. Rodríguez is married and has 4 children.

Dr. Carlos Guillermo Rangel - Minister of State and President of the Venezuelan Investment Fund

Dr. Carlos Guillermo Rangel, aged 51, studied at the Central University of Venezuela where he obtained a degree in Political Science and did post-graduate work at New York University. A personal friend of the President (born in the same town), Dr. Rangel has had a broad experience in teaching as well as in the public and private sectors. He taught law at the Central University of Venezuela; has served in Congress and has been a Director of the Central Bank of Venezuela. Dr. Rangel has close ties with the banking and financial community. He has been a member of the Board of Directors of several major banks and insurance companies in Venezuela. He was former president of the Federation of Chamber of Commerce (FEDECAMARAS) and a long-time managing editor of Momento, a magazine of popular distribution in Venezuela. He has also been closely associated with trade and business associations in Venezuela. Dr. Rangel does not have strong political ties. Coming from the private sector, he was appointed director, FIV. Speaks English.

Dr. Héctor Hurtado - Minister of Finance

Dr. Héctor Hurtado, aged 56, was born in western Venezuela and educated at the Central University of Venezuela where he obtained a degree in Political and Social Sciences (1941). Dr. Hurtado is the Alternate Governor of the Bank. Dr. Hurtado is a long-standing member of the Acción Democrática Party and has been one of its leaders on economic matters for a number of years. He belongs to the moderate group within the Party led by the late President Raúl Leoni. Dr. Hurtado is recognized as one of Latin America's prominent figures in the public sector, and was Venezuela's candidate for President of the IDB, after the resignation of Dr. Felipe Herrera. He formulated the Acción Democrática's Platform on economic matters during the Government headed by Christian Democratic President Calderas (1969-74). Dr. Hurtado is considered to be the Venezuelan public figure with best understanding of the Bank.

Dr. Hurtado has been associated with public service in Venezuela since 1941, when he held his first post in the Ministry of Finance. From 1946 to 1948, he was Director of Economy and Finance in the Ministry of Finance. During the Pérez Jimenez Government and the Military Government that preceded it (1949-59), he worked in the private sector. He returned to Government in 1959 as Director of the Planning Office (CORDIPLAN), the number two position in the Planning Office. He held this position until 1962. Between 1963 and 1969, he was Chief of the Planning Office with Ministerial rank. Upon the election of President Calderas in 1969, he returned to the private sector as a consultant, and worked for several international institutions. Dr. Hurtado has been a delegate to numerous international meetings. Understands English, but does not feel confident to speak it. Prefers to speak Spanish.

Dr. Constantino Quero - Minister of Development

Dr. Quero, aged 46, studied at the Central University of Venezuela where he got a degree in Economic and Social Sciences (1950) and did post-graduate work at the University of Cornell.

Dr. Quero has held several positions in the Ministry of Agriculture and Development. In the Ministry of Agriculture, he was chief of the Agricultural Economics Division in the Directorate of Agricultural Economics and of the Statistical Division in the Directorate of Planning. In the Ministry of Development, he was Director of Industries and Economic Advisor. More recently, he has headed his own consulting firm and has been economic advisor to several industrial associations, including the Venezuelan Council of Industries and the Venezuelan Textile Association. He has also been professor of Economics at the Central University of Venezuela. Dr. Quero is not attached to a political party (and is best known for his activities in the private sector).

Dr. Valentin Hernández - Minister of Mines and Hydrocarbons

Dr. Hernández, aged 49, studied at the Central University of Venezuela where he got a degree in Petroleum Engineering (1948), having been the first person to obtain such a degree from that University. He later did two years of graduate work at the London School of Economics (1949-61).

Between 1948 and 1956, he worked in the private sector. In 1963, he joined the foreign service and was Ambassador in several Arab countries, Rumania and Austria. He has represented Venezuela in numerous OPEC Meetings. He is known and respected in the international petroleum sector. Dr. Hernández recently stated that "within OPEC, Venezuela is the leading country responsible for defending prices or defending the purchasing power of the money earned from oil sales". He is not attached to a political party.

Dr. Hernández is married and has four children.

Dr. Manuel Pérez-Guerrero - Minister for International Economic Affairs

Dr. Pérez-Guerrero, aged 55, studied at the University of Paris where he obtained a degree in Law and Economics. Dr. Pérez-Guerrero is a long-standing member of the Acción Democrática Party and one of the most influential members of the Cabinet in economic affairs. Dr. Pérez-Guerrero has had a long career in public office both in Venezuela and abroad. From 1937 to 1940 he worked in the Department of Economics of the League of Nations, and later in the Department of Economics in the International Labor Organization. After returning to Venezuela in 1943 for a brief period to become a member of the Post-war Planning Commission, he went abroad again in 1945 to work as Director of Coordination of the United Nations Department of Economic and Social Affairs. He again returned to Venezuela in 1947 as Minister of Finance under the administration of the first AD President, Rómulo Gallegos. Under the Government of Pérez Jimenez and the military Government that preceded it (1948-1958) he left Venezuela and worked with the United Nations Technical Assistance Board. He returned to Venezuela in 1958 after the overthrow of Pérez Jimenez holding ministerial posts under AD Presidents Betancourt and Leoni. He was Chief of the Planning Office with ministerial rank between 1960 and 1963, and Minister of Mines and Hydrocarbons from 1963 to 1967. In 1968 he returned to the UN to head the UN Economic and Social Council. In 1969 he was elected Secretary General of UNCTAD for four years. Under the present administration, Dr. Pérez-Guerrero acts as Presidential trouble shooter on international economic matters. He has been actively involved in the recent negotiations with the Bank.

Dr. Efraín Schacht - Minister of Foreign Affairs

Dr. Schacht, aged 52, was born in Caracas and studied at the Central University of Venezuela where he obtained degrees in Political and Social Sciences and in Law (1944). During the sixties, he occupied several positions in the Ministry of Foreign Affairs, including Director General of the Ministry in 1965-66 and Acting Minister thereafter.

Dr. Schacht has had a long experience in the academic field. His academic experience includes teaching Diplomatic and Consular Legislation at the School of International Studies of the Central University; Principles of Public Law at the Free School of Journalism; and International Public Law at the Central University Law School. He has been a member of the Governing Council of the Central University. Dr. Schacht has published extensively on International Law.

Dr. Schacht has represented Venezuela at a number of international meetings, including the IV General Assembly of the Grand Colombian Merchant Fleet, the International Office of War Refugees, the Inter-American Legal Committee of Rio de Janeiro, and more recently, was a member of the Advisory Council to the Organizing Committee of the Third United Nations' Conference on the Law of the Sea.

Co-founder and first President of the Academy of Internationalists in Venezuela, Dr. Schacht has been honored by various Governments for his contributions to international understanding. Dr. Schacht has also been President of the Venezuelan School of Political and Social Sciences.

Dr. Luis José Oropeza - Minister of Agriculture

Dr. Oropeza, aged 37, studied at the Central University of Venezuela where he obtained a degree in Law (1961). After graduating, he returned to his home state of Lara in Western Venezuela where he worked for several companies in the region. He returned to school five years later, attending the University of Edinburgh where he got a degree in Business Administration and the University of Wisconsin where he got an MS in Economics.

He returned to Venezuela to head several financial institutions and the Livestock Association in his home state. Dr. Oropeza first held public office under the present administration. He was first appointed President of the Banco de Desarrollo Agropecuario and, three months later, Minister of Agriculture after the first Minister of Agriculture resigned. Dr. Oropeza's father was one of the founding members of the Acción Democráctica Party although he himself does not have strong political ties.

Dr. Arnoldo José Gabaldón - Minister of Public Works

Dr. Arnoldo Gabaldón, aged 36, was born in Caracas and studied at Andrés Bello Catholic University where he got a degree in Civil Engineering (1960) and at Stanford University where he got an MS in Hydraulic Engineering (1961). Dr. Gabaldón has worked in the public service since he finished his studies in 1961.

He began his public career as engineer in the Ministry of Public Works. From 1965 to 1967, he was Chief of the Project Analysis Section in the Planning Division of the Directorate of Hydraulic Works in the Ministry of Public Works. In 1967, he was promoted to Chief of the Planning Division of the Division of Hydraulic Resources, a position he held until 1971. After 1971, he became a consultant to the National Commission of Hydraulic Resources.

Dr. Gabaldón has been professor of engineering at Andrés Bello Catholic University and instructor in Hydrology at the Central University of Venezuela. Although he is a member of the AD Party, he is best known as a technocrat and as one of Venezuela's talented young engineers.

Dr. Diego Arria - Governor of the Federal District

Dr. Arria, aged 36, is an economist who has worked in the Inter-American Development Bank which he represented in Central America, and Deputy Director of Loans for Mexico, Central America and the Caribbean.

In 1969 he was appointed President of the Hotel and Tourism Corporation (CONAHOTU) by Christian Democrat President Caldera. In 1973 he resigned from his post in the Caldera Administration to create a separate political group known as Common Cause, which was allied to the AD Party in the 1973 elections. Dr. Arria is an Advisor to the President, and considered an influential and dynamic member of Government.

Dr. Alfredo Lafee - President of the Central Bank of Venezuela

Dr. Lafee, aged 53, studied at the Central University of Venezuela where he got a degree in Civil Engineering (1941). After graduating, he worked as an engineer in the public and private sectors, including the Ministry of Public Works and the National Institute of Sanitary Works.

Between 1962 and 1968, he was General Manager and first Vice-President of the Banco Hipotecario de la Vivienda, a private housing bank.

From 1964 to 1969, he was Treasurer, and Vice-President and President of the Federation of Chambers of Commerce and Industry of Venezuela.

Between 1969 and 1971, he held various posts in the Christian Democratic Party (COPEI). He was appointed President of the Central Bank in 1971 for a five-year term.

E

TOPICS FOR DISCUSSION

I. Meeting with President Carlos Andrés Pérez

Introduction

1. You may wish to start the meeting commenting on the democratic nature of the Venezuelan Government. This recently elected Government is formed by "Acción Democrática" -- the opposition party during 1969-73. The Venezuelans are very proud of the fact that they have been able to maintain uninterrupted democratic rule since 1959.

Importance of the Venezuelan Loan to the Bank

2. You may wish to start the meeting thanking President Pérez for the leadership role of Venezuela, among oil exporting countries, in channeling financial resources toward the developing world through the World Bank and other international institutions. During our recent negotiations, Government officials have stressed that Venezuela intends to use its increased foreign exchange resources to accelerate the country's development and also to contribute to the economic and social progress of other Latin American countries. In this connection, it would be important that you confirm in the meeting that the Bank intends to substantially increase its lending program to Latin America (to $9 billion during the next five years, which will represent about 25 percent of total Bank/IDA lending). You may also wish to indicate that this planned increase will be possible, to an important degree, owing to the substantial loan that the Bank is receiving from Venezuela in 1974, and to the expectation of similar operations in subsequent years. (During our previous discussions, this planned expansion of our lending program to Latin America permitted us to persuade the Venezuelans to abandon their original proposal to earmark their contributions to the Bank).

Bank Assistance to Venezuela

3. During our recent negotiations, the Government has made it clear that it considers the Bank's technical assistance and lending program to Venezuela an important part of the World Bank-Venezuela agreement. You may wish to confirm our decision to assist Venezuela in the areas chosen by the Government. In this connection, you may indicate that we have already started our assistance in three fields -- capital markets, ports, and steel; that preliminary conversations have been held about education and agriculture, and that we are studying ways to assist the Government in petrochemicals, ship building and other fields. (For more detail about his, see section on "Bank Group Operations").

Joint Venezuela-Bank Assistance to Other Latin American Countries

4. You may wish to remind the President of the Bank decision to enter into co-financing arrangements with Venezuela to help other Latin American countries, as well as the possibility of joint action to support Latin American sub-regional institutions (Andean Development Corporation, Central American Bank, Caribbean Bank).

World Economic Prospects

5. President Pérez will probably be interested in knowing your opinion about the present world situation, particularly in connection with economic prospects for developing countries. You may also wish to comment on the role of the World Bank in this new international situation.

II. Meeting with Gumersindo Rodríguez, Minister of Planning and Governor of the Bank

Introduction

1. You may start the meeting with a general discussion of the points raised during the meeting with President Pérez.

Social Development

2. Given the particular interest of Minister Rodríguez in social development, you may wish to stress the Bank's emphasis on income distribution. You may also wish to comment on the Bank experience on rural development projects -- a field in which Minister Rodríguez has requested Bank assistance.

Other Bank Assistance

3. You may also wish to confirm to Minister Rodríguez the Bank decision to assist Venezuela in the fields selected by the Government (see section on "Bank Group Operations").

Forthcoming Annual Meeting

4. As Governor of the Bank, Minister Rodríguez is likely to be interested in knowing your opinion about the main issues to be discussed, and about the important role that Venezuela may play in this meeting.

III. Meeting with Héctor Hurtado, Minister of Finance

Introduction

1. As Mr. Hurtado has been the main architect, on the Venezuelan side, of the new relationship with the Bank, you may wish to particularly thank him for his role in this aspect and to repeat to him the Bank decision to assist Venezuela in the fields selected by the Government.

General Economic Situation and Prospects

2. Mr. Hurtado designed the economic policy now being implemented by the Government. You may wish to discuss with him, in a general way, the main aspects of the present economic situation and prospects (see section on "Economic Situation").

Selected Areas of Bank Assistance

3. As Mr. Hurtado is personally involved in four areas where the Government has requested Bank assistance (ports, capital markets, steel and petrochemicals), you may wish to discuss these areas with him in somewhat more detail (see section on "Bank Group Operations").

IV. Meeting with Carlos Guillermo Rangel, Minister-President of the Venezuelan Investment Fund (VIF); César Manduca, VIF Vice-President; and other VIF Directors

Borrowing Operations

1. As VIF is the institution from which the Bank is borrowing the $500 million, you may wish to discuss the characteristics of this operation (see section on "Bank Borrowing in Venezuela"). You may also wish to emphasize that the Bank considers this operation the first of a series. (Although there is no firm Venezuelan commitment in this respect, it is understood that new Bank borrowing will be considered in 1975 and subsequent years).

Signature of the $500 Million Loan

2. The loan document will be signed by you and Mr. Rangel. The Government has not decided yet if this will be made during the meeting with the VIF Board of Directors, or during the meeting with President Pérez.

Bank's Technical Assistance to the VIF

3. You may wish to confirm the Bank decision to offer its technical support to VIF, particularly through the Bank's Treasury.

V. Meeting with Alfredo Lafee, President of the Central Bank

Borrowing Operations

1. You may wish to start the meeting by thanking Mr. Lafee for the assistance of the Central Bank in our first direct borrowing operation in Venezuela - a bond issue of Bs 100 million (equivalent to $23 million) in March 1974 sold to commercial banks through the Central Bank. You may also wish to mention to Mr. Lafee that the Bank appreciates the regular subscriptions of the Central Bank of Venezuela to our Two-Year bond issues. (For details see Subject Briefs on Special Issues - Item 5).

2. You may also wish to thank Mr. Lafee for the Central Bank's assistance in facilitating the present $500 million borrowing.

General Economic Situation

3. You may wish to discuss with Mr. Lafee in a general way the economic situation and prospects of Venezuela (see Section on Economic Situation). Mr. Lafee is the only member of the opposition Christian Democratic Party (COPEI) whom you will meet individually.

VI. Meeting with High Level Members of the Central Government and Autonomous Agencies

Technical Assistance

1. On Thursday, August 7, we were informed that the Venezuelan authorities wished to issue a joint statement on technical assistance in agreement with the Aide Memoires of May 20 and 22, 1974 (see "Subject Briefs on Special Issues") after this meeting. In view of this request, we asked the Latin America Projects Department to comment on the issue of technical assistance. Projects believes that there is no question that our response to the Venezuelan request for technical assistance should be very positive. Specifically, it recommends that we seek the following broad agreement:

   a. the Bank is willing to provide technical assistance to Venezuela to the extent consistent with its resources;

   b. a small working group representing the Venezuelan Government and the Bank will be set up to identify the areas where Venezuela needs assistance and where the Bank is equipped to help; and

   c. subsequently agreements will be reached on the objectives of technical assistance in each project, the precise assistance to be provided by the Bank, and the steps to be taken by the Venezuelan authorities to ensure effective use of that assistance.

2. We understand that the Venezuelan authorities are in agreement with (b) above, but do not know their views on (c).

3. Mr. Gonzalez-Cofiño, Division Chief of the Venezuela/Ecuador Division, is currently in Caracas discussing a possible joint statement. This statement would be of a general nature. Since this issue is still being discussed with the Venezuelan authorities, a brief on the nature of the possible joint statement will be ready on your arrival in Caracas.

1

Reviewed at the Regional Vice President Level
on October 18, 1973

OUT-OF-DATE (Recommend that you do not read)

CONFIDENTIAL

COUNTRY PROGRAM PAPER

VENEZUELA

Postscript

45. The Regional Vice President's review was held on October 18, 1973. The principal conclusions were:

a) The recent increase in petroleum taxation - which will add $600 million to Government revenues in 1974, over the level projected in the draft economic report - has substantially improved Venezuela's resource prospects. This reduces any justification for Bank lending on resource gap grounds in the foreseeable future, since our economic report indicates that even with a growth rate of 6.3% the current account deficit will not exceed $400 million.

b) It was agreed that, despite its per capita GNP of over $1,000, Venezuela remains eligible for Bank lending because of its severe structural imbalances (lack of diversification, skewed income distribution, and unemployment). Mr. Alter suggested that apart from the contribution the Bank could make through its technical inputs to improving the economic structure, there was a minimum program the Bank should finance simply on grounds of maintaining a relationship. In the extreme case, we could not rule out the possibility of technological developments in the future that would reduce Venezuela's oil revenues and require an increase in Bank lending even on financial grounds. Hence, the importance of maintaining relations.

c) The B nk's strategy in lending for agriculture was discussed in the light of the IDB's heavy involvement in this sector, especially in the low-income subsector. It was argued that the Bank's assistance in agriculture, in addition to promoting increased domestic food production and substituting imports, would strengthen Venezuela's new regional development policy. Moreover, with the Bank's phasing out of infrastructure lending and Venezuela's not being eager to borrow from us for education, agriculture was one of the few sectors where we could be active. Mr. Alter agreed that we should determine how important the new regional development structure is likely to be, but felt that import substitution in food would be an important objective only if circumstances changed and lack of foreign exchange became a development constraint.

d) The Caracas Metro project was discussed. Mr. Alter agreed it was of high priority; the question was whether the Bank should participate in its financing in view of Venezuela's abundance of foreign exchange resources, its obvious ability to borrow elsewhere if necessary, and our severely limited leverage for bringing about institutional changes. He wanted the project retained in the program, but cautioned against encouraging the Venezuelans to expect a loan, particularly since the minimum sized Bank loan required to accomplish our objectives might be greater than the amount we are prepared to lend. He had grave doubts that the Venezuelans are prepared to take effective action to restrain the growth in automobile usage. In Venezuela an "advanced program" for restraining the growth of private automobile usage would probably be required.

e) Summing up, Mr. Alter said a floor of say $20 million on our annual lending program was appropriate if this is necessary to maintain a relationship with Venezuela and provided we are able with such a program to achieve some institution-building objectives. The justification for such a floor would be enhanced if at the same time the Bank could place special bond issues in Venezuela on a significant scale.

46. In view of the forthcoming elections in Venezuela (December 1973), and the fact that no Bank manpower input is planned for the moment, it would be appropriate to formulate a CPP after the new Government has assumed office in March 1974 and we have had a chance to assess its policies. Mr. Alter therefore considered it unnecessary that the present paper be put up for review by Mr. Knapp. Only the attached lending program (Attachment I) will be retained for various forward planning purposes on a provisional basis until a fresh CPP is prepared next year.

Latin America and Caribbean Department
November 2, 1973

Attachment 1

Provisional

Population: 11.0 million (mid-1972); 3.3% (1973-78)
Per Cap. Inc: $1,060 (1971); 4.3% (1973-78)
Area: 912,050 sq. km.
Literacy: 77 percent (1972)

VENEZUELA - ACTUAL AND PROPOSED LENDING THROUGH FY 1979

($ millions)

	Through FY68/1	Actual 1969	1970	1971	1972	1973	Current 1974	Program 1975	1976	1977	1978	1979	Total 1964-69/1	Total 1969-73	Total 1974-78	Total 1975-79
Livestock I					11.0											
Livestock II									15.0							
Agricultural Credit I					8		22.0									
Agricultural Credit II										25.0						
Agriculture Unidentified I									25.0							
Agriculture Unidentified II												20.0				
Communications I	37.0															
Communications II				35.0												
Education I								12.0								
Education II											15.0					
Power I-III	114.0															
Power IV		31.0														
Tourism I									15.0							
Tourism II												15.0				
Airport					17.0											
Highways I-II	75.0															
Highways III		20.0														
Caracas Metro								40.0								
Water Supply	21.3															
Operations Program IBRD							22.0	52.0	55.0	25.0	15.0	35.0	-	-	169.0	182.0
No.							1	2	3	1	1	2			8	9
Lending Program IBRD	247.3	51.0	-	35.0	28.0	-	22.0	40.0	25.0	15.0	15.0	20.0	202.3	114.0	117.0	115.0
No.	7	2	-	1	2	-	1	1	2	1	1	1	7	5	6	6
Other Agencies (CY)																
Multilateral																
Inter-American Development Bank	14.0	21.0	-	62.0	-	65.0	65.0	65.0	65.0	65.0	65.0	65.0	14.0	148.0	325.0	
Bilateral																
United States	-	4.0	1.0	6.0	19.0	20.0	30.0	35.0	40.0	45.0	50.0	63.0	-	50.0	200.0	
Commercial Banks; Other	107.0	118.0	173.0	380.0	305.0	160.0	165.0	243.0	360.0	463.0	526.0	599.0	107.0	1136.0	1757.0	
IBRD o/s incl. undisbursed	241.2	285.5	277.2	297.8	329.4/2	317.3	325.2	349.6	354.1	350.3	342.6	337.4	-			
excl. undisbursed	185.3	209.1	214.5	214.7	234.1	241.7	252.8	262.4	266.9	267.5	265.0	258.3	-			
IBRD Gross Disbursements	191.2	30.5	13.7	10.4	14.6	19.6	25.1	25.3	23.0	21.3	20.2	18.5	184.6	88.8	114.9	
Less: Amortization	5.9	6.7	8.3	10.2	10.7	12.1	14.1	15.6	18.5	20.8	22.8	25.1	5.9	48.0	91.8	
Equals: Net. disbursements	185.3	23.8	5.4	0.2	3.9	2.5	11.0	9.7	4.5	0.5	-2.6	-6.6	178.7	40.8	23.1	
Less: Interest & Charges	22.3	11.8	11.3	12.7	13.0	13.8	14.6	15.5	16.4	17.0	17.2	17.2	22.0	62.6	80.7	
Equals: Net transfer	163.0	12.0	-5.9	-12.5	-9.1	-6.3	-3.6	-5.8	-11.9	-16.5	-19.8	-23.8	156.7	-21.8	-57.6	
Total net disbursements (IBRD and other agencies; CY)	80.0	129.0	145.0	257.0	279.0	35.0	27.0	133.0	254.0	356.0	412.0	475.0	80.0	845.0	1162.0	

/1 For agencies other than IBRD, includes only CY 1968.
/2 The exchange adjustment of $15.5 million, as of June 1972, has been included in these figures.

Country Programs Department II
Latin America and Caribbean Regional Office
October 3, 1973

COUNTRY PROGRAM PAPER

VENEZUELA

1972 Population: 11 million
1971 per capita GNP: $1,060
Current Pop'n Growth Rate: 3.4% p.a.

Current Exchange Rate: Bs 4.30 = US$1.00

	FY64-68	FY69-73	FY74-78	FY75-79
IBRD/IDA Lending Program ($ million)				
IBRD	202.3	114.0	117.0	115.0
IDA	-	-	-	-
Total	202.3	114.0	117.0 1/	115.0
Operational Program				182.0
Annual Average per Capita ($)				
IBRD	3.7	2.1	2.1	2.1

INTRODUCTION

1. The last Country Program Paper on Venezuela was discussed on January 14, 1972. An economic mission visited the country in March/April 1973, and its report is now in preparation; we plan to discuss the draft report with the government in November. The major conclusions of the mission have been incorporated in this paper, especially in Sections C and D. However, a new government will assume office in March (Paragraph 3) when we would plan to discuss with it its plans and policies bearing on the Bank role in Venezuela. A review of our operations program might then become necessary. The present program is based on modest economic policy assumptions; a stronger government and a more ambitious policy posture might warrant a suitably enlarged Bank role in Venezuela, as mentioned later in this paper.

A. POLITICAL FRAMEWORK

2. Venezuela has been a functioning democracy since the overthrow of President Marcos Perez Jimenez in 1958, strengthened in the earlier years by a coalition between the two leading parties. The coalition has eroded since

1/ The five-year lending program for FY73-77 approved at the last Country Program review was $176 million; at a subsequent interim review by Mr. Knapp in May 1973 this was revised to $140 million for FY74-78. This compares with $117 million for the same period proposed in this CPP the last election of 1968, and the governing Christian Democratic Party (COPEI), for lack of majority in the Congress, has had difficulty in obtaining legislative support for its initiatives. This, incidentally, has affected the Bank operations, because the Venezuelan law requires Congressional authorization for each foreign loan contracted.

3. Elections will be held on December 9 for a new President and Congress to take office in March 1974. Lorenzo Fernandez is the candidate of COPEI, while Carlos Andres Perez is the candidate of the major opposition party, Accion Democratica (AD), which held office from 1959 to 1969. With only a one percent margin over his closest opponent in 1968, President Rafael Caldera has sought support for his party by adopting a nationalistic position on oil and natural gas, and through establishing diplomatic ties with Eastern Europe and, shortly, with Cuba. This has given new respectability to the left, and the chief gainer has been the far-left Movimiento al Socialismo (MAS) of Jose Vicente Rangel, whose supporters include many poorer Venezuelans, those disenchanted with parliamentary democracy, and students. The Communist Party (PCV) is in an Allende-type front with the Movimiento Electoral del Pueblo (MEP) whose candidate is Jesus Angel Paz Galarraga; however, many of PCV-MEP's followers are likely to vote for COPEI to try to insure the defeat of the anti-Communist AD.

4. Perez Jimenez still has a large nationalist-populist following in the country, but recently the Supreme Court sustained a constitutional amendment enacted earlier this year which bars persons convicted of crimes from running for public office. This will prevent the candidacy of Perez Jimenez, though a number of smaller-party candidates profess to be running in his name. On the whole, the expectations are that the two main parties, COPEI and AD, will come out of the elections more or less evenly balanced. If the experience of recent years is to be avoided, it will then become necessary for the winning party to consolidate its majority with the support of some of the smaller parties thus giving the latter a disproportionately large weight in policy determination, if not in the government. As a perhaps more stable and effective alternative, COPEI and AD may once again come together in a coalition.

B. RECENT ECONOMIC DEVELOPMENTS

5. As a consequence of sharp increases in oil taxation and substantial short-term capital inflows in the last two years, Venezuela is presently enjoying the highest level of foreign exchange reserves in its history: $1.7 billion or the equivalent of about eight months' imports. Despite some recent increases, the external debt-service ratio does not exceed 7%. Fiscal performance mirrors developments in the petroleum sector; public sector savings increased by 75% in real terms in the 1970-73 period, permitting an expansion of about 35% in public investment. As in the past, rising petroleum revenues have eased the pressure for an increased tax effort in the nonoil sector and reduced the need for foreign and domestic borrowing to finance public investment. Despite some recent upward pressure on prices, the inflation rate has not exceeded 3.5%.

6. At the same time, from a development viewpoint, little progress has been made in the last several years. The country continues to be highly dependent on oil, which still accounts for more than 90% of merchandise exports and two-thirds of government revenues. Net of terms-of-trade effects, the share of petroleum in GDP declined between 1961 and 1971, reflecting more rapid rates of growth in the nonpetroleum sectors; nevertheless it remains the dominant sector, and agriculture contributed only 7% of GDP in 1971, and manufacturing (net of petroleum refining) only 13%. Moreover, the growth rates of agriculture and industry have declined in recent years. The overall growth rate of the economy in the past ten years has been fluctuating around 4 to 4.5% declining to 3.5% in 1972, barely above the 3.4% population growth rate. Despite a per capita GNP of $1,060 income distribution is such that the average income of the poorest 25% of the population does not exceed $250. About 50% of the urban population live in slums and shantytowns. Unemployment in the Caracas metropolitan area is estimated at around 10%. And substantial expenditures on education notwithstanding, the illiteracy rate stands at 23% (40% in the countryside), or much higher than in other countries with similar income levels.

C. PROBLEM AREAS AND POLICY REQUIREMENTS

7. Venezuela's prospects for the future will depend upon developments in the petroleum sector, and on the adoption of appropriate policies for diversifying its economy and its exports as well as for raising additional domestic resources. In addition, the efficiency of government programs to benefit the lower-income rural population needs to be improved, and new resources are necessary to cope with the problems resulting from increasing urban concentration.

Oil Policy

8. The major recent development in the oil sector has been the almost doubling of government revenues per barrel since 1970, in line with the various agreements between other OPEC countries and major oil companies. Export volumes, however, declined by some 13% in 1971-72 from the 1970 peak, in part because of the high sulfur content of Venezuelan crudes and the declining production capacity of existing oilfields. Export volume is rising in 1973, although not to the previous high levels. The investment climate has deteriorated in recent years as a result of a stiff Reversion Law and uncertainty regarding the structure of the oil sector after reversion of private concessions beginning in 1983. The U.S. Government has recently shown increasing interest in joint development of the Orinoco heavy oil belt whose recoverable deposits are estimated to be three times the present amount of proven reserves. Technical and marketing problems, however, hamper early exploitation of this high-cost oil.

9. Our recent economic mission estimated that, if there is no change in the government's oil policy, oil production may decline from 3.4 million barrels per day in 1973 to 2.5 million in 1980. The urgency of solving the investment issue is however ostensibly lessened by medium-term price prospects. Given the present high cost of alternative sources of energy and the strength of OPEC,

oil prices might more than double from present levels by 1980. The key question in forecasting crude oil prices is what will happen when the present contractual arrangements for Middle Eastern posted prices expire at the end of 1975. A rather conservative assumption is that the present contractual escalation of about 4.5% annually will continue. In addition, the Venezuelan freight advantage over the Middle East for oil deliveries to the U.S. East coast is likely to increase as a consequence of the expected rapid rise in freight costs. This would allow the Venezuelan Government to increase its revenues per barrel by an additional 2% annually and still maintain the competitiveness of Venezuelan oil vis-a-vis the Middle East. All in all, a prudent estimate would be that government unit revenues may increase by about 6.5% annually through 1980. Coupled with declining production, this would lead to an increase in total government oil revenues of about 2% annually, certainly not sufficient to finance an ambitious development program.

Diversification of the Economy

a. Exchange Rate and Manufacturing Industry Policies

10. The oil sector not only accounts for Venezuela's high income level; it has also introduced cost and price distortions in the economy which have contributed to the underutilization of potential productive capacity outside the oil sector. The exchange rate is largely determined by the highly efficient oil industry and is not suitable for the rest of the economy. Recent exchange rate movements have not improved the situation. After an eight-year period of exchange rate stability, in December 1971 and again in February 1973 the bolivar was revalued with respect to the dollar, each time by 2.3%. Taking into account the adjustment of major currencies as well as inflation-rate differentials between Venezuela and its major trading partners, there has been a trade-weighted real depreciation of the bolivar since 1964 of not more than 6%, certainly not enough to redress the initial disadvantage of the nonoil sectors. It was therefore the conclusion of the economic mission that, in order to promote export diversification and realize the productive potential of its nonoil sectors, Venezuela will need to review its exchange rate policy and related measures.

11. Venezuela's industrial promotion policies have resulted in the development of domestic industries directed exclusively to the local market. Import substitution has been fostered by heavy protection, mainly through import quotas, while nonoil export promotion has been neglected. The easy stage of import substitution is now over, however, and the internal market is too small for significant development of the intermediate and capital goods industries. In recognition of this fact, Venezuela has recently taken several steps to foster outward-looking industrial growth. It has replaced the previous system of import quotas with an ad valorem tariff, drawn up a scheme for export subsidies and export financing, and joined the Andean Common Market. However, the new tariff tends to maintain high protection for the established consumer goods industry and probably does not give enough protection for intermediate and capital goods.

Further, the proposed level of export subsidy appears insufficient to compensate for the overvaluation of the bolivar and for relative inefficiency. This problem affects the most promising products in the public sector - steel, processed aluminum, petrochemicals and LNG - and to a much greater extent the private sector which would provide the bulk of new employment opportunities through its more labor-intensive activities. If the country chooses to promote a strong expansion of industrial exports - including exports with high labor content - it will have to establish higher incentives for exports generally, either through a more favorable exchange rate or a higher generalized export subsidy. An effective export promotion policy relying entirely on subsidies would entail the need for appropriate tax measures to finance their fiscal cost.

b. Agricultural Development

12. Much of Venezuela's agricultural land suffers from seasonal deficits or surpluses of water, unsuitable terrain, or poor soils. The mountain valley and piedmont regions are generally productive and offer possibilities for the extension of rain-fed agriculture, but elsewhere irrigation, drainage, or flood control is required. Large areas of the south and the east are suitable only for extensive exploitation in pasture or forest. Lacking a deeply rooted farming tradition, moreover, Venezuela's rural population has been readily drawn toward urban centers offering artificially high wage rates.

13. The real value of agricultural production grew by an average of 5.1% annually between 1960 and 1969. This was attributable largely to rapid increases in output of sesame, rice, sugar, milk and poultry, achieved with the benefit of government investment in hydraulic works, subsidies and protection against imports. The increases took place in areas with favorable topographical conditions conducive to mechanization and medium- and large-scale farming, while traditional agricultural regions with small farmers were virtually unaffected. There was therefore little improvement in overall statistical measures of either land or labor productivity. More recently, the agricultural growth rate has slowed to 3.4% annually (1968-72), while crop output has increased by only 1.6% annually. Although agricultural exports rose in value between 1964 and 1967, there has been practically no increase thereafter.

14. Because of the low average income of the population dependent on agriculture, the failure to improve productivity is a major source of concern. Agrarian reform has been a government objective since 1958, about 6 million hectares of public and private land having been distributed to some 196,000 low-income rural families. Of $531 million in government expenditures on the agricultural sector in 1972, some 54% was spent almost entirely to benefit the low-income subsector. In addition, the government spends heavily on rural education, housing, electrification and water and sewerage systems. While these activities have increased the services delivered to the peasant sector, the increase in production has in most cases been slight, and an estimated 66,000 land-reform beneficiaries have left the land due largely to inadequate size of the holdings assigned, lack of technical assistance, and low income compared with urban opportunities. To raise the productivity of land-reform recipients, a $180 million Integral

Agricultural Development Program (PRIDA) is under way with the help of an IDB loan of $75 million. The project includes $37 million for small-farmer credit to be made available by BAP.

15. Continuing government effort is required to raise agricultural output and productivity and to meet the growing internal demand for food. Increased public expenditure is needed chiefly to relieve the shortage of long-term credit and for hydraulic works to extend the cultivable area and particularly to upgrade areas already in use, while at the same time improving the utilization of irrigation and drainage works already constructed. In addition, an exchange-rate reform would improve the competitiveness of agriculture. Present government policies to encourage commercial agriculture while at the same time raising the productivity of small farmers should be continued and strengthened. Labor productivity and incomes in the traditional agricultural zone may also show some statistical improvement as out-migration proceeds, both to newer agricultural areas with a better resource base and to the cities. Meanwhile, the low-income farm population will continue to be benefitted by government programs of education, housing sanitation and electrification.

d. Fiscal Policy

16. The improvement in the fiscal situation in the last two years has tended to lessen the sense of urgency for a tax reform which had built up under the financial strain of 1969-70. Nonpetroleum revenues now amount to only 8% of nonoil GDP. This figure places Venezuela well below the average for most developing countries, especially for those with comparable levels of income, and it indicates the existence of an ample margin of untapped capacity. On the expenditure side, the government's fiscal performance has been satisfactory. A portion of the increased revenues in 1971-72 was spent on investment, and a substantial part of the increased current expenditures was devoted to education and health services. The diversification of the economy will, however, require higher levels of public investment in the future. At the same time, public expenditures on education, health and low-income housing will have to increase. For the next few years, the main constraint on the expansion of public investment seems to be the limited absorptive capacity of the public sector rather than fiscal resources. For the longer run, however, increased taxation of the nonoil sectors of the economy is a sine qua non for a financially sound, adequate expansion of public investment. Additional taxation and reform measures need to be considered not only as a means of raising revenue but also as a means of affecting the distribution of income.

D. PROSPECTS FOR DEVELOPMENT

17. It was the conclusion of the economic mission that an average annual growth rate of 6.3% annually (the same rate envisaged in the 1970-74 development plan) can be achieved in the next five years if the new government is able to give a fresh impulse to petroleum development, bring about major structural changes through appropriate exchange rate and fiscal policies, and increase public investment.

18. Venezuela has an excellent resource base to permit the diversification of the economy and in particular of exports. Prospects for industrial exports center on steel, processed aluminum and petrochemicals. A long-run master plan for steel development is presently under preparation, and Venezuela has under consideration a steel project to balance the production of raw steel with that of final products; the Guayana Development Corporation (CVG) is negotiating with an Italian firm for a major steel plant for exports. Export potential also exists in the production of high quality consumer goods and in the processing of agricultural products. Another area where Venezuela has a special advantage is natural gas. Although the initial LNG project drawn by the Venezuelan Petroleum Corporation (CVP) for export to the U.S. East Coast has been hampered by a law prohibiting the use of gas not originating in oilfields for such purposes, a smaller project based on so-called associated gas is contemplated. In agriculture, import substitution in beef, feedgrains and oilseeds should continue to be a major stimulus of growth.

19. Although we expect better use of existing productive capacity as well as reduced emphasis on heavy infrastructure investment in the future, the share of investment in GDP would have to rise from the present 31% to 33% by 1978 to permit an acceleration of the growth rate. Absorptive capacity of the public sector would have to improve to permit a substantial increase in public investment. The public sector investment program recommended by the recent Bank economic mission would further strengthen the economy by directing it progressively toward exports while continuing to provide expanding social services for a rapidly growing population. The major sectoral shift envisaged favors increased emphasis on manufacturing industry.

20. The financing of such a program, which would be required to achieve a 6.3% growth rate, would call for additional domestic resources as well as increased external borrowing. However, it would be more appropriate to consider an accelerated growth pattern, and the Bank role therein, after we have received some assurance from the new government in regard to the policies it intends to pursue concerning the problems alluded to in the preceding paragraphs.

E. CAPITAL INFLOWS AND EXTERNAL AID

Past Trends

21. Capital inflows have played an important role in the last five years in expanding the productive capacity of the country and more than offsetting the current account deficit, thus allowing foreign exchange reserve accumulation. Private capital flows have been extraordinarily volatile in the past. Political uncertainties over tax reform and relations with the petroleum companies induced substantial outflows in the mid and late 1960s. Starting in 1970, however, this trend was reversed as a consequence of the international monetary situation and relatively high interest rates in Venezuela despite continued net disinvestment in the petroleum sector. Public borrowing has become an increasingly important source of foreign exchange, and the country has incurred substantial public debt on commercial terms. Out of a total of $1,325 million in external public-loan commitments in 1968-72, about $1,080 million came from private sources. As a consequence of the increasing reliance on commercial sources, the external debt-service ratio has increased from 4% in 1969 to 6.8% in 1972.

22. The IBRD made commitments of $114 million in 1968-72. Our lending has been mainly for infrastructure, including power, roads and telecommunications and, to a minor extent, for agriculture. IDB lent $95 million,1/ 44% of which was from the Fund for Special Operations (access to which by higher income countries is now being restricted). Fully 50% of IDB lending was for the small-farm sector and 13% for electric power in small cities and rural areas, while 35% was for industry, including petrochemicals and aluminum. Recently, three loans approved by the IDB Board and pending signature were cancelled as Congress had failed to act on the related external borrowing legislation. While AID has made no capital loans since 1962, Eximbank authorized $31 million in direct export credits in the last five years.

Future External Aid

23. On the basis of its present lending program, IDB is likely to provide the major part of external public capital in 1974-78, with a commitment level of about $65 million annually. IDB is looking forward to possible projects in agriculture, rural development, rural electrification, fishing, urban development and education, as well as in steel and LNG. Eximbank also hopes to increase its lending to Venezuela, probably to a level of $35 million annually. It could play a large role in financing the LNG project if American equipment and/or ships were purchased. With IBRD providing around $23 million annually on the basis of our present program, the lending of the official agencies might reach $125 million annually or roughly two and a half times the 1968-73 rate.

F. OBJECTIVES OF BANK LENDING

24. Recent Venezuelan governments have followed cautious economic policies which, because of rising oil revenues, have allowed scope for public investment programs of respectable size, large expenditures on social objectives and (except for the petroleum industry) a favorable private investment climate. However, the development thrust has fallen short of the country's potential for growth. Because of the decreasing justification for resources from external public lending agencies on purely financial grounds, the Bank has been phasing out lending in fields where we have already made large commitments and where we no longer see the need or the opportunity to contribute significantly to the strengthening of key institutions.

25. In earlier years Bank lending was almost entirely for highways, electric power and telecommunications. Today Venezuela has a well-developed highway network including approximately 12,000 paved miles, an increase of 63% in the past decade. The most pressing transportation problem is now in the city of Caracas, whose rapid demographic and economic growth has produced extremely congested traffic conditions, alleviated but not resolved by large investments in urban expressways financed in part by the Bank. Electric power generation per capita is now the highest in Latin America. Through C.A. Administracion y Fomento Electrico (CADAFE), financed in part by the IDB, great strides have been made in rural electrification, while Electrificacion del Caroni C.A. (EDELCA), with IBRD help, has begun the development of the hydroelectric potential of the Orinoco River system. The telecommunications system operated by Compania Anonima Nacional de Telefonos de Venezuela (CANTV) has also made progress, although its facilities do not yet meet the needs of the economy and there remains considerable room for administrative and financial improvement.

1/ Excluding local-currency lending.

26. As pointed out earlier, the implications of an accelerated growth rate for external capital requirements have not been spelled out. It should be noted, however, that even if the Government continues to pursue cautious economic policies and be satisfied with a 4-4.5% growth rate, a current account deficit on the order of $150 million annually is still likely to continue. Essentially, however, Bank policy is to maintain a presence in Venezuela by financing a small number of projects, thus contributing to the strengthening of key institutions which can have an impact on agricultural diversification, the diversification of exports, educational reform and urban development. We are mindful of the skewed income distribution of Venezuela and its significance for Bank policy, but we are also aware that Venezuela is already channeling a high volume of its public revenues and IDB borrowings into the low-income sector.

G. BANK OPERATIONS PROGRAM AND THE ECONOMIC SECTORS

27. We propose an operations program for FY75-79 of nine projects involving possible loans totaling $182 million, about equal to the operations program for FY74-78 approved by Mr. Knapp in May last. On the assumption that there would be no major change in Venezuelan development policies, the proposed lending program for FY75-79 consists of six loans totaling $115 million, again roughly the same as for FY74-78. This is an average of $23 million per year.

28. Included in the operations program is an education project to assist in financing the introduction of model secondary schools and the expansion and improvement of teacher training. This project was appraised at the end of 1971 but we could not proceed to negotiations for want of legislative action by the Venezuelan Congress. Because of its political weakness the government has apparently been unwilling to risk the Congressional debate that would ensue if the necessary public credit law were requested of Congress. We have rescheduled Bank consideration of this project for FY75, after the new government and Congress have had a chance to settle into office. The five-year operations program also includes the Caracas Metro project; an integrated regional tourism project which is expected to result from a UNDP-financed feasibility study which the Bank is executing; two as yet undefined agricultural projects; and four repeater operations (livestock credit, crop credit, education, and tourism). The program as a whole has a strong agricultural bias; four out of eight projects in the operations program for FY74-78 (four out of nine in FY75-79) are in agriculture.

29. The proposed lending program allows for a good deal of slippage. However, in the event the new Venezuelan Government were to opt for a more aggressive growth policy, we would propose an increase in our lending to an average of $35-50 million a year with additional projects in the fields of industrial exports, urban development and nutrition. Under such circumstances we should also be willing to consider certain large projects where the Bank could serve as a catalyst in mobilizing financing from diverse sources.

Agriculture

30. As noted in the discussion of the agricultural sector in Section C of this paper, dealing with the need for diversification, Venezuela requires continuing public investment in hydraulic works as well as credit programs in order to raise agricultural output and meet the growing internal demand for food. Our proposed program for FY75-79 includes two repeater loans to the Banco de Desarrollo Agropecuario (BDA) to continue an institution-building relationship which was initiated with our livestock credit operation of 1972, and which is expected to be complemented by the crop credit loan in our program for FY74. The BDA is a relatively new organization which lends at market rates to commercial farmers, including associations of smaller commercial farmers. Its creation with Bank technical assistance corrected the former situation under which commercial farmers were able to obtain heavily subsidized credit from the Banco Agricola y Pecuario (BAP); today the BAP lends only to small farmers. In addition to the proposed repeater loans to the BDA, we intend with FAO help to explore with the new Venezuelan Government the possibility of our assisting in the financing of two high-priority regional development projects: (a) Sur del Lago de Maracaibo, and (b) Bocono-Tucupido. Both projects have been submitted for our consideration by the Ministry of Public Works. Sur del Lago de Maracaibo would emphasize drainage and flood control on lands now publicly owned in order to extend the area usable for agriculture in a populous region endowed with good soils and well-developed infrastructure. It would also strengthen dairy farming in the area, contributing to increased production of milk which is in short supply in Venezuela. Production of meat, citrus and other fruits, cocoa and oilseeds might also be encouraged. Bocono-Tucupido would include the construction of multipurpose dams for irrigation, flood control and power in the Central and Western Plains, a region of recent settlement with good land but sparse population. Production in this region at present is chiefly corn, bananas, sesame and black beans. Project preparation has, however, not proceeded very far and a good deal of preparatory work will probably be necessary before the projects can be readied for Bank financing. To the extent possible, the Bank will, of course maximize small farmer participation in such projects.

Urban Development

31. Appraisal of the Caracas Metro project was begun in November/December 1971 but was not resumed as planned in late 1972, in part because of delays on the Venezuelan side in obtaining Congressional passage of related legislation, and in part because of the Bank's desire to await completion of a road-user-charge study we have undertaken pursuant to our last highway loan. We continue to believe the Metro project is appropriate for Bank financing under our existing strategy in Venezuela, and we propose to resume discussion of the project with the government after the new Cabinet takes office in March 1974.

32. Caracas has been one of the fastest-growing cities of Latin America, and traffic congestion currently imposes high economic and social costs. Though vast amounts have been invested in freeways to benefit chiefly the middle-class residents of the city, both automobile travel and public transportation for workers or job-seekers are entirely inadequate because of the time consumed by congestion. Transportation costs for businesses are inflated by the hours lost by trucks in the city's traffic, thus jeopardizing the creation of badly-needed

additional employment opportunities. Diverting resources from the Metro and trying instead to accelerate the decentralization of economic activity out of Caracas does not seem to be a viable alternative given the experience of other countries with forced decentralization efforts and also given the heavy expenditures the government is already making on infrastructure outside Caracas as well as programs to raise the productivity and living standards of the rural poor.

33. The Metro project would afford the Bank an opportunity to assist the Venezuelans with a wide range of institutional innovations, from overall urban planning to inter-jurisdictional and intermodal transport planning, regulation, financing and operation. In addition, the physical character of Caracas and the location of economic activity are ideal for a Metro. An essential condition of the project would, of course, be that the authorities take the steps necessary to curb the use of automobiles for commutation purposes and to reduce congestion below its present level as soon as the subway is completed. This we believe can best be accomplished under the prevailing conditions by making parking very costly in the central city. Raising the gasoline tax as a disincentive would be politically difficult, especially in view of the magnitude of increase that would be required to create a meaningful disincentive. Nevertheless, some increase seems necessary to make road users pay a greater share of the economic cost of road transport.

Tourism

34. Venezuela has decided advantages for tourism development. The country is readily accessible from North America and Europe, has attractive Caribbean beaches and particularly interesting flora and fauna, and has a good highway system which facilitates side trips by tourists including visits to the cosmopolitan city of Caracas. Unfortunately, this potential has been only fragmentarily developed, and the limited development that has taken place has not been of high quality by international standards. There is thus a role which the Bank could play in helping the Venezuelans to strengthen public institutions responsible for tourism planning, promotion, financing and regulation.

35. From the economic point of view, tourism can return important employment and foreign exchange benefits. As to the latter, the benefits can be relatively greater in Venezuela than in other Caribbean areas, since much of the capital as well as the physical inputs required for both investment and operation could be supplied from domestic sources. The potential market is both international and domestic, with the domestic share representing foreign exchange savings to the extent Venezuelans would be deterred from traveling abroad for vacations.

36. Our UNDP-financed study of the Los Caracas-Higuerote coastal region, near the city of Caracas, was begun by consultants in November 1971 and calls for preparation of a master plan to evaluate the region's tourism potential, identify prime sites for development, and provide a development schedule. The second part of the study would involve preparation of a specific project and related feasibility studies for developing the highest priority site, with a view toward Bank financing. A draft of the master plan was completed by the consultants in August 1972 but has not yet been accepted by the official Venezuelan tourism agency, the leadership of which changed last spring. However, it has been agreed

in principle that only minor revisions and additions are required to bring the master plan to the level of detail envisaged by the terms of reference. Of greater concern is the fact that the official agency is reluctant to initiate preparation of the specific project, with national elections scheduled for December 1973 and a change of government in prospect. It may therefore be necessary to postpone the resumption of work by the consultants until the new government is installed in office, at which time, depending on the new government's attitude, we would determine whether the study should be completed or canceled.

Education

37. Between 1961 and 1972 the proportion of central government expenditures devoted to education rose from 16 to 27%. Primary enrollment went up by 44%, while secondary enrollment more than tripled and enrollment in higher education (starting from a low base) expanded almost fourfold. Despite these quantitative achievements, continuing reform is required to meet the demands on the educational system stemming from rapid urbanization and economic development. In 1970, for example, only 44% of secondary-school teachers were considered qualified, and there remains an urgent need for improvement in both the quantity and quality of teacher training. On the other hand, progress is being made in curriculum reform. The percentage of university graduates receiving degrees in the traditional field of humanities, law and medicine decreased from 71% to 60% between 1968 and 1971. At the secondary level, whereas academic and vocational schools had previously been excessively specialized, all were expected by the end of the 1971-72 school year to offer a combination of academic and practical courses, thereby affording students a wider opportunity for vocational choice according to individual aptitudes and abilities and the demands of the employment market.

38. The education project which the Bank appraised in 1971 and which is still awaiting negotiations (paragraph 28) would assist in financing the introduction of model secondary schools and the expansion and improvement of teacher training. A second project, the clear identification of which would depend on a technical education study to be financed under the first loan, is intended to help meet the demand for middle-level technicians.

IFC

39. IFC has made ten investments in Venezuela with a total original amount of $28 million and has organized a strong promotional effort to develop new investments giving special attention to the promotion of export-oriented industries. In this connection, any initiative to take advantage of the opportunities provided by the Andean Common Market will receive strong IFC support.

40. IFC has also been very active in the promotion of the capital market sector in Venezuela. In 1972, at the request of the Minister of Finance, IFC undertook a survey of the country's financial institutions. A capital market law was subsequently passed in early 1973 which provided a framework for reorganization of the country's securities market and, among other things, created a National Securities Commission with which IFC has been closely collaborating.

Also, in response to a request from the Minister of Finance, IFC made a proposal to establish a Debt Securities Liquidity Fund which is under active consideration by the Venezuelan authorities. In addition, IFC proposed a combined investment bank/money market venture, resulting in a project which was presented to its Investment Committee during August 1973.

H. CONCLUSIONS AND RECOMMENDATIONS

41. Venezuela's achievements over the years may be summed up as moderate growth with stability. It is one of the few countries in Latin America with a functioning system of democracy, it has maintained a steady even if modest pace of economic development, and it has a strong currency and very little inflation. As our project and other experience have shown, Venezuela also has a number of good administrators; while institutional deficiencies persist in a great many fields, the country is at the same time already providing technical assistance to lesser developed countries in the region.

42. Venezuela's inadequacies - the skewed income distribution, the persistence of a high level of unemployment, the lack of economic diversification and of exports and the relatively unplanned growth of cities: these reflect a poverty of aspiration and effort, given the tremendous oil resources that the country has had at its disposal. Lacking the political will, Venezuela has just not realized its growth potential.

43. The country is, however, richly endowed; it has the resources for diversification, in addition to the opportunity for continued exploitation of its traditional oil resource. Some beginnings have already been made. Cases in point include the steps taken to foster outward looking industrial growth, the new system of import tariffs and export subsidies, the development of a capital market, and the higher levels of public investment planned in steel manufacture, petrochemicals, liquified natural gas and aluminum fabrication. In agriculture, both the small farming sector and the production-oriented commercial sector are receiving the government's serious attention. In the social sectors ambitious programs have been mounted, including a doubling of the budget of the Ministry of Education in the past five years. Much, however, still needs to be accomplished in accommodating the burgeoning urban population and in generally assuring a wider and more equitable distribution of the benefits of growth.

44. We believe that there is growing awareness in Venezuela that past socio-economic policies have been inadequate, and that objective social realities will call for new policies. Also, that Venezuela has the resources to reach out for more ambitious objectives, but that it would nevertheless need external financial and technical assistance on an expanded scale - as brought out in the report of our economic mission - if it were to adopt such goals. The results of the forthcoming elections will be therefore crucial. If they result in a strong government with a clearly defined program for accelerated growth, we foresee an enlargement of the Bank involvement in Venezuela, especially in support of diversification, urban planning and

development, regional development and education. To that extent the thrust of our present lending program may be seen as a bridging exercise. We propose to review our proposals before the middle of next year.

Attachments:

Map

1. Actual and Proposed Lending
2. Cumulative Estimated and Actual Disbursements on Loans and Credits

3a Social Indicators Data Sheet

3b Economic Development Data Sheet

4. Balance of Payments, External Assistance and Debt Projections
5. Economic Work Program

Country Programs Department
Latin America and Caribbean Regional Office

VENEZUELA
Caribbean Sea
ARUBA
(Netherlands Antilles)
CURAÇAO
BONAIRE
GRANADA
TOBAGO
TRINIDAD
AMUAY
PTA. CARDON
Gulf of Venezuela
Coro
MORON
CARACAS
PUERTO LA CRUZ
TIA JUANA
LAGUNILLAS
BACHAQUERO
El Amparo
El Dorado
Ciudad Piar
San Fernando de Apure
Achaguas
Puerto de Nutrias
Calabozo
San Felix
COLOMBIA
GUYANA
BRAZIL
OILFIELDS
MORON
REFINERIES
ORINOCO OIL BELT
MAIN ROADS
RIVERS
STATE BOUNDARIES
INTERNATIONAL BOUNDARIES
ELEVATION IN METERS:
0–200
200–500
OVER 500
0 50 100 150 200
KILOMETERS
SOUTH AMERICA
PACIFIC OCEAN
ATLANTIC OCEAN
IBRD 10553

Attachment 1

Provisional

Population: 11.0 million (mid-1972); 3.3% (1973-78)
Per Cap. Inc: $1,060 (1971); 4.3% (1973-78)
Area: 912,050 sq. Km.
Literacy: 77 percent (1972)

VENEZUELA - ACTUAL AND PROPOSED LENDING THROUGH FY 1979

($ millions)

	Through FY68/1	Actual 1969	1970	1971	1972	1973	Current 1974	Program 1975	1976	1977	1978	1979	Total 1964-68/1	Total 1969-73	Total 1974-78	Total [illegible]
Livestock I					11.0											
Livestock II									15.0							
Agricultural Credit I							22.0									
Agricultural Credit II										25.0						
Agriculture Unidentified I									25.0							
Agriculture Unidentified II												20.0				
Communications I	37.0															
Communications II				35.0												
Education I								12.0								
Education II											15.0					
Power I-III	114.0															
Power IV		31.0														
Tourism I									15.0							
Tourism II												15.0				
Airport					17.0											
Highways I-II	75.0															
Highways III		20.0														
Caracas Metro								40.0								
Water Supply	21.3															
Operations Program IBRD							22.0	52.0	55.0	25.0	15.0	35.0	-	-	169.0	[illegible]
No.							1	2	3	1	1	2			8	9
Lending Program IBRD	247.3	51.0	-	35.0	28.0	-	22.0	40.0	25.0	15.0	15.0	20.0	202.3	114.0	117.0	115.0
No.	7	2	-	1	2	-	1	1	2	1	1	1	7	5	6	6
Other Agencies (CY)																
Multilateral Inter-American Development Bank	14.0	21.0	-	62.0	-	65.0	65.0	65.0	65.0	65.0	65.0	65.0	14.0	148.0	325.0	
Bilateral United States	-	4.0	1.0	6.0	19.0	20.0	30.0	35.0	40.0	45.0	50.0	63.0	-	50.0	200.0	
Commercial Banks; Other	107.0	118.0	173.0	350.0	305.0	160.0	165.0	243.0	360.0	463.0	526.0	599.0	107.0	1136.0	1757.0	
IBRD o/s incl. undisbursed	241.2	255.5	[illegible]	[illegible]	329.4/2	317.3	[illegible]	349.6	350.1	350.3	342.6	337.4	-			
excl. undisbursed	185.3	209.1	[illegible]	214.7	234.1	241.7	252.8	262.4	265.9	267.5	265.0	258.3	-			
IBRD Gross Disbursements	191.2	30.5	13.7	10.4	14.6	19.6	[illegible]	25.3	23.0	21.3	20.2	18.5	184.6	88.8	114.9	
Less: Amortization	5.9	6.7	8.3	[illegible]	[illegible]	12.1	[illegible]	[illegible]	18.5	20.8	22.3	25.1	5.9	48.0	91.8	
Equals: Net disbursements	185.3	23.8	5.4	[illegible]	3.9	7.5	[illegible]	9.7	[illegible]	0.5	-2.6	-6.6	178.7	40.8	[illegible]	
Less: Interest & Charges	22.3	11.8	11.3	12.7	13.0	13.8	14.6	15.5	[illegible]	[illegible]	17.2	[illegible]	22.0	62.6	80.7	
Equals: Net transfers	163.0	12.0	-5.9	-12.5	-9.1	-6.3	-3.6	-5.8	-11.9	-16.5	-19.8	-23.8	156.7	-21.8	-57.6	
Total net disbursements (IBRD and other agencies; CY)	80.0	129.0	145.0	257.0	279.0	35.0	27.0	133.0	234.0	356.0	412.0	475.0	80.0	845.0	1107.0	

/1 For agencies other than IBRD, includes only CY 1968.
/2 The exchange adjustment of $15.5 million, as of June 1972, has been included in these figures.

Country Programs Department II
Latin America and Caribbean Regional Office
October 3, 1973

ATTACHMENT 2

VENEZUELA: CUMULATIVE ESTIMATED AND ACTUAL DISBURSEMENTS ON LOANS AND CREDITS

($ millions)

Project & No.	Amount: - Original - Cancelled - Net	Date: - Approved - Signed - Effective		Closing Date	Forecast Date	FY'72	FY'73 1	FY'73 2	FY'73 3	FY'73 4	FY'74 1	FY'74 2	FY'74 3	FY'74 4	FY'75	FY'76	FY'77	FY'78	FY'79	FY'80	FY'81
Third	30.0	6/10/69	Orig:	12/31/73	9/30/70 (1st)	12.0	14.0	16.0	18.0	18.0	20.0	-	-	-	-	-	-	-	-	-	-
Highway	-	6/18/69	Rev:	-	2/28/75	-	-	-	6.4	8.4	10.4	11.7	12.6	14.7	18.9	20.0	-	-	-	-	-
IBRD 616	30.0	8/29/69	Act:	-	-	4.9	5.6	6.2	6.6	8.4											
Guri Powerhouse	31.0	6/24/69	Orig:	5/31/74	9/30/70 (1st)	19.2	21.5	23.8	25.6	27.4	29.2	31.0	-	-	-	-	-	-	-	-	-
Extension	-	6/30/69	Rev:	-	11/30/71	14.1	17.2	20.3	21.8	23.2	24.7	26.1	26.7	27.2	28.4*	-	-	-	-	-	-
IBRD 639	31.0	9/10/69	Act:	-	-	13.0	15.9	17.6	19.4	20.8											
Second	35.0	6/29/71	Orig:	12/31/75	10/19/70	2.6	4.7	6.8	9.8	12.8	15.9	19.0	22.2	25.3	33.9	35.0	-	-	-	-	-
Telecommunications	-	6/30/71	Rev:	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
IBRD 770	35.0	3/30/72	Act:	-	-	-	.3	.3	.3	.3											
Maiquetia	17.0	2/ 1/72	Orig:	6/30/75	1/ 4/72	4.0	5.5	7.0	8.5	10.0	11.5	13.0	14.5	15.4	17.0	-	-	-	-	-	-
Airport	-	2/ 2/72	Rev:	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
IBRD 796	17.0	5/ 1/72	Act:	-	-	.8	1.4	2.6	3.4	4.2											
Livestock	11.0	3/ 7/72	Orig:	12/31/77	2/18/72	-	-	.4	.9	1.4	1.9	2.4	3.3	4.2	7.6	9.9	11.0	-	-	-	-
Development	-	3/13/72	Rev:	-	11/16/72	-	-	.2	.9	1.5	1.9	2.4	3.3	4.2	7.6	9.9	11.0	-	-	-	-
IBRD 807	11.0	6/16/72	Act:	-	-	-	-	-	.1	.7											

* Balance indeterminate.

Actual + Proposed lending Att. 1

Controller's
7/27/73

Yes

Attachment 3a

VENEZUELA - SOCIAL INDICATORS DATA SHEET

	Venezuela		Reference Comparisons		
			Argentina	Chile	Iran
	1960	1970	1970	1970	1970
GNP per Capita US$ (Atlas basis)	..	980	1,160	720	380
Demographic					
Crude birth rate (per thousand)	46	38	21	32	44
Crude death rate (per thousand)	8	7	6	9	18
Infant mortality rate (per thousand live births)	54	49	58	92 /a	160
Life expectancy at birth (years)	66	67	68	61	50
Gross reproduction rate /1	..	2.9	1.5	2.2	3.4
Population growth rate /2	4.0	3.5	1.5	2.3	2.9
Population growth rate - urban	6.3/b	5.6/b	2	4	5
Age structure (percent)					
0-14	45.7/c	45.2/d	29	39	46 /e
15-64	51.7/c	51.9/d	64	56	50 /e
65 and over	2.6/c	2.9/d	7	5	4 /e
Dependency ratio /3	1.6/f	1.6/f	0.6	1.2	1.0
Population density per sq. km.	8	11	9	13	17
Urban population as percent of total	63 /b,c	76 /b,d	80	74	41
Family planning: No. of acceptors cumulative (thous.)	..	..	..	..	662
No. of users (% of married women)	..	..	..	..	..
Employment					
Total labor force (thousands)	2,330	3,180	9,050	3,190	7,790
Percentage employed in agriculture	32 /c	22	15	26	46
Percentage unemployed	13	8	5	5	..
Income Distribution					
Percent of national income received by lowest 20%	3 /g	..	7	..	..
Percent of national income received by highest 5%	27 /g	..	29	..	..
Health and Nutrition					
Population per physician	1,400 /g	1,100	504	1,730	3,300
Population per nursing person	..	510 /a	940	2,540 /a	3,770
Population per hospital bed	280	320	180	280 /a	780
Per capita calorie supply as % of requirements /4	92 /h	97	117	102	88 /i
Per capita protein supply, total (grams per day) /5	59 /h	60	103	66	55 /i
Of which, animal and pulse	30 /h	32	62	32	14 /i
Death rate 1-4 years /6	6 /c	5 /j	2	3 /a	..
Education					
Adjusted /7 primary school enrollment ratio	70	82	101	89 /k	60
Adjusted /7 secondary school enrollment ratio	12	33	41	35 /k	21
Years of schooling provided, first and second level	11	11	12	12	12
Vocational enrollment as % of sec. school enrollment	24	33 /k	55	31 /k	2
Adult literacy rate %	63 /c	77	..	90 /k	23
Housing					
Average No. of persons per room (urban)	1.6/c	..	..	..	2.2
Percent of occupied units without piped water	..	..	..	..	79
Access to electricity (as % of total population)	..	..	..	..	..
Percent of rural population connected to electricity	..	..	..	..	..
Consumption					
Radio receivers per 1000 population	186	164	370	143	93
Passenger cars per 1000 population	35 /g	51 /k	54	18	10
Electric power consumption (kwh p.c.)	492	1,028	828	745 /k	210
Newsprint consumption p.c. kg per year	4.3/l	8.1	10.8	5.1	0.4

Notes: Figures refer either to the latest periods or to the latest years. Latest periods refer in principle to the years 1956-60 or 1966-70; the latest years in principle to 1960 and 1970. Only significantly different periods or years are footnoted separately.

/1 Average number of daughters per woman of reproductive age.

/2 Population growth rates are for the decades ending in 1960 and 1970.

/3 Ratio of under 15 and 65 and over age brackets to those in labor force bracket of ages 15 through 64.

/4 FAO reference standards represent physiological requirements for normal activity and health, taking account of environmental temperature, body weights, and distribution by age and sex of national populations.

/5 Protein standards (requirements) for all countries as established by USDA Economic Research Service provide for a minimum allowance of 60 grams of total protein per day, and 20 grams of animal and pulse protein, of which 10 grams should be animal protein. These standards are somewhat lower than those of 75 grams of total protein and 23 grams of animal protein as an average for the world, proposed by FAO in the Third World Food Survey.

/6 Some studies have suggested that crude death rates of children ages 1 through 4 may be used as a first approximation index of malnutrition.

/7 Percentage enrolled of corresponding population of school age as defined for each country.

/a 1965; /b Cities of over 2,500 population; /c 1961; /d 1971; /e 1966; /f Ratio of population under 15 and 65 and over to total labor force; /g 1962; /h 1960/62; /i 1964/66; /j 1967 estimate; /k 1969; /l 1963.

VENEZUELA - ECONOMIC DEVELOPMENT DATA SHEET
(amounts in millions of U.S. dollars)

	Actual 1960	1965	1970	Projected 1973	1975	1978	1960-1965	1965-1970	1970-1975	1973-1978	1960	1970	1978
NATIONAL ACCOUNTS	3-Year Averages at 1967-69 Prices & Exchange Rates						Average Annual Growth Rate				As Percent of GDY		
Gross Domestic Product	5,976	8,205	10,046	11,613	13,136	15,779	6.5	4.1	5.4	6.3	92.5	100.7	95.4
Gains from Terms of Trade (+)	482	279	-70	232	388	763	-	.	.	-	7.5	-0.7	4.6
Gross Domestic Income	6,458	8,484	9,976	11,846	13,525	16,542	5.6	3.3	6.3	6.9	100.0	100.0	100.0
Imports (incl. NFS)	1,730	1,833	2,124	2,357	2,593	3,131	1.2	3.0	4.1	5.9	26.7	21.3	18.9
Exports (import capacity)	2,630	2,758	2,676	2,980	3,251	3,698	0.9	-0.5	3.9	4.4	40.7	26.8	22.3
Resource Gap	900	926	-552	-623	659	567					13.9	-5.5	3.4
Consumption Expenditure	4,129	5,459	6,936	8,084	9,219	11,387	5.7	4.9	5.9	7.1	63.9	69.5	68.8
Investment (incl. Stocks)	1,429	2,101	2,487	3,138	3,647	4,588	8.0	3.4	8.0	7.9	22.1	24.9	27.7
Domestic Savings	2,329	3,025	3,039	3,762	4,305	5,155	5.3	0.1	7.2	6.5	36.1	30.5	31.2
National Savings	1,672	2,196	2,478	3,143	3,615	4,343	5.6	2.4	7.8	6.7	25.9	24.8	26.3
MERCHANDISE TRADE	Annual Data at Current Prices						Average Annual Growth Rate				As Percent of Total		
Imports													
Capital Goods	402 a/	554	778	1,162	1,444	1,975	8.4	7.0	13.2	11.2	37.6 a/	45.4	49.9
Intermediate Goods	299 a/	384	581	824	1,076	1,399	6.5	8.6	12.1	11.1	28.0 a/	33.9	35.3
Consumption Goods	368 a/	329	355	448	492	584	-2.8	1.5	6.7	5.5	34. a/	20.7	14.8
Total Merchandise Imports (fob)	1,069 a/	1,267	1,714	2,434	2,962	3,958	4.3	6.2	11.6	10.2	100.0 a/	100.0	100.0
Exports													
Net Petroleum Exports	1,583 a/	1,443	1,686	2,759	3,191	3,685	-2.3	3.2	13.6	6.0	88.0 a/	86.6	82.7
Iron Ore	157 a/	123	147	140	140	140	-6.0	3.6	-1.0	-	8.7 a/	7.6	3.1
Other Merchandise Exports	60 a/	72	113	183	307	629	4.7	9.4	22.0	28.0	3.3 a/	5.8	14.2
Total Merchandise Exports	1,800 a/	1,638	1,946	3,082	3,638	4,454	-2.2	3.5	13.3	7.6	100.0 a/	100.0	100.0
Merchandise Trade Indices	Average 1967-69 = 100												
Export Price Index	116.2	103.4	100.1	136.9	156.8	196.6	-2.5	-0.8	9.4	7.5	.	.	.
Import Price Index	95.5	94.1	110.9	128.9	136.8	149.5	-0.5	3.5	4.3	3.0	.	.	.
Terms of Trade Index	121.6	109.9	90.2	106.2	114.6	128.9	-2.0	-4.0	4.9	3.9	.	.	.
Export Volume Index	80.0	92.8	102.8	83.8	84.5	86.1	3.1	2.0	-4.0	0.5	.	.	.
VALUE ADDED BY SECTOR	Annual Data at 1967-69 Prices & Exchange Rates												
Agriculture	423 a/	547	713	743	905	1,119	6.7	5.5	4.9	8.6	6.8 a/	6.6	7.1
Industry	983 a/	1,542	2,038	2,427	2,860	3,483	11.9	5.8	7.0	7.5	15.8 a/	20.3	22.1
Petroleum b/	1,282 a/	1,592	1,656	1,521	1,378	1,245	5.6	0.8	-3.5	-4.0	20.6 a/	16.5	7.9
Services, etc.	3,533 a/	4,609	5,681	6,920	7,977	9,912	6.9	4.3	7.0	7.5	56.8 a/	56.6	62.9
Total	6,221	8,290	10,038	11,611	13,120	15,759	7.5	3.9	5.5	6.3	100.0 a/	100.0	100.0
PUBLIC FINANCE (Central Government)	Million of US$ at Average 1967-69 Prices and Exchange Rates						Annual Average Growth Rate				As Percent of GDY		
Current Receipts	1,672 c/	1,706	2,047	2,778	3,351	3,853	2.0	3.7	10.4	6.8	21.3	20.3	24.4
Current Expenditures	973 c/	1,057	1,458	1,770	2,018	2,485	8.6	6.6	6.7	7.0	12.4	14.5	15.7
Budgetary Savings	699 c/	640	590	1,008	1,333	1,367	-8.4	-1.5	17.7	6.3	8.9	5.9	8.6
Other Public Sector	..	..	218	343	370	422	..	..	11.2	4.2	..	2.2	2.7
Public Sector Investment	..	..	1,078	1,387	1,881	2,529	..	..	11.8	10.3	..	10.7	16.0

CURRENT EXPENDITURE DETAILS (Percent of Total Current Exp.)	1965	1970	1971	1972	Budget 1973
Education	21.8 d/	25.2	25.6	28.2	28.8
Other Social Services	12.7 d/	13.5	13.3	12.3	12.2
Economic Services	12.5 d/	12.3	11.5	10.9	10.6
Defense	13.7 d/	12.5	12.2	11.0	11.7
Transfer to Regional Government	18.9 d/	17.2	18.2	18.1	17.1
Administration and Other	20.4 d/	19.3	19.2	19.5	19.6
Total Current Expenditure	100.0	100.0	100.0	100.0	100.0

DETAIL ON PUBLIC SECTOR PUBLIC INVESTMENT	1968-72 At 1967-69 P&ER	1973-77	1968-72 As Percent of Total	1973-77
Social Sectors	1,246	2,180	20.8	22.7
Agriculture	491	791	8.2	8.3
Industry and Power	1,027	2,036	17.1	21.3
Transport and Communication	1,615	1,861	26.9	19.4
Mining and Hydrocarbons	253	848	4.2	8.9
Other	481	765	8.0	8.0
Total Fixed Investment	5,114	8,482	85.2	88.6
Financial Investment	884	1,092	14.8	11.4
Total Expenditures	5,997	9,574	100.0	100.0
FINANCING				
Public Sector Savings	4,882	7,874	81.4	82.2
Domestic Borrowing (net)	604	1,089	10.1	11.4
Foreign Borrowing (net)	511	612	8.5	6.4
(ditto in current ...)	(589)	(800)	.	.
Total Financing	5,997	9,574	100.0	100.0

SELECTED INDICATORS (calculated from 3-year averaged data)	1960-1965	1965-1970	1970-1975	1973-1978
Average ICOR	4.0	7.8	5.1 e/	4.7 e/
Import Elasticity	.15	.73	1.21 e/	1.06 e/
Marginal Domestic Savings Rate	.34	.01	.36	.30
Marginal National Savings Rate	.26	.19	.32	.27

LABOR FORCE AND OUTPUT PER WORKER	Total Labor Force In Millions 1960 a/	1970	% of the Total 1960 a/	1970	1960-70% Growth Rate	Value Added Per Worker (1967-69 Prices and Exchange Rates) US$ 1960 a/	1970	% of Average 1960 a/	1970	1960-70 Growth Rate
Agriculture	.72	.73	31	23	0.2	586	977	22	30	5.8
Industry	.25	.45	11	15	6.8	2,039	4,529	77	140	9.3
Petroleum	.05	.04	2	1	- 2.5	27,869	41,400	1,052	1,283	4.0
Services	1.33	1.90	56	61	4.0	2,656	2,990	100	93	1.3
Total	2.35	3.11	100	100	3.2	2,648	3,228	100	100	2.2

a/ 1961
b/ Includes refining of crude oil
c/ 1964
d/ 1968
e/ Net of Petroleum

Country Programs Department II
Latin America and Caribbean Regional Office
September 4, 1973

Attachment 4

VENEZUELA - BALANCE OF PAYMENTS, EXTERNAL ASSISTANCE AND DEBT PROJECTIONS
(amounts in millions of U.S. dollars at current prices)

	Actual 1968	Actual 1969	Actual 1970	Actual 1971	Estimated 1972	Projected 1973	Projected 1974	Projected 1975	Projected 1976	Projected 1977	Projected 1978	Projected 1989	Average Annual Growth (Percent) 1973-78	Average Annual Growth (Percent) 1979-89
SUMMARY BALANCE OF PAYMENTS														
Exports (incl. NFS) a/	1905	1970	2103	2590	2665	3297	3686	3922	4185	4510	4878	13850	8.1	10.0
Imports (incl. NFS)	1921	1936	2147	2397	2758	3046	3364	3711	4089	4500	4948	13446	10.2	9.5
Resource balance (X-M)	-16	34	-44	193	-93	251	322	211	96	10	-70	404	.	.
Interest (Net)	-2	-3	-12	-17	-54	-103	-133	-135	-149	-173	-205	-854	14.8	13.8
Direct Investment Income (net)	-127	-160	-166	-164	-170	-170	-187	-206	-226	-249	-274	-782	10.0	10.0
Current Transfers (net)	-80	-97	-92	-85	-90	-100	-105	-110	-116	-122	-128	-218	5.1	5.0
Balance on Current Account	-225	-226	-314	-73	-407	-122	-103	-241	-395	-534	-676	-1450	41.0	8.0
Private Direct Investment (net) b/	141	147	74	74	50	60	60	78	101	132	170	983	23.0	17.3
Public M & LT Loans														
Disbursements	120	160	185	330	400	194	226	341	454	558	647	1186	27.0 c/	5.7
-Repayments	-40	-31	-40	-73	-121	-159	-199	-2[illegible]	-200	-202	-235	-742	8.1	
Net Disbursements	80	129	145	257 f	279	35	27	133	254	356	412	444	65.0 d/	0.7
Other M & LT Loans (net)	76	110	65	43	30	27	16	30	40	46	94	23	28.0	-12.0
Capital Transactions n.e.i.	-18	-149	94	155	316	-	-	-	-	-	-	-	.	.
Change in Net Reserves	-54	-11	-84	-456	-268	-	-	-	-	-	-	-	.	.
GRANT AND LOAN COMMITMENTS														
Public M & LT Loans														
IBRD	-	51	-	35	28	-	22	40	25	15	15	30	2.6 e/	6.5
Other Multilateral	14	21	-	62		65	65	65	65	65	65	65	-	-
Governments	-	4	1	6	19	20	30	35	40	45	50	100	20.0	6.5
Suppliers	74	60	32	215	125	80	82	120	180	230	260	500	72.3 e/	6.1
Financial Institutions	8	58	141	165	180	80	83	123	180	233	266	500	51.8 e/	5.9
Bonds	25													
Total Public M & LT Loans	121	194	174	483	352	245	282	383	490	588	656	1195	81.2 e/	5.6
DEBT AND DEBT SERVICE														
Public Debt Out. & Disbursed	452	567	743	1000	1279	1297	1324	1457	1711	2067	2479	8097	13.9	11.2
Interest on Public Debt	19	23	39	43	64	73	81	82	93	114	142	545	14.2	13.8
Repayments on Public Debt	40	31	40	73	121	159	199	209	200	202	235	743	8.1	13.5
Total Public Debt Service	59	54	79	116	185	232	280	290	293	316	377	1288	10.2	13.6
Other Debt Service (net)	..	..	..	..	..		2	7	12	20	30	876	.	31.0
Total Debt Service (net)	..	..	..	..	..	232	282	297	305	336	407	2164	11.9	16.3
Burden on Export Earnings (%)														
Public Debt Service	3.1	2.7	3.8	4.5	6.9	7.0	7.6	7.4	7.0	7.0	7.7	9.3	.	.
Total Debt Service	..	..	..	..	..	7.0	7.7	7.6	7.3	7.5	8.3	15.6	.	.
TDS+Direct Investment Income	9.8	10.9	11.7	10.8	13.3	12.2	12.8	12.8	12.7	13.0	14.0	21.3	.	.
Average Terms of Public Debt														
Int. as % Prior Year DO&D	5.0	5.1	6.9	5.8	6.4	5.7	6.2	6.2	6.4	6.7	6.9	7.2	.	.
Amort. as % Prior Year DO&D	10.5	6.9	7.1	9.8	12.1	12.4	15.3	15.7	13.7	11.8	11.4	9.8	.	.
IBRD Debt Out. & Disbursed	203	211	217	216	221	225	229	235	238	240	241	205	1.4	-3.0
" as % Public Debt OSD	44.9	37.2	29.2	21.6	17.5	17.3	17.3	16.2	13.9	11.6	9.7	2.5	.	.
" as % Public Debt Service	16.9	35.2	27.8	19.8	13.6	10.7	9.8	10.0	11.3	11.0	9.8	3.3	.	.

ACTUAL AND PROJECTED EXTERNAL DEBT:

	Actual Debt Outstanding on Dec. 31, 1970 Disb. Only	Percent	Total	Percent	Projected Debt Outstanding on Dec. 31, 1978 Disb. Only	Percent	Total	Percent	1970-78 Growth Rate (Percent) Disb. Only	Total
IBRD	217	31.9	268	28.7	241	9.7	..	..	1.3	..
Other Multilateral	75	11.0	104	11.1	319	12.9	..	..	19.8	..
Governments	122	18.0	127	13.6	275	11.1	..	..	10.5	..
Suppliers	11	1.6	78	8.4	652	26.3	..	..	67.0	..
Financial Institutions f/	218	32.1	319	34.2	963	38.8	..	..	20.0	..
Bonds	37	5.4	37	4.0	29	1.2	..	..	-3.0	..
Total Public M & LT Debt	680	100.0	933	100.0	2479	100.0			17.6	
Other M & LT Debts	..	.	..	.	251	.	..	.	..	..
Short-term Debt (Disbursed only)	..	.	..	.	..	.	..	.	..	..

(1970 Net Reserves $1,015 million)

a/ For petroleum exports, includes only the net contribution to the balance of payments.
b/ Excludes petroleum investment income.
c/ The more meaningful average annual change in 1972-78 was 8.3%.
d/ The more [illegible] average annual change in 1972-78 was 6.7%.
e/ Percentage change 1974-78 total over 1968-72 total.
f/ Includes Other Public Debt.

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Attachment 5

VENEZUELA - ECONOMIC WORK PROGRAM

The economic work on Venezuela will be kept to the minimum necessary to sustain Bank operations. The next economic memorandum due during the second half of FY74 will review and update the findings of the report presently being completed. It will also assess the major development objectives and public sector investment programs being formulated by the new Government. No basic economic missions are envisaged in the next five years. Updating missions will be dispatched every two years, however.

An education reconnaissance-in-depth mission is scheduled for FY77 to review the sector problems and prospects in depth, and to evolve a strategy and an investment plan for education in the medium and the long term.

An urbanization sector mission is planned for FY76 to focus on the problems of Caracas.

2

POLITICAL SITUATION

General Framework

1. Venezuela is one of the few Latin American countries where a democratic system has effectively functioned over the last 16 years. After the military regime headed by President Marcos Pérez Jimenez was overthrown in 1958, four free presidential elections have taken place. The largest political party -- Acción Democrática (AD) -- stayed in power from 1959 to 1969 under Presidents Romulo Betancourt (1959-64) and Raul Leoni (1964-69). In 1968, the AD party was split in two factions and the next election was won by the Christian Democratic Party (COPEI) headed by President Rafael Caldera (1969-74). A reunited AD party achieved the largest electoral victory of this period in December 1973, electing President Carlos Andrés Perez, with about 50 percent of the total popular vote against several other candidates, and obtaining a large majority in both Chambers of Congress.

2. The left-of-center and nationalistic policies adopted by President Perez since his inauguration last March have substantially increased the Government's popular support. The last public opinion polls, published in June, indicate that this support now includes about 80 percent of the population. The COPEI party remains as the only major source of opposition while all other major political parties are now supporting the Government policies in Congress.

3. The ruling AD party is now formed by two main wings. One of them has, in recent years, been headed by President Perez and includes most of the Party's younger leaders. The other includes most of the close associates of the late President Leoni. There are no basic differences between these groups. While they often fight over the choice of a presidential candidate, the Party usually becomes united again once the selection is made.1/ The present Cabinet is formed by representatives of both wings and by several independents. AD is one of the better organized political parties in Latin America. During the AD Governments, the Party's Executive Committee exercises an important role, closely watching the decisions adopted by the President and the Cabinet Ministers. Whenever important discrepancies emerge, the Party's Executive Committee meets with the President and the relevant Ministers to seek ways to solve such differences.

The Government's Economic Team

4. The four most influential Ministers within the Government's Economic Team are Hector Hurtado (Finance); Gumersindo Rodriguez (Planning); Constantino Quero (Development) and Carlos Guillermo Rangel (President of Venezuelan Investment Fund). Mr. Hurtado is the most capable and, as of

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1/ The main exception was the 1968 election, when the Party remained divided, with two presidential candidates, a situation that facilitated the COPEI electoral victory.

Hurtado

now, also the most powerful of the four. He is one of the main leaders of the Leoni wing of the Party, and, with the cooperation of a few close associates, prepared the economic program that -- after having been approved by the Party -- is now being implemented by the Government. Mr. Gumersindo Rodríguez -- a former leader of the Marxist-oriented Movement of the Revolutionary Left (MIR) -- has been the personal economic adviser to Mr. Carlos Andrés Pérez during the last four years. A bright economist, Mr. Gumersindo Rodríguez lacks previous Governmental or administrative experience. Apparently, he does not pay much attention to a policy-oriented planning process. Mr. Rangel is a highly respected businessman, a close friend of President Pérez and is politically independent. Mr. Quero, an independent and a businessman, became Minister of Development in mid-July.

5. During the last three months, a sharp power struggle emerged within the Government's economic team. The dominant position in economic policy initially achieved by Mr. Hurtado soon faced the opposition of the Planning Minister, Mr. Gumersindo Rodriguez, and of the new Minister of Development, Mr. Lauria. At the same time, some important representatives of the private sector started last May to publicly criticize Mr. Hurtado, because of the Finance Minister's decision to propose a long needed tax reform. This struggle reached the crisis peak in the second half of June -- when it seemed likely that Mr. Hurtado would have to leave the Government. In view of this situation and, also, of some problems related to the price policy being implemented by the Development Ministry -- the Acción Democrática Executive Committee held a meeting with the President and the economic team on July 6-7 to review the Government's economic policy. Although the results of the meeting itself have been kept secret, it seems that the AD Executive Committee decided to support Mr. Hurtado. Shortly after this meeting, Mr. Quero became Minister of Development while the Minister of Planning has been sharply criticized in the Caracas press by spokesmen of the AD Party. Although the situation is still fluid, as of late July it seemed that Mr. Hurtado had recovered most of his influence.

Prospects

6. Helped by the favorable economic situation emerging from the country's increased oil revenues, and supported by a large popular majority, the present Government is in an excellent position to further consolidate the democratic institutions and to improve the living standards of the poorer sector of the Venezuelan population. Two main potential sources of political subversion -- the extreme left and the Armed Forces -- do not seem to constitute an immediate danger to the constitutional form of Government. The leftist guerrillas -- very active in the early 1960's -- have almost disappeared, and their main political supporters -- the MIR and the Communist party -- became legal political parties about four years ago. The Armed Forces, after having governed Venezuela for several decades, seem to be convinced since 1958 of the need to support the elected civilian administrations.

7. However, Venezuela still suffers many of the political difficulties associated with underdevelopment. In spite of the country's wealth, a sizable proportion of its population still is very poor -- both in the cities and in the countryside. The rising expectations, of the urban and rural poor, may well become a source of political instability, lest the standard of living is rapidly improved. How to achieve this objective in a way consistent with the country's longer term development targets, is obviously the greatest political and economic challenge faced by the present Government.

8. Internationally, Venezuela has been, since 1958, a Latin American leader of the so-called Democratic Left, and has strongly opposed both the military dictatorships of the Right and the Marxist regimes of the Left. The present Government, however, intends to play a wider leadership role, maintaining good relations with all Latin American countries and using Venezuela's financial strength to increase its influence. President Pérez has invited all other Latin American Presidents -- including the Cuban President -- to attend a regional summit meeting in Venezuela, in early 1975, with a view to discuss economic cooperation with the region. Venezuela's contribution to the Inter-American Development Bank, the Andean Development Corporation, the Caribbean Development Bank and the Central American Bank, as well as its new relationship with the World Bank, fit into this international strategy. This strategy also includes seeking a fast solution -- presently under negotiation -- of the old border disputes with Guyana and Colombia. Venezuela seeks to become the economic and political leader of the small and medium-sized Latin American nations -- i.e., of the whole region except Argentina, Brazil and Mexico -- and the focal point of renewed, region-wide economic integration.

3

ECONOMIC SITUATION

1. As a result of the 1973-74 change in oil prices, Venezuela's per capita gross national income (measured in 1972 dollars) is expected to increase from about $1,425 in 1973 to nearly $2,000 in 1974. This increase reflects a terms of trade gain of about $6 billion, equivalent to 34 percent of GDP in 1974. This terms of trade gain will enhance substantially the prospects for rapid economic growth and social progress. However, for sustaining a high rate of economic and social development over the long run, the country will have to create the conditions for the investment of a substantial portion of this increased income and, at the same time, to tackle many structural problems still unresolved.

Petroleum in the Venezuelan Economy

2. Petroleum accounts for 22 percent of GDP, 63 percent of government revenues and 90 percent of foreign exchange earnings (1972). The sector does not, however, contribute much to employment or inter-industry linkages. In 1972, petroleum made up only 1.3 percent of employment. Inter-industry linkages are limited to purchases of steel pipes, sales of gas to petrochemical plants, besides the sale of fuels and gasoline for transport and thermo-electric power.

3. Venezuela has also, over the years, become a text-book case of poor resource allocation caused by petroleum dominance. Foreign exchange rates have traditionally been geared to petroleum - a very high productivity sector. This has thwarted the development of non-petroleum exports. High wages in petroleum have spread to less productive industries. In order to survive, these industries obtained heavy protection against competing imports. As a result, Venezuela is now burdened with an important number of inefficient industries.

Petroleum Policies and Resources

4. Venezuela's petroleum policies since 1959 have been to grant no new concessions; conserve petroleum; support petroleum prices in the world market; and increase the Government's share of the benefits of the foreign-owned petroleum sector. As a result, exploration has declined and proven reserves have fallen from their peak of 17.4 billion barrels in 1960 to 13.9 billion in 1973. Proven reserves, expressed in terms of years of current production, have declined steadily from about 16 years in 1960 to about 11 years in 1973. However, these reserve estimates -- traditionally used in the Venezuelan oil industry -- are based upon the recovery factor prevailing in 1972, of about 18 percent of oil in place. With present oil prices, secondary recovery methods using gas injection, water flood or steam heating have become highly profitable. Under these new conditions the recovery factor, on the average, can be raised up to 30 percent, and recoverable reserves in existing concessions are likely to increase by almost 70 percent and to sustain present production levels for about 20 years.

5. A potentially important oil field exists along the heavy crude oil belt bordering the Orinoco River in Eastern Venezuela. The deposits contain about 700 billion barrels in site. Assuming a 5 percent recovery factor, these new recoverable reserves could amount to about 35 billion barrels. The problems to overcome include extraction of the crude from the ground and to reduce the metallic and sulphur contents of the fuels to marketable levels. This requires capital investments of $5-7 billion per each million b/d of capacity. In any case, it would take at least up until 1980-81 to achieve significant production out of these deposits. The US State Department has proposed quota-free entry in the US of the petroleum coming from the Orinoco oil belt in return for investment guarantees to the companies developing these fields. This is part of the US effort to reduce its accelerating dependence on Eastern Hemisphere oil imports. However, the Venezuelan Government has not shown interest in the US proposal. Venezuelan policy with regard to this deposit seems to keep it for future generations. Moreover, under present Government policies, oil production should be expected to decline gradually over the next two years -- to about 2.9 million b/d, 14 percent below the 1973 production, and to remain at that level thereafter.

6. Both the increase in secondary recovery and the exploitation of the Orinoco oil belt would require relatively high oil prices to be economically feasible. Some Venezuelan technicians have estimated that if oil prices decline, in real terms, by more than 25-30 percent from their mid-1974 level, the Orinoco oil production would not yield a positive rate of return. Similarly, such a decline in oil prices would also be likely to turn uneconomic the envisaged increase in secondary recovery. It is thus clear that Venezuela has a greater interest than most other OPEC countries in maintaining oil prices near present levels.

Prospects

7. The recent sharp increase in oil revenues has emphasized the basic problems faced for a long time. The first and most important limit to the country's development is the scarcity of skilled human resources at all levels of activity up to the top managerial and professional positions. Within the public sector, this deficiency becomes evident in the lack of efficient medium-level executives, in the insufficient number of available sound development projects, and in the lack of appropriate coordination among some important government agencies. The absence of a large enough group of modern, dynamic, private entrepreneurs also constitutes an important obstacle to economic progress. The administrative and institutional deficiencies resulting from the scarcity of qualified human resources have so far seriously limited the absorptive capacity of the country.

8. Closely related to these administrative and institutional shortcomings, is the need to achieve an appropriate balance between the satisfaction of the rising expectations now prevailing in the country, and an economically sound allocation of the increased oil revenues. To avoid excessive expenditures for increasing the immediate welfare of the Venezuelan

population -- and, also, uneconomic bureaucratic expenditures -- the present Government has created the Venezuelan Investment Fund. In 1974, the Government will allocate about $3.1 billion to the Fund, while an additional $1 billion will be spent in repaying foreign public short- and medium-term debt. In 1975 and subsequent years, it is expected that the Fund will receive about $4.5-5.0 billion a year -- 50 percent of Government oil revenues provided that oil prices remain at present real levels. Over the long term, the Fund will finance large domestic industrial investments, oriented toward diversifying the Venezuelan economy -- steel, petrochemicals, aluminum -- as well as agricultural development and the expansion of the oil industry. As many of these investments will have long gestation periods, the Fund will invest most of the resources abroad in the immediate future. Among the planned foreign investments are the establishment of Trust Funds in IDB, CABEI, CAF and the Caribbean Bank, as well as loans to the World Bank.

9. Unemployment continues to be at relatively high levels in Venezuela -- about 7-8 percent -- thus contributing to the pressures for an immediate sharp increase in domestic expenditure. The urban unemployed and the rural workers and small farmers constitute the hard core of poverty still prevailing in the lower income groups. The last comprehensive income distribution study carried out in 1962, showed that the lowest 20 percent of the population then received about 3 percent of national income while the highest 5 percent received 27 percent. Although the income distribution situation seems to have improved somewhat over the last decade, sharp inequities still exist. The Government has committed itself to improving this situation and to wiping out unemployment in the immediate future. Up to now, the most important program announced in this respect is the creation of a large Agricultural Development Fund, with a capital of Bs 2 billion (about $475 million). The Planning Minister has also the intention of resettling poor urban people in the rural areas of Eastern Venezuela, within the context of comprehensive rural development projects.

10. Inflation is another major problem faced by the Venezuelan economy. Venezuela's price level has been one of the more stable in the world; annual inflation rates did not exceed 3.5 percent up to 1973. However, prices have started to rise much more rapidly in 1974 -- the inflation rate for the year is now expected to be in the 10-15 percent range -- as the combined effect of wage increases -- a general 15 percent wage rise was decreed last May; higher public expenditures and increased import costs. Although increased domestic spending is being largely compensated by higher imports, the whole marketing network -- including ports, transportation and warehouses -- is not fully prepared to handle the required increase in trade, and some scarcities are already emerging in the markets of Caracas and other important cities. The Government is aware of these problems, and has adopted a restrictive monetary policy, while also easing some import restrictions, but, in any case, inflationary pressures are likely to remain a major economic difficulty during the next few years.

11. There have been recurrent rumors of a bolivar revaluation since the beginning of this year. These rumors were strengthened in early March with a statement in favor of revaluation made by former President Caldera, a few days ending his presidential period. As a result, about $500-600 million of "hot money" entered Venezuela. The new Government has declared itself strongly against revaluation, pointing out that the Venezuelan industry would be priced out of the world market -- including Latin America, and, particularly the Andean Common Market. It seems that most of the "hot money" left the country again during June and July. The issue, however, continues to be openly discussed by politicians and newspapermen.

12. During its first four months in office, the Government has issued numerous decrees related to economic policy under an authorization to the Executive provided in an "Extraordinary Economic Law" approved by Congress in May. These measures include the establishment of the Venezuelan Investment Fund; the Agricultural Development Fund; and an Industrial Fund designed to help small and medium-sized industrial firms; as well as new regulations about decentralization of economic activity, limitations to the dismissing of employees and wage increases. A general reform of the banking and financial systems has been announced and is now under study. Moreover, regarding foreign private investment, the Government has confirmed the previous administration's intention to nationalize the oil industry; it has also announced that iron mines will be nationalized, and has indicated that it will apply the Andean Group "Decision No. 24," which implies that foreign firms in retail trade and certain manufacturing and service activities will have to sell a majority interest to Venezuelan nationals. The speed with which the Government has adopted these changes in the rules of the game has caused some uncertainty in the private sector, and it seems that many investment decisions are being postponed. On the other hand, the Government argues that the new rules should be approved as soon as possible, in order to have in the immediate future a clear and stable policy and institutional framework within which the private sector will be able to function with confidence.

13. Regarding foreign private investments, President Pérez and his Ministers have indicated that any nationalization will be negotiated, and that appropriate compensation will be paid in all cases. Regarding the oil industry, a Reversion Law -- enacted under the previous administration -- implies that all private concessions will revert to the state, starting in 1983. The present Government intends to advance the reversion date, probably to 1975. A cabinet commission has been appointed for this purpose, and negotiations are under way with oil companies. Venezuelan technicians have estimated that the total cost of an immediate and full nationalization of the oil industry would be less than $5 billion -- about half of the expected net Government oil revenues in 1975. There are also some indications that the Government will negotiate marketing and, probably, management contracts with the oil companies, simultaneously with the nationalization itself.

14. The iron mines to be nationalized include subsidiaries of Bethlehem Steel and U.S. Steel, which in 1973 exported 22 million tons of iron ore, most of it to the U.S. Production in 1974 is running 33 percent above the

1973 level. Reserves in these mines are estimated at 830 million tons -- which should be added to state-owned reserves of about 1,000 million tons, all of them in the Bolivar State, south of the Orinoco River. The main objective of the Government in nationalizing the mines is to convert Venezuela from an iron ore exporter to a major producer and exporter of steel. (The Government plans to increase steel production from about 1 million tons in 1974 to 4.5 million in 1977, 10 million in 1980 and 15 million in 1985.) The Government has indicated that it will compensate the companies, and negotiations are presently under way about this. The Government has also said that it intends to form mixed companies with major foreign steel producers -- possibly including Bethlehem and U.S. Steel -- and negotiations are also being started with some foreign companies on this matter.

15. Over the long run, economic prospects are very favorable for Venezuela -- provided, of course, that oil prices remain at high levels, and that oil revenues are wisely utilized. The Bank staff has recently prepared the preliminary national accounts and balance of payments projections shown in Tables 1 and 2 used in the paper on "Prospects for the Developing Countries." They illustrate a plausible growth path of the Venezuelan economy over the medium term (1973-82). These projections imply a GDP growth rate of 9 percent per year in 1974-78, gradually declining to 7 percent in 1981-82. Under the basic assumption of 3.07 million b/d oil production in 1974, 3.00 million b/d in 1975 and 2.87 million b/d in 1976 and thereafter, total exports -- including non-petroleum exports -- would reach $13 billion in 1974, $14.2 billion in 1975 and $14.8 billion in 1976, and would remain at the same real level afterwards. Since imports will increase more slowly in the short run, foreign exchange reserves are likely to increase sharply over the next few years. Foreign exchange reserves would thus reach a peak of about $34 billion in 1980. To achieve the required high export levels in the 1980s and beyond, will likely require substantial efforts to increase non-traditional exports and, also, to explore and exploit new oil areas -- including, probably, the Orinoco oil belt. Given the rather long gestation period of the investments required, basic decisions of long-term development policy will have to be adopted in the near future.

Table 1: NATIONAL ACCOUNT PROJECTIONS, 1973-1983
(in millions of 1972 dollars)

	1973	1975	1980	1983
Gross Domestic Product	16474.463	19573.310	29702.791	36537.230
Terms of Trade Adjustment	612.853	6281.732	5899.402	5899.403
Gross Domestic Income	17087.316	25855.091	35602.193	42456.633
Imports	3392.499	5016.745	8192.319	10082.840
Exports	-3858.825	-3040.724	-3138.434	-3138.433
Exports (Import capacity)	-4471.678	-9322.456	-9037.836	-9037.836
Resource Gap	-1079.178	-4305.710	-845.517	1045.004
Consumption	11115.222	13093.661	24063.671	31218.408
Investment	4892.916	8455.670	10693.005	12283.229
Total Domestic Expenditure	16008.138	21549.331	34756.676	43501.637
Gross Domestic Savings	5972.094	12761.380	11538.522	11238.225
Net Factor Payments	-987.302	126.911	769.660	819.484
Net Current Transfers	-94.186	-94.135	-94.161	-94.161
Gross National Savings	4890.605	12804.156	12214.020	11963.547
Gross National Product	15487.161	19710.221	30472.451	37376.714
Gross National Income	16100.014	25991.952	36371.853	43276.117

Table 2: BALANCE OF PAYMENTS PROJECTIONS, 1973-1983
(millions of current dollars)

	1973	1975	1980	1983
Exports	5383.9	14198.100	19443.430	23157.437
Imports	4084.6	7640.503	19624.439	25835.027
Resource Balance	1299.3	6557.597	1819.0	-2677.590
Net Interest	11.288	408.515	1938.390	2436.317
Direct Investment Income	-1200.000	-200.000	-200.915	-336.573
Net Total Factor Payments	-1188.712	208.515	1655.797	2099.744
Net Transfers	-113.400	-143.367	-202.573	-241.267
Current Account Balance	2.781	6622.7	3272.216	-819.113
Direct Private Investment	66.500	-4915.6	119.330	142.123
Public Capital: Net Inflow	-29.300	4954.854	-580.826	516.471
Short Term Capital	84.700	0.000	0.000	0.000
Changes in Foreign Exchange Reserves and Other Capital Movements	-119.119	-6661.993	-2810.720	160.519

4

SUBJECT BRIEFS ON SPECIAL ISSUES

1. Aide Memoire: Summary of first meeting between Dr. Héctor Hurtado, Minister of Finance and Mr. Adalbert Krieger, on May 20, 1974.

2. Aide Memoire: Results of the conversations between Dr. Héctor Hurtado, Minister of Finance and Mr. Adalbert Krieger, dated May 22, 1974.

3. Mr. Krieger's Back-to-Office Report on the Venezuela/Bank relationship of May 28, 1974.

4. Mr. Rotberg's memorandum on World Bank borrowings from Venezuela of June 13, 1974.

5. Borrowing Operations in Venezuela.

6. Proposed Bank Borrowing in Venezuela.

7. Possible Increase in IBRD Capital Subscription.

(Unofficial Translation)

AIDE MEMOIRE

SUMMARY OF THE FIRST MEETING BETWEEN DR. HECTOR HURTADO, FINANCE MINISTER OF THE VENEZUELAN REPUBLIC, AND DR. ADALBERT KRIEGER, SPECIAL REPRESENTATIVE OF THE PRESIDENT OF THE WORLD BANK, ON MAY 20, 1974

I. NEED OF NEW RESOURCES TO MAINTAIN AND EXPAND THE WORLD BANK LENDING PROGRAM

1. From its creation until June 30, 1973, the Bank and IDA have authorized US$6,956 million in loans and credits to Latin America. The FY1975-FY1979 lending program that has been proposed, and is now being considered, envisages US$9,030 million of loans and credits for the region.

2. This proposed program implies a substantial increase in Bank assistance to Latin America. This region has received, as an average, somewhat less than 21% of the total amount of loans and credits granted in FY1973 and FY1974, while it would receive nearly 25% of the total in FY1974-FY1979 and almost 26% in FY1979. The number of projects financed by the Bank and IDA in Latin America would increase -- according to this proposal -- from an annual average of 30 in FY1973 and FY1974, to an average of about 50 per year in FY1974-FY1979, and to 70 in FY1979.

3. The possibility of expanding the lending program in general, and the proportion allocated to Latin America in particular, will basically depend upon the ability of the Bank to borrow in countries with excess foreign exchange resources. During the last two decades, the Bank has been one of the main users of resources in the international capital markets. For instance, in 1972 the Bank placed 17% of the total amount of international and foreign issues placed in those markets. However, given the recent shift in relative prices and in the external liquidity position of several groups of countries, it will be difficult for the Bank to obtain the resources required for that increased lending program in the traditional financial markets. It will thus be necessary to tap new sources of financing, including the oil exporting countries.

II. BENEFITS FOR VENEZUELA FROM INVESTING PART OF ITS EXCESS RESERVES IN THE BANK

4. The Bank offers investing countries the interest rate prevailing in the financial markets for first class medium- and long-term securities. The most recent Bank issues yield 8%; this rate may vary depending upon market conditions at the moment each borrowing is made.

5. Bank's liabilities continue to enjoy the confidence of investors, as it is reflected in the market quotations of Bank bonds. This trust is sustained by the explicit guarantee given by all member countries as to the Bank's liabilities.

6. Moreover, it is likely that future investments in the Bank may be denominated in "New Special Drawing Rights" ("baskets of currencies"), which would substantially diminish any exchange risk.

7. Given the long-term nature of Bank loans, it is also necessary that Bank borrowing be made, as a rule, on comparably long terms. In general, the Bank tries to obtain its financial resources with an average term of about 15 years. However, the Bank also recognizes the need to take into account the long-term financial and economic prospects of the investing countries, and it is willing to jointly prepare with each country a financial program which adequately considers those prospects.

III. ADDITIONAL ADVANTAGES FOR VENEZUELA OF A NEW TWO-WAY RELATIONSHIP WITH THE BANK

8. In spite of Venezuela's high per-capita income and excellent external position, the Bank is willing to substantially increase its lending program to this country, following -- if the Government so desires -- a procedure similar to that adopted in connection with Iran. The Government of Iran has made an important initial financial contribution to the Bank, and has committed itself to repeat these contributions in the future in order to assure that during the following years -- when it is expected that this country will continue to increase its excess foreign exchange reserves -- there will be a net transfer of resources from Iran to the Bank. At the same time, the Bank has stated its intention to authorize a substantial number of new loans. On May 16, 1974, the Bank's Board approved three new loans to this country for a total of US$148 million. As the country's absorptive capacity increases, the net resource transfer toward the Bank will diminish and, eventually, will again reverse its direction because of an increased flow of amortization and interest payments by the Bank, and of the disbursements of the development loans granted by the Bank to the country.

9. The loans that the Bank might make to Venezuela would carry with them, as usual, important technical support in the preparation, appraisal and implementation of the financed investment projects. Moreover, the Bank is also willing to offer its technical assistance to Venezuela in other areas for which the

Government might request such cooperation. (In this connection, the participants in this first meeting discussed the possibility of establishing a "Technical Assistance Consultative Group", which would be chaired by the Venezuelan Government, with the support of the Bank.)

10. The possibility of Venezuela's joining to Bank in co-financing -- under several forms -- investment projects in other countries was extensively analyzed during this first meeting. The participants also considered other alternatives such as the purchase by Venezuela of participations in Bank loans and advanced repayment of previous Bank loans to this country. Likewise, the meeting considered the possibility of Venezuela's collaboration with IFC in financing, through loans and/or equity investments, enterprises in other countries.

IV. OTHER ASPECTS

11. Other points considered in this meeting included the convenience of Venezuela increasing its share in the Bank's capital, and the possibility of Venezuela's participation in IDA.

12. Finally, it was decided that, during the following days, the aspects mentioned in this Aide Memoire would be further considered in meetings between the Bank's representatives, the Finance Minister and other high Government officials.

(Unofficial Translation)

May 22, 1974

AIDE MEMOIRE

RESULTS OF THE CONVERSATIONS BETWEEN DR. HECTOR HURTADO, FINANCE MINISTER OF THE VENEZUELAN REPUBLIC, AND DR. ADALBERT KRIEGER, SPECIAL REPRESENTATIVE OF THE PRESIDENT OF THE WORLD BANK

1. The Government of Venezuela indicated its interest in receiving in the immediate future, the technical and financial support of the World Bank for its investment program in the following areas:

a) Agriculture
b) Petrochemical Industry
c) Ports
d) Steel Industry
e) Metro of Caracas

The Bank representatives stressed the favorable disposition of their institution toward collaborating with the Government in these areas. They also indicated that the Bank has experience and specialized personnel relating to agriculture, ports, and steel, and that, therefore, it is in a position to offer its support to the Government in these sectors. Regarding the petrochemical industry, the Bank will indicate to the Government in the near future how it will be able to cooperate in the development of this sector. With respect to the Metro of Caracas, the interest indicated by the Government will be transmitted to the Bank's authorities. Both parties also agreed on the desirability of jointly defining other areas of collaboration within the forthcoming months.

2. The Government also indicated its interest in obtaining the collaboration of the Bank in technically and financially strengthening the Latin American subregional financial institutions. Venezuela is establishing Trust Funds in the Andean Development Corporation, the Caribbean Bank and the Central American Bank for Economic Integration. The main objective of these funds is to finance projects of Latin American multinational interest. Regarding financial assistance, the World Bank representatives pointed out that, given the Bank's statutory regulations, all its loans must be explicitly guaranteed by the Governments of the recipient countries. The absence of this guarantee has made impossible, up to now, the direct financial support of the Bank to these institutions. Nevertheless, it was indicated that a study will be made of all existing possibilities for Bank collaboration with these institutions. The Bank will present in the near future some concrete proposals in this respect to the Government of Venezuela.

3. The Government indicated the Venezuelan interest in assisting other Latin American countries through joint or parallel financing with World Bank. The Government also pointed out that - within the framework of this kind of collaboration - Venezuela considers necessary to specially

support the less developed countries of the region. In this connection, it was noted, as an example, that Bolivia - being the least developed country within the Andean Group - could be one of the first countries to benefit from this joint Venezuela-Bank effort. The Bank expressed its desire to undertake this kind of collaboration. For this purpose, the Bank will start conversations, in the near future, with the Government of Venezuela and the Governments of the possible recipient countries.

4. Both sides agreed that it would be mutually convenient for Venezuela to invest in World Bank bonds and in loans to this institution. It was stressed that, as these investments would yield the interest rate prevailing in the international financial markets for World Bank bonds at the moment of formalizing the negotiations, they would constitute an appropriate and secure way to place the resources of the Venezuelan Investment Fund. It was also agreed that these investments could be negotiated in U.S. dollars, other convertible currencies - including the bolivar - and/or in Special Drawing Rights (the value of which would be expressed in a "baskets of currencies" following a procedure similar to that being studied by the International Monetary Fund). It was also agreed that, within the next three weeks, the Government and the Bank will jointly prepare a program for Venezuelan investments in the Bank during 1974. It was further agreed that the average life of these investments will be no less than 12 years. Although all these aspects including the amount of the Venezuelan investments, cannot be formally negotiated until the Venezuelan Investment Fund has been established, it was agreed that the new Venezuelan investments in the Bank during 1974 would be of the order of US$500 million. Of this total, Venezuela would invest one-fifth as soon as the Venezuelan Investment Fund had been established.

5. In the framework of this new relationship of mutual collaboration, the Bank will substantially increase its lending program to Venezuela through financing, in areas selected by the Government, development projects that fulfil the usual requirements about their expected rate of return and their consistency with the objectives of the country's development policy. Moreover the Bank will also support Venezuela, as much as possible, through technical assistance related to the identification, appraisal and technical supervision of investment projects, and it will also cooperate in the development of the capital market and in other important areas of development policy. On the other hand, it was pointed out that - in addition to the investments during 1974 mentioned in the previous paragraph - the investments that the Government would make during the following years in World Bank bonds and in loans to this institution would exceed the amount of the authorizations of new loans by the Bank.

INTERNATIONAL DEVELOPMENT ASSOCIATION | INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT | INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

CONFIDENTIAL

TO: Mr. Robert S. McNamara

DATE: May 28, 1974

FROM: Adalbert Krieger, Director, LAC I (Through Mr. Knox)

SUBJECT: VENEZUELA: Back-to-Office Report

1. Following your instructions I visited Venezuela on May 19-25, accompanied by Mr. Roberto González-Cofiño. We had three meetings with Mr. Hector Hurtado, Minister of Finance. During the week we also met with Mr. Gumersindo Rodríguez, Minister of Planning; Mr. Manuel Pérez Guerrero, Minister for International Economic Relations; Mr. Benito Raul Losada, future President of the Venezuela Investment Fund (V.I.F.); Mr. Javier Pazos, Special Adviser to the Minister of Finance; Mr. Roberto Guarnieri, the new Venezuelan Executive Director in the World Bank; and other high Government officials.

2. The framework for these negotiations included my April 1 Back-to-Office Report and the verbal instructions before my departure given by you and by Mr. Knapp. We also utilized, as a background document, Mr. Hittmair's May 16 memorandum (which indicated several options for Venezuela's financial contributions to the World Bank).

3. The results of our meetings are stated in the two Aide Memoires annexed to this memorandum. The first summarizes our initial meeting with Mr. Hurtado - which lasted about 3-1/2 hours. Afterwards, we held several working meetings with the Government officials named in paragraph (1). The results of these meetings were summarized in the second Aide Memoire, prepared on May 22, which was approved in the final meeting we had with Mr. Hurtado the following day.

4. As the law authorizing the creation of the V.I.F. has still to be approved by Congress - approval is expected within the next ten days - it was agreed that no announcement of the new Venezuela-Bank relationship would be made until then. I informed Mr. Hurtado of your willingness to visit Venezuela, if a formal joint announcement by you and President Carlos Andrés Pérez was deemed convenient by the Government. Mr. Hurtado indicated that he would convey this possibility to the President and that he would advise us in due course of the Government's decision.

5. During the negotiations the Government continuously stressed that both the technical support of the Bank and the continuation, on a broader basis, of our lending program to Venezuela were indispensable elements of the overall Bank-Venezuela agreement. In order to fulfil this requirement, I suggest that appropriate decisions be adopted in the immediate future in order to provide Venezuela with the support requested by the Government. In this respect, I consider essential the immediate establishment of the proposed new Venezuela-Ecuador Division. During the conversations with Mr. Hurtado it was also

suggested as necessary - given the scope of the envisaged two-way relationship - that the Bank consider the establishment in the immediate future of a Resident Office in Caracas. The LAC region's budget for FY75 does not now provide for all of the additional staff in Washington, not to mention Caracas, that will be required if we are to take advantage of Venezuela's receptivity to a close working relationship with the Bank. (I am sending a memo to Mr. Adler on this question.)

6. During these negotiations we continuously stressed the advantages of having Bank borrowing from Venezuela take the form of loans denominated in dollars or other convertible currencies. From the Venezuelan side, however, the Government was clearly more interested in investments in World Bank bonds denominated in the new SDRs or in Bolivars. The Government explicitly stated its desire to have some part of the expected US$500 million investment made in bonds denominated in Bolivars, as a way to foster their intention of converting Venezuela into the international financial center of Latin America. I indicated that, in principle, the Bank would be prepared to consider Bolivar participation in some adequate proportion. But, at the same time, we also stressed the Bank's concern about the resulting exchange risk for the borrowing countries, and the need of minimizing that risk through limiting the Bolivar-denominated investments to a relatively minor share of the whole package. This was understood by the authorities.

7. The authorities made clear during the negotiations that the Government considers Venezuelan financing for the Bank as an investment. They stressed the need to assure an adequate yield on that investment in order to maintain the real value of present foreign exchange holdings. In this context they expressed serious concern about the potential effects of international inflation; at one moment in our negotiations a proposal was made to index Venezuelan investments in the Bank. We indicated that the proposed Bank borrowing would yield the market interest rate prevailing at the moment of the negotiations, thus taking into account inflationary expectations, and explained the consequences indexing would have for the borrowing countries. Afterwards, the indexing issue was no longer pursued and no mention was made of it during our last meeting with Mr. Hurtado.

8. In our opinion the Bank should be prepared to offer Venezuela several forms, to be used in combination or as alternatives, through which it could provide the US$500 million financial program indicated in paragraph 4 of the May 22 Aide Memoire. As the V.I.F. has not yet been legally created, and as at the same time the Bank was not yet prepared to discuss in detail the composition of the "basket of currencies", I suggested, and it was accepted, that the first US$100

million would be invested through a loan immediately after the creation of the V.I.F. I suggest that once the V.I.F. is established, the Bank should immediately proceed to negotiate the details of the US$500 million package in Caracas. It would help considerably if the composition of the "basket of currencies" - possibly including a certain proportion of Bolivars - is by then clearly defined.

9. Finally, in our opinion, the US$500 million to be provided the Bank in 1974 may well be followed by other substantial borrowing operations due to the level of resources that will be accumulated in the V.I.F. and, above all, to the deep interest of the Venezuelan Government in the new relationship proposed by the Bank. To a large extent, future Bank borrowing from Venezuela will depend upon our ability to move swiftly and adequately to support the Government development efforts in the sectors indicated in the first paragraph of the May 22 Aide Memoire.

cc: Mr. Knapp
Mr. Cargill
Mr. Alter (o/r)
Mr. Stern, Senior Adviser, Development Policy
Mr. Rotberg, Treasurer
Mr. Hittmair, Deputy Treasurer
Mr. Adler, Director, Programming and Budgeting Department
Mr. Avramovic, Chief Economist, LAC
Mr. Wiese, Director, LAC II
Mr. Escobar, Special Rep. for Inter-American Organizations
Mr. Holsen, Senior Economist, LAC I
Mr. Pfeffermann, Senior Economist, LAC I
Mr. Van der Heijden, Division Chief, LAC II
Mr. Gonzalez-Cofiño, Economist, LAC II

AKrieger:ms.

INTERNATIONAL DEVELOPMENT ASSOCIATION | INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT | INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

TO: Files

DATE: June 13, 1974

FROM: Eugene H. Rotberg EHR

SUBJECT: Proposed World Bank Borrowings from Venezuela

Present for the Bank:

Messrs. Rotberg
Krieger
Hittmair
Gonzalez-Cofiño

Present for Venezuela:

Messrs. Héctor Hurtado, Minister of Finance
Manuel Pérez Guerrero, Minister for International Economic Affairs

Guillermo Pimentel) Special Advisers
César Manduca) to Mr. Hurtado

Roberto Guarnieri, new Executive Director for Venezuela in IBRD

. . .

This memorandum will summarize the discussion and general understanding reached relating to proposed World Bank borrowings from Venezuela.

Amount

The total amount contracted to be borrowed would be $500 million equivalent. For working purposes it was understood that the agreements would be executed prior to the end of calendar year 1974. The first hundred million dollars would be lent on the basis of a loan agreement, a note or a bond issue for $100 million, denominated in dollars.

With respect to the remaining $400 million, several possible options were discussed which the Venezuelan authorities would wish to consider, all of which would be agreeable to the World Bank. First, and most preferable for the World Bank, would be an operation denominated and paid in U.S. dollars. Second, an issue denominated in SDR's in accordance with the weightings agreed upon for the new IMF oil facility. The settlement and repayment currency would be in dollars, although of course the amount of dollars repayable as principal and interest would be based on the SDR value of the dollar on the payment dates. Third, the Bank would be prepared to borrow the $400 million in a ratio of 90%-95% dollars to 5%-10% Bolivares. This last alternative could take the form either of an indexed obligation settled in dollars but indexed for the payment of interest and principal to the aforesaid ratio including Bolivares, or could take the form of a borrowing of $360 million denominated and paid in dollars and $40 million equivalent denominated and paid in Bolivares.

Maturity

It was understood that the average life for the borrowings would be approximately 12 years. The precise schedule of amortization would be agreed upon after a determination were made by Venezuela whether it wished to have equal amortization of principal or a larger "balloon" payment at the final maturity. The Bank is very flexible on this point.

Interest Rate

It was understood that the Bank would be prepared to pay an interest rate of 8% payable semi-annually which rate was reached after considering current U.S. Government obligation yields (currently below 8%) and our recent four borrowing operations from OPEC countries all of which were at 8%.

Settlement Dates

The Bank was prepared to accept settlement in tranches if so desired by Venezuela so as to conform with Venezuelan inflows of resources. In principle it was understood that the funds would be available before the end of calendar year 1974. The first hundred million dollars would be drawn down in the relatively near future (after July 1, 1974) after the form of the borrowing operation was agreed upon.

. . .

The Bank will make available copies of our loan agreements in Oman, Iran, Abu Dhabi and Germany as examples of recent operations, and would also prepare draft documents for forthcoming operations. After the Venezuelan authorities have had a chance to review the documentation, we would, of course, send our staff to Venezuela to explain and discuss any technical points remaining.

cc and cleared with Mr. Krieger

BORROWING OPERATIONS IN VENEZUELA

1. In the past direct borrowing operations of the Bank in Venezuela were limited to one bond issue of Bs 100 million (equivalent to $23 million) in March 1974. The issue had a coupon of 7 percent, an average life of 8.2 years and was placed at a price of 97 percent with a group of 8 Venezuelan private banks. The leading bank of the group was the Banco de Venezuela taking 25 percent of the issue. The Central Bank acts as fiscal and paying agent for this issue. The negotiations for this issue were rather involved and protracted because it was the first foreign issue in Venezuela under a new capital markets law and a number of technical questions had to be resolved with the newly established regulatory agency for the capital market. The IDB made an identical placement with a slightly different group of banks at the same time. In the course of the transaction it was in particular the Central Bank and its Executive Vice President, Dr. Silva, who was most helpful in advancing the issue.

2. The Venezuelan Central Bank has been a regular subscriber to our Two-Year bond issues for the last seven years and is presently holding $24 million of our outstanding four issues. The subscription to our last issue on March 15, 1974 was $10 million. On September 15, 1974, $2 million of our Two-Year bonds held by the Central Bank will mature.

3. The proposed borrowing of $500 million equivalent from the Fondo de Inversiones de Venezuela (Venezuelan Investment Fund - VIF) represents part of Venezuela's oil surplus funds which the Fund is managing. The Fund was constituted in July as an autonomous government agency managed by an executive committee of five directors who work full time in the Fund. The Board of Directors is headed by one of them, who is the President of the Fund and who has ministerial rank. The Fund operates under the policy guidance of a board consisting of eight ministers, the President of the Central Bank and representatives of the banking sector of industry and labor under the chairmanship of the Minister of Finance. It has been reported that the initial appropriation for the Fund for 1974 would be Bs 13 billion ($3 billion equivalent) and that contributions in future years would be about $4 to $5 billion equivalent assuming unchanged levels of oil prices.

4. For future Bank borrowings from Venezuela it is expected that similar amounts, i.e., $500 million, could be made available by the Venezuelan Government through the Investment Fund.

5. The Venezuelan Investment Fund will require considerable technical assistance in the initial stages of its operations. The Bank has offered such help in various specific fields when the Fund decides that such assistance would be appropriate and desirable.

For consideration on
August 13, 1974

R74-

FROM: The President

August 9, 1974

PROPOSED BORROWING IN VENEZUELA

1. The attached draft resolution (Annex I) authorizing the Bank to borrow from the Fondo de Inversiones de Venezuela (Fondo), an agency of the Venezuelan Government, the aggregate principal amount of US$ 500,000,000 equivalent will be considered by the Executive Directors at their meeting on Tuesday, August 13, 1974.

2. The proposed borrowing would consist of two portions, one portion denominated in United States dollars and the other portion denominated in Venezuelan bolivares. The principal terms of this borrowing would be as follows:

(a) Principal amount: US$ 400 million
Bs. 430 million (US$ 100 million equivalent*)

(b) Interest: 8% payable semi-annually.

(c) Maturity: Both portions of the loan would be repaid in ten installments of 7% of the principal amount of each portion of the loan on August 15 of each of the years commencing August 15, 1979 and ending August 1988 and one final installment of 30% of said principal amounts on August 15, 1989. The US$ portion would be made available to the Bank in three tranches as follows:

$ 100 million on August 15, 1974
$ 150 million on October 15, 1974
$ 150 million on January 6, 1975

The bolivar portion would be paid to the Bank in

*based on the rate of
US$ 1 = Bs. 4.30

Distribution
Executive Directors and Alternates
President
Senior Vice President, Operations
Executive Vice President and Vice President, IFC
President's Council
Directors and Department Heads, Bank and IFC

six tranches as follows:

Bs. 50 million on August 15, 1974
Bs. 50 million on September 16, 1974
Bs. 50 million on October 1, 1974
Bs. 100 million on October 15, 1974
Bs. 100 million on November 4, 1974
Bs. 80 million on November 18, 1974

The average life of the borrowing operation from the Fondo would thus be about 11 years.

(d) Other terms: Under the terms of the loan agreements the Fondo would have the right to request from the Bank the delivery of Notes for the amounts of the loans outstanding at the time of such delivery; the Notes would reflect the terms and conditions of the loan agreements. In the event that the Fondo should face liquidity needs, the Bank if so requested by the Fondo after August 15, 1976, would substitute any of the Notes outstanding with new Notes in the same aggregate principal amount but with different maturities determined by agreement between the Fondo and the Bank, taking into account the liquidity requirements of the Bank, and providing an average life for the new Notes equal to the life of the Notes so substituted. The Bank would enter into a Fiscal Agency Agreement with the Banco Central de Venezuela who would act as Fiscal Agent in the event such Notes are issued. The Banco Central de Venezuela would receive for this service a commission of 1/8% on the amount of interest paid on the Notes. Taking into account these arrangements, the cost to the Bank would amount to about 8.01% including all costs.

3. The loan agreements with the Fondo and the Notes to be issued at the Fondo's request would be executed in Spanish.

4. The proposed borrowing would be charged against the FY-75 borrowing program. The amount borrowed to date applicable to FY-75 including: (a) the proposed borrowing from the Fondo, (b) the proposed offering of two year Bonds and (c) the remaining amounts to be drawn under the borrowing of Y 40.8 billion from the Bank of Japan would be US$ 1,138.7 million (see Annex II).

Robert S. McNamara
President
By: J. Burke Knapp

(Translation)

Clause Relating to Possible Bank Financial Assistance in Venezuela included in Borrowing Agreement

(This Clause was intensively negotiated)

"If the Government of Venezuela shall need financial assistance from the Bank, the Bank undertakes to give consideration in good faith to the requests for loans, up to an amount equal to the outstanding balance of the Loan, which the Government will submit to the Bank for the purpose of financing projects in the country, provided that such loans meet the requirements set forth in the Articles of Agreement of the Bank.

The Bank shall consider granting such loans on the same general conditions which apply to its other operations of a similar nature."

VENEZUELA: POSSIBLE INCREASE IN IBRD CAPITAL SUBSCRIPTION

1. One possible matter to be discussed with the Venezuelans is an increase in their subscription to the Bank's capital from the present level of 1,972 shares, for which the equivalent of $19.7 million (in 1944 dollars) has been paid-in, to something nearer 7,000 shares for which an additional $50.3 million (approximately $61.4 million in current dollars) would have to be paid-in. A further $453 million ($552 million in current dollars) would be subject to call only when required to meet the obligations of the Bank.

Reasons for Seeking an Increase in OPEC Members' Subscriptions

2. Apart from the obvious advantages to the Bank, there are three arguments for the suggested increase in capital subscription by OPEC countries. First, there is the basic moral point that the OPEC countries must accept the obligations imposed upon them by their dramatic increase in financial strength. There is good reason to suppose that they accept this argument and realize that, as a practical matter, they cannot discharge these obligations - at least in the short run - except through well established organizations such as the Bank and the Fund.

3. Second, these countries have a rapidly mounting vested interest in the continued smooth functioning of the international financial system. They could not escape the financial disruption which would arise from a failure of that system to provide the developing countries a tolerable escape from the dilemma created by the dramatic increase in oil prices. The Bank's role is critical in avoiding such a failure.

4. Thirdly, if our plans for borrowing in the OPEC countries mature, then these countries will account for a rapidly growing share of the Bank's debt. The 90 percent of capital subscriptions to the Bank which is subject to call is in effect a guarantee of this debt. Other rich countries will certainly expect the OPEC countries to increase their share in this guarantee from the present 5 percent to a more reasonable level.

Amount of Increase in Capital Subscriptions

5. The suggestion is that all OPEC countries should between them raise their subscription by $3.4 billion in 1944 dollars or roughly $4 billion in current dollars. The figure of $4 billion is consistent with the amount mentioned in your letter to several of the OPEC countries earlier this year. It would result in a 15 percent share of the voting power by the OPEC countries - a figure which has little significance for Bank operations but which carries veto rights in the Fund (although, as you know, there is not a rigid link between Bank capital subscriptions and IMF quotas). The figure of $4 billion is also near the maximum amount which can be raised without in any way jeopardizing Japan's position as one of the "Big Five".

6. Within the $3.4 billion (current $4 billion) the increase in the subscription of an individual country can vary widely depending on what criterion, or which set of criteria, is used to determine the amount. Ultimately, the decision will be made through negotiations which take into account political, economic and financial considerations. To give you some ideas of the magnitudes involved for individual countries, illustrative calculations have been made distributing the proposed increase among OPEC countries in proportion to three variables: (a) present IBRD voting power, (b) total national income (GNP) projected for 1975 and, (c) projected oil revenues in the same year. The distribution reflecting present IBRD voting power has been calculated in two ways to illustrate what would happen if the poorest OPEC countries were not to participate in the proposed capital increase (See Annex I).

7. The increases in capital subscriptions for individual countries suggested by these calculations have been tested for plausibility by comparing each OPEC country with those Part I countries which would have similar Bank capital subscriptions in the event the OPEC increase does take place. Five economic indicators have been used for the comparisons: GNP, Government revenues, foreign exchange reserves, exports and GNP per capita. All data relate to 1975. The ranking of Venezuela in relation to Part I countries and other OPEC countries is shown in Annex II along with the comparison of economic indicators with those of Sweden, Denmark and Norway. In these rankings, Venezuela appears relatively low on the scale of GNP and GNP per capita and high for foreign exchange revenues. This pattern holds for many of the OPEC countries except for those with very small populations, such as Abu DHabi and Qatar, which show high per capita incomes. What it means is simply that reasonable contributions by OPEC countries to international aid efforts will fall somewhere in between what would be calculated on the basis of wealth indices (e.g. GNP per capita) and on the basis of liquidity indices (e.g. foreign exchange reserves).

Comparative Economic Indicators for Venezuela and Reference Countries (1975)

	IBRD Capital Subscription (1944 $ mil.)	G N P (Current $ bil.)	Government Revenues (Current $ bil.)	Foreign Exchange Reserves a/ (Current $ bil.)	Exports (Current $ bil.)	GNP per Capita (Current $ bil.
SWEDEN	277.3	68.0	17.2 b/	2.0	16.5 c/	8.2
DENMARK	221.1	36.0	11.1 b/	.9	8.1 c/	7.2
LIBYA Existing	20.	11.0	6.6	11.6	6.9	4.9
Prospective	170-220					
NORWAY	204.8	27.9	6.5 b/	1.7	6.6 c/	7.0
VENEZUELA			10.4	14.8	14.2	2.7

a/ For all countries except Libya, reserves are projected to be the same as in 1973.

b/ Source: IFS June 1974 figures used to calculate revenues as percent of GNP for 1973. That percent then applied to projected GNP in 1975.

c/ Export projections are based on 1966-73 average growth rates.

Illustrative Distributions of IBRD Capital

Increase among Individual OPEC Countries
(1944 $ million)

	Current Subscription	Possible Increase: In Proportion to Current IBRD Voting Power: Including all OPEC Countries	Including only those OPEC Countries with Capital Surplus	Related to GNP	Related to Oil Revenues	Plausible Range	Subscription after Increase
UAE	12.8	90	130	110	210	100-150	112-162
Kuwait	69.4	230	330	200	290	250-300	320-370
Libya	20.0	110	160	160	210	150-200	170-220
Qatar	17.1	100	150	30	60	75-125	92-142
Saudi Arabia	114.3	340	490	510	880	500-700	614-814
Algeria	80.0	260	370	180	150	200-250	280-330
Ecuador	18.1	100	-	-	-	up to 100	up to 118
Iran	158.0	450	650	760	650	500-700	658-8[illegible]
Iraq	69.8	230	340	210	270	250-300	320-3[illegible]
Venezuela	197.2	540	780	440	330	400-600	600-8[illegible]
Indonesia	220.0	600	-	450	110	up to 250	up to [illegible]
Nigeria	115.2	340	-	340	240	up to 250	up to 360
	1091.9	3400	3400	3400	3400		

[illegible]/74

ANNEX II
Table 2

Rankings by Selected Economic Indicators - 1975

G N P

	$ billion	Index Libya = 100
United States	1699.9	15454
Japan	549.3	4994
Germany	463.2	4211
France	[illegible]	2222
United Kingdom	[illegible]	2114
Italy	180.6	1642
Canada	165.0	1500
Australia	80.8	735
Netherlands	80.6	733
* Sweden	68.0	618
Belgium	63.0	573
Iran	52.1	474
Austria	38.0	345
* Denmark	36.0	327
Saudi Arabia	34.5	314
Indonesia	30.3	275
Venezuela	30.1	274
* Norway	27.9	254
Nigeria	23.2	211
Iraq	14.1	128
Kuwait	13.6	124
New Zealand	13.3	121
Algeria	12.4	113
Libya	11.0	100
U.A.E.	7.7	70
Qatar	2.2	20

Government Revenues

	$ billion	Index Libya = 100
United States	305.6	4630
France	73.5	1114
United Kingdom	70.3	1065
Germany	61.3	929
Japan	47.6	721
Canada	44.0	667
Italy	31.2	473
Saudi Arabia	27.8	421
Netherlands	21.7	329
Iran	20.6	312
Australia	20.0	303
* Sweden	17.2	261
Belgium	13.8	209
* Denmark	11.1	168
Venezuela	10.4	158
Kuwait	9.2	139
Iraq	8.6	130
Nigeria	7.7	117
U.A.E.	6.6	100
Libya	6.6	100
* Norway	6.5	98
Austria	6.3	95
Algeria	4.7	71
New Zealand	4.5	68
Indonesia	3.6	55
Qatar	1.9	29

Foreign Exchange Reserves

	$ billion	Index Libya = 100
Saudi Arabia	59.7	515
Germany	34.4	297
Kuwait	18.8	162
Iran	15.6	134
Iraq	15.4	133
United States	14.9	128
Venezuela	14.8	128
Japan	13.2	114
U.A.E.	12.7	109
Libya	11.6	100
Nigeria	11.1	96
France	8.1	70
United Kingdom	6.9	59
Canada	6.2	53
Netherlands	5.7	49
Australia	5.6	48
Italy	5.5	47
Belgium	4.6	40
Algeria	3.9	34
Qatar	3.3	28
Indonesia	2.9	25
Austria	2.7	23
* Sweden	2.0	17
* Norway	1.7	15
* Denmark	.9	8
New Zealand	.7	6

Exports

	$ billion	Index Libya = 100
Germany	95.5	1384
United States	90.9	1317
Japan	54.2	786
France	51.8	751
United Kingdom	37.7	546
Netherlands	34.7	503
Canada	34.6	501
Belgium	31.4	455
Saudi Arabia	29.8	432
Italy	29.7	430
Iran	22.3	323
* Sweden	16.5	239
Venezuela	14.2	206
Australia	13.0	188
Iraq	10.6	154
Kuwait	9.7	141
Nigeria	9.3	135
* Denmark	8.1	117
U.A.E.	7.7	112
Austria	7.3	106
Libya	6.9	100
* Norway	6.6	96
Indonesia	6.4	93
Algeria	6.2	90
New Zealand	3.3	48
Qatar	2.0	29

GNP per Capita

	($000)	Index Libya = 100
U.A.E.	21.3	435
Kuwait	13.4	273
Qatar	11.5	235
* Sweden	8.2	167
United States	7.9	161
Germany	7.4	151
Canada	7.3	149
* Denmark	7.2	147
* Norway	7.0	143
France	6.7	137
Belgium	6.4	131
Netherlands	5.9	120
Australia	5.8	118
Austria	5.1	104
Libya	4.9	100
Japan	4.9	100
New Zealand	4.4	90
Saudi Arabia	4.1	84
United Kingdom	4.1	84
Italy	3.3	67
Venezuela	2.7	55
Iran	1.5	31
Iraq	1.3	27
Algeria	.9	18
Nigeria	.3	6
Indonesia	.2	4

Notes: (*) denotes a reference country

P & B
7/19/74

G

STATUS OF BANK GROUP OPERATIONS IN VENEZUELA

A. - Statement of Bank Loans (as of July 15, 1974)

Loan No.	Year	Borrower	Purpose		------($ Million)--------- Amount (less cancellations) Bank	Undisbursed
		7 loans fully disbursed			241.9	-
616	1969	Republic of Venezuela	Expressways		20.0	6.0
629	1969	EDELCA	Electric Power		31.0	2.6
770	1971	CANTV	Telecommunications		35.0	30.0
796	1972	Republic of Venezuela	Airport		17.0	9.4
807	1972	BDA	Livestock		11.0	7.9
958	1974	BDA	Agriculture		22.0	22.0
		Total (net of cancellation)			377.9	
		of which has been repaid			75.6	
		Total now outstanding			302.5	
		Amount sold		18.5		
		Of which has been repaid		15.6		
					2.9	
		Total now held by Bank			299.6	
		Total undisbursed				77.9

B. Statement of IFC Investments (as of July 15, 1974)

Year	Obligor	Type of Business	---------$ Million-------- Loan	Equity	Total
1960/64	SIVENSA	Steel products	2.7	0.4	3.1
1961	Diablitos	Food products	0.5	-	0.5
1964/68/71	CAVENDES	DFC	17.5	1.3	18.8
1966/72	Dominguez	Tin cans	1.0	0.5	1.5
1969/73	PROTINAL	Animal Feed	5.1	-	5.1
1971	Conceca	Cement	2.0	-	2.0
	Total gross commitments		28.8	2.2	31.0
	Less cancellations, terminations, repayments and sales		28.5	2.2	30.7
	Total commitments now held by IFC		0.3	-	0.3
	Total undisbursed		-	-	-

BANK OPERATIONS IN VENEZUELA

Existing Operations

1. The Bank's first loan to Venezuela was made in 1961. To date, 13 loans have been made for a total of $378 million net of cancellations which in mid-July 1974 the Bank held $300 million, including $78 million not yet disbursed. Power, transport and telecommunications, where there were substantial deficiencies to be overcome, account for 88 percent. The balance of lending has gone to water supply and agriculture. IFC operations are discussed separately below.

2. Brief notes have been prepared on the following six Bank Projects which are currently under execution:

Ln. No. 616: Third Highway Project

Ln. No. 629: Guri Powerhouse Extension Project

Ln. No. 770: Second Telecommunications Project

Ln. No. 796: Maiquetía Airport Project

Ln. No. 807: Livestock Development Project

Ln. No. 958: Agricultural Credit Project

Loan No. 616: Third Highway Project: $20.0 Million Loan of June 18, 1969; Closing Date: December 31, 1974

Description: The project consists of (a) completion of construction of the Cota Mil Expressway (about 21.5 km long), begun by the Government in 1966, adjoining the northern part of Caracas together with a connection to the Autopista del Este and about 14 interchanges and 6 km of access roads; (b) a study of the structure and level of user charges in metropolitan Caracas; (c) reconstruction of the Avenida El Panteón (not financed by the loan); and, (d) consultants' services to assist in the execution of (a) and (b) above.

Execution: Project construction works are about 75 percent completed, and about 17 km of the Cota Mil Expressway have been open to traffic. Construction works on the remaining 4.5 km started in May 1974, and are expected to be completed by late 1975, about two and a half years behind schedule. Delays in project execution have been caused mainly by difficulties in obtaining right of way in a heavily populated area; the Government intends to take measures to expedite this matter. The road user charges study has been completed. Bank staff has not yet discussed with the new Government the recommendations of the study.

Loan No. 629: Guri Powerhouse Extension Project: $31.0 Million Loan of June 30, 1969; Closing Date: December 31, 1974

Description: The project consists of expansion of the generating capacity of the Guri Hydroelectric Project of the Empresa de Electrificación del Caroní (EDELCA) increasing the capacity from 527 MW to 2057 MW. The Bank assisted in financing the Guri dam and initial generating capacity in 1963. Specifically, the Project comprises a (a) civil works for a ten-unit powerhouse; (b) installation of the complete unit number 4 (220 MW) and embedded parts of units 5 through 10; and, (c) consultants' services.

Execution: The start of the civil works was delayed about one year due to the difficulty of the only bidder in providing the guarantee bond. Project completion is now estimated for the end of 1974, about 15 months later than appraised; disbursements are presently about 92 percent of the scheduled level. Due to the initial delay, difficulty in the cofferdam construction, and recent currency realignments which increased the cost of equipment on order, the Project will have a cost overrun of about 39 percent (22.4 million equivalent); it will be met by increased net cash generation and by Government contributions. The cost overrun will not noticeably affect the rate of return of 17 percent indicated in the appraisal for the addition of units 4 through 10, due to faster than anticipated growth in sales.

Loan No. 770: Second Telecommunications Project: $35.0 Million Loan of June 30, 1971; Closing Date: December 31, 1975

Description: The project is designed to expand the capacity and strengthen the organization of the national telephone company (Compañia Autónoma de Teléfonos de Venezuela-CANTV). It consists of the installation of (a) about 372,000 lines of local exchange equipment with associated cable network to connect about 250,000 additional subscribers; (b) new microwave links with about 8,000 additional long distance channels; (c) satellite ground terminal station with associated facilities; (d) about 1,700 telex lines; and, (e) consultants to assist in the improvement or organization and operating procedures.

Execution: After some initial delays in procurement which would delay completion of some components of the project by about two years, satisfactory progress is being made. Significant benefits will start to accrue from late 1974 onwards when a large part of 247,000 additional telephone connections would be given and long distance channels installed. Institutional improvements provided under the project are proceeding satisfactorily.

Loan No. 796: Maiquetía Airport Project: $17.0 Million Loan of February 2, 1972; Closing Date: June 30, 1975

Description: The project is the first stage in the construction of the new Maiquetía International Airport. It originally consisted of (a) construction of a runway 3,500 m. long and 45 m. wide; (b) construction of the control tower for the new airport; (c) installation of lighting and navaids; (d) construction of a provisional freight terminal and renovation of existing terminal buildings; (e) improvements to existing runways, taxiways and aprons; (f) consultants to carry out the detailed design for the construction of the second stage of the Maiquetía International Airport; and (g) consultants to assist in establishing the management, financial and economic practices to be adopted by the Maiquetía Airport Authority. In a later review of the project, it was decided to specifically include the paving of the airport apron as part of the Bank's financed project.

Execution: Work on this project was satisfactory until December 1973. Very little has been accomplished since then, however, as a result of the elections, change in Government and holidays. Work is now picking up and is expected to proceed quickly. The new Government has expressed a keen interest in the project and wants to expedite it. Delays in delivery of equipment from overseas suppliers have slowed down progress. The runway is nearly completed and should be in service in late 1974. The paving of the apron should be completed by December 1973. Disbursements have lagged somewhat, but should pick up shortly now that construction is accelerating. The work of the consultants under (g) above has been satisfactory and all recommendations for organization and management for the airport authority are being implemented. However, the Government has yet to give final authorization to the consultants to proceed with a study of airport user charges which was agreed under the loan.

Loan No. 807: Livestock Development Project: $11.0 Million Loan of March 13, 1972; Closing Date: December 31, 1977

Description: The project provides credit and technical services to about 800 beef cattle ranches, some mixed dairy beef farms and a few cooperative group ranching schemes and aims at improving production methods to increase output. Credit is being channeled directly to investors through the Banco de Desarrollo Agropecuario (BND), a Government-owned development bank, created with Bank assistance.

Execution: After a slow start, the project is now on schedule. As of March 31, 1974, $3.1 million had been disbursed from the loan account and 4.0 million had been committed. Average loan size is high, at $67 thousand, and the Bank has urged BND to increase its efforts at reaching the smaller farmers. BND is on the process of being reorganized and this could adversely affect project execution, although the Government has expressed continued interest in the project. The Government has indicated, however, that the project may need some adjustments to reconcile it with the operations of the Agricultural Development Fund which has just been created (the Government has not issued yet any operational instructions for the fund). A supervision mission is scheduled to visit Venezuela in late August to review with the Government necessary changes, if any.

Loan No. 958: Agricultural Credit Project: $22.0 Million Loan of January 30, 1974; Closing Date: June 30, 1978

Description: The project provides credit and technical services for approximately 550 medium and large farmers, a few associations of small commercial farmers and about 10 agro-industrial enterprises. The project supports a three-year lending program of the Banco de Desarrollo Agropecuario for the production of annual and perennial crops and agro-industry.

Execution: The loan became effective in May 1974, and the project is on schedule. The problems of this project are similar to those of the Livestock Development Project and the Government's position is the same. The supervision mission which will visit Venezuela in late August will also review this project.

Prospective Operations

3. The last CPP for Venezuela was discussed on January 14, 1973. A CPP was prepared in 1973 and reviewed at the regional level on October 18, 1973. At that time, it was decided that since elections were to take place in December 1973, a full review would be postponed until the Bank had had an opportunity to discuss with the new Government its program and thus to reassess the Venezuela/Bank relationship. A CPP review is planned for later this year. Bank activities in Venezuela during the past few years were based on the assumption that since Venezuela was a high income country, our relationship should be limited to projects where it was possible to implement institutional reforms. The possibility of increasing our lending activity over the past five years was circumscribed by the requirement that the executive obtain legislative approval prior to all loan negotiations. As the executive did not have the support of Congress, several projects were postponed, and it was difficult to establish a meaningul dialogue on new projects. As discussed in the section on the political situation, the present Government controls both the executive and the legislative which simplifies the Venezuela/Bank relationship.

4. Given the relatively small size of Bank lending program to Venezuela in the past, there are only a few instances in which projects are clearly defined. The projects listed below are mainly those in which the Venezuelan Government has requested Bank assistance in the context of the broader relationship between Venezuela and the Bank. A better definition of the projects should be obtained in the near future, as the Government programs are elaborated. Since the Government requests have just been received, it has not yet been possible to determine the scope of some of the projects or the timing of Bank missions to follow-up on the requests. Listed below are possible bank projects.

First Education Project

5. The project would be designed to assist in financing the introduction of model secondary schools and the expansion and improvement of teacher training. This project was appraised in 1971, but we could not proceed to negotiations for want of legislative action by the Venezuelan Congress. Because of its political weakness, the previous Government was unwilling to risk the Congressional debate that would ensue if the necessary public credit law were requested of Congress. The new Government has expressed interest in the project, but has indicated that it will ask for minor readjustments in it so as to adapt it to the present situation. A mission to update the appraisal report will be required.

Ports Project

6. The project would consist of (i) assistance in the preparation of a national ports study to guide future port development; (ii) assistance in developing and implementing a new organization and institutional structure for

the ports; and, (iii) training of port personnel. An identification mission which visited Venezuela in June 1974 had proposed a technical assistance loan for this purpose. We are now exploring ways in which we could provide the necessary assistance without making a loan. By letter of July 9 to the Ministry of Finance, we indicated our willingness to assist Venezuela in ports development. The Ports Commission, recently created to study ports development, has requested (i) Bank assistance in analyzing their work program; (ii) a mission to help the Commission on important aspects of its work; and, (iii) Bank assistance in the selection of two high level consultants: one for the organization, selection, preparation of terms of reference and supervision of the new port institution that is likely to be created and the other on port operations. The Government requests will be met. It is likely that the Government will ask for assistance in the physical implementation of projects once the national ports study is completed.

Steel

7. This project would involve assistance for the expansion of steelmaking capacity in Siderúrgica del Orinoco (SIDOR) in the Guayana region. SIDOR is contemplating the use of direct reduction, a new process based on the use of natural gas. A mission is now in the field to identify possible areas of Bank assistance.

Rural Development

8. The Ministry of Planning has requested Bank assistance in the preparation of a project designed to resettle poor people from urban to rural areas. It has been proposed that the mission which will visit Venezuela in late August to supervise the on-going agricultural projects review the status of preparation of this project.

Caracas Metro

9. Appraisal of the Caracas Metro Project was begun in November/December 1971, but was not resumed as planned in late 1972 in part because of delays on the Venezuelan side in obtaining Congressional passage of related legislation. The Government is now reviewing the priority of this project in its investment program, but has indicated that if it proceeds with the project, it will seek Bank assistance.

Petrochemicals

10. The Government is now discussing a program for the development of the petrochemical industry prepared by the Planning Ministry in order to define priorities and has indicated interest in Bank support in this sector. The Government has stated that general policies and priorities will be defined by September/October, which would be a good time to begin technical contacts in this field.

Agricultural Credits

11. These projects would be repeater operations to the existing loans to Banco de Desarrollo Agropecuario and would enable the Bank to continue its institution building relationship with BND, which until now, has proven very effective. Bank staff has not discussed the possibility of operations in this sector with the new Government because of management changes currently under way in BND.

Technological Development

12. The Government has created a "Technological Bank" and has appointed a "Promoting Commission" to organize it. In its first meeting, the Commission decided to request Bank assistance in this field. It seems that the purpose of the new institution will be to facilitate the transfer of technology, but it is not clear how the Government plans to proceed. Mr. Weiss, Special Science Advisor to Mr. Chenery, is being consulted to see what -- if anything -- can be done in this matter.

Venezuelan Investment Fund (Fondo de Inversiones de Venezuela)

13. The directors of the new Venezuelan Investment Fund (VIF) have requested Bank assistance on (i) their Treasury's short-term financial operations and, (ii) the overall administrative organization of the VIF. On the Treasury's operations, Mr. Hittmaier -- who arrived in Venezuela on July 16 for the negotiations on Bank borrowing with Venezuela -- explained to them in detail how the Bank's Treasury works and other related matters; one or two VIF officials will visit the Bank in the near future in order to obtain first hand knowledge of our Treasury operations and methods. The VIF directors also expect us to provide some additional administrative expertise and some help in setting up their technical departments -- particularly regarding project evaluation. VIF and the Bank each have to manage an investment portfolio of comparable size. As the $500 million Bank borrowing from VIF is likely to be followed by additional borrowing in 1975 and subsequent years, the Bank should attach the highest priority to any assistance it can provide to the VIF.

IFC OPERATIONS IN VENEZUELA

1. IFC has made ten investment commitments in Venezuela - seven to industrial enterprises and three to a development finance company. IFC's investments total $31 million, of which $30.7 million had been sold, terminated or cancelled by July 15, 1974. IFC has organized a strong promotional effort to develop new investments giving special attention to the promotion of export-oriented industries. In this connection, any initiative to take advantage of the opportunities provided by the Andean Common Market will receive strong IFC support.

2. IFC has also been very active in the promotion of the capital market sector in Venezuela. In 1972, at the request of the Ministry of Finance, IFC undertook a survey of the country's financial sector which indicated that the development of the corporate bond market should be given priority attention. A proposal to establish a "Debt Securities Liquidity Fund" - a securities market mechanism which would contribute to the expansion of the corporate bond market and to the general improvement of the securities market infrastructure - was worked out. The proposal was agreed to by the Venezuelan authorities and IFC provided technical assistance to a working group which had been established in Venezuela to determine the conditions for the project's implementation. After a long gestation period, the project is now coming to fruition. The institution is presently being established and Board approval for an IFC equity investment of $750,000 equivalent will be sought shortly, probably in October 1974. Because of the central role of the proposed institution in the financial system, its ownership will be broadly based - 15 percent Government, 70 percent by some 60 leading financial and industrial corporations and 15 percent IFC.

3. A capital Markets Law, which provided the framework for a reorganization of the country's securities market, was passed by the Venezuelan Congress in early 1973. IFC advised the Government on several technical matters contained in this law. Among other things, the law created a "National Securities Commission", with which IFC has been closely collaborating.

4. IFC has also taken the initiative in proposing to private sector groups the creation of several new financial institutions which would fill gaps in the country's existing financial structure. One such proposal led to the establishment of an investment bank. An IFC equity participation of $350,000 equivalent was approved by IFC's Board in November 1973 but has not yet been signed. The start of operations has been delayed pending issuance of a license by the Central Bank. It is expected that the issue will be resolved in the context of the reform of the financial sector legislation described in paragraph 6 below.

5. Another project initiated by IFC was a mortgage insurance scheme whereby the financing of housing could be increased from the presently common 65 - 70 percent of the value of the dwelling to some 90 percent, thus making the purchase of dwellings more accessible to lower-income groups. A feasibility study was worked out by IFC in May 1974 and is being discussed with both the private and public sectors. The Ministry of Finance recently made public statements endorsing the concept.

6. In April/May 1974, IFC was requested to provide advice on the overall reform of financial sector legislation. Following staff conversations with the Ministry of Finance, a consultant was sent for three weeks in June and again in July/August to work in Cooperation with working groups established to deal with the Banking Law and the Capital Markets Law. A second consultant is dealing with the insurance laws in conjunction with the mortgage insurance proposal.

7. The Ministry of Finance has also requested IFC to assist the newly established (international) "Investment Fund" and the (domestic) "Industrial Fund" arrange for technical management and to design policies and procedures. A specific request for assistance on the latter is expected to be received shortly.

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UNDP ACTIVITIES

The current UNDP program was approved in 1972 and is geared to the aims of the Fourth Plan (1970-74) prepared by the previous Government. Most projects under the program have been completed. It is expected that this program will be reviewed late this year, to adjust it to the priorities of the new Government.

Development of the planning and administrative structure of the Government takes up the largest share of the program, with emphasis being placed on strengthening the planning mechanisms throughout the Government, and central planning in particular. Another important component of the program is development of human resources with particular emphasis on technical training. The program also places emphasis on research in agriculture and fisheries.

The Bank was executing agency for one of the feasibility studies financed by UNDP - the Los Caracas-Higuerote Tourism Project Study. The Government recently requested a cancellation of the project because it has changed the priorities of the previous Government in the tourism sector. The Programs Department has recommended that the Bank agree to cancelling the project.

INTERNATIONAL DEVELOPMENT ASSOCIATION | INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT | INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

TO: Mr. Jorge Bravo

DATE: August 1, 1974

FROM: Rodolfo Schmidt

SUBJECT: The Venezuelan Press

There are more than 150 dailies in Venezuela (pop. 12 million) but only 6-8 influential morning and evening newspapers. Because of economic factors and traditions, about 50% of all published material is provided by the Government or its agencies; 25% are foreign news items supplied by the international news agencies and 25% has been written by staff reporters. There is freedom of the press but the Government is the biggest advertiser, and now the Central Information Office, (Oficina Central de Información) has the sole power of giving (or not giving) official advertising to the media.

The overall quality of straight news reporting is better than average. There is extremely little investigative reporting, there are no editorials (both because of fears of economic repraisals) and practically no specialized journalism. Nevertheless, many of the journalists with the main dailies in Caracas are aggressive in a positive way and expect free access to their source. Some are heavily ideologically biased (both ways) but they are not allowed to reflect this in their stories. So, most published stories are rather dull, and quite accurate.

The most influential newspapers are:

El Nacional - circulation 115,000 (Politics)
El Universal - circulation 80,000 (Business)
El Mundo and Ultimas Noticias - circulation 100,000 each (Capriles Group) (Sensational)
"2001" - circulation 30-40,000 (De Armas Group) (Sensational).

Magazines:

There are three important weekly news magazines:

Bohemia (Pro-Government)
Semana (Pro-Government)
Resumen (Independent) (Grupo Olavarría)

Television:

Three private and one official TV Channel cover most of the country. Programs are based mostly on US shows, like "Mission Impossible", "Gunsmoke", etc. News programs are similar in format and techniques to US productions although they have much less resources. TV coverage of news conferences, panel presentations and interviews are frequent, specially when an internationally known personality is visiting Venezuela.

Chanel 2 (Radio Caracas Television), Channel 4 (Venevision) and Channel 8 (CVTV) are private. Channel 5 is official.

RS:bks

Briefs from Venezuela Spanish Daily Press

El Universal, Caracas, July 22

Columnist Luis Esteban Rey, former Congressman and newspaper editor, commented President Carlos Andres Perez policies:

"President Perez has insisted his policies will be patterned after the capitalist model. His position has been clear, and even courageous. But his policies involve reforms to eliminate excesses and distortions in the system, starting with excessive accumulation of wealth...President Perez's Government has already sent to the House of Representatives an anti-monopoly bill and another aimed at defending consumers.

"Before and after his election Carlos Andres Perez has urged the adoption of a new development model. A model that would discard the old myths of per capita income and GNP growth -which often hide, behind high figures, profound economic and social inequities. (He has spoken of) a model aimed at the re-orientation of our productive mechanisms and of our national economy, which at the same time would promote agricultural and livestock activities, increase employment opportunities, and lead to a better distribution of income. Investment funds, credit facilities for medium - and small-size industry, etc. serve such purpose.

"It is true that other countries may offer some valuable experiences. But every statesman should be careful in its public praise of development models being applied by regimes quite different from ours. Their success, if they are really successful, and which in any case would ve very relative and could be explained only because it applies to very early stages of development, depends entirely on the nature of the (political) system, which has as a characteristic the coercive policies employed by the State..."

After pointing out that the measures being adopted by the Government "seek the strengthening of the economic and political system in which we live," Mr. Rey concludes:

"Generally speaking, President Perez's policies and his endeavors to accelerate the process of change are entirely justified...We understand and justify his haste. But this does not preclude the careful consideration of certain decisions and wider consultation within the Government. Let's keep in mind the old saw -Let's go slowly because we are in a hurry."

El Universal, Caracas, May 20

President Perez, in a speech at the opening meeting of the IX Venezuelan Engineering Congress, said his Government is commited to fight poverty, which he considers his primary duty. President Perez said in part:

"Nothing will be gained with the development of our oil industry, with the expansion of our steel industry; nothing will be gained with the high oil prices if these economic resources will continue to be kept or centralized by a small segment of Venezuelan society....We frequently and optimistically talk about our great development, that our GNP has grown spectacularly in our last 15 years of democratic Government...(Our wealth) must stimulate us to fight against privilege, to make possible a better distribution of income. Our struggle against poverty, which is growing in our country despite our high GNP, must be carried out with the support of science and technology to achieve a balanced and armonious development in all of Venezuela, so that the marginal segments (of society) also enjoy the fruits of the general welfare."

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El Nacional, Caracas, May 22

President Perez issued instructions to his Cabinet members to plan the acceleration of productive activities. Minister of Development Lauría stated that towards that end, the Government will allocate Bs. 2 billion (nearly US$500 million) to the agricultural sector and Bs. 2 billion to the industrial sector.

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El Universal, Caracas, May 22

At a meeting May 21, the Cabinet agreed to create a program of scholarships and fellowships for the specialization abroad of Venezuelan steel, oil and petrochemical engineers. President Perez has said that engineering in the state-owned oil, petrochemical, steel and other industries must be the responsibility of Venezuelan professionals.

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El Universal, Caracas, July 6

In an address to members of Congress and Government and the Diplomatic Corps, on the occasion of the 163 independence anniversary, President Perez said Venezuela will reject any attempt to make the country dependent of foreign science and technology. He called on Venezuelan youth to help his Government to achieve that aim: "We may prosper and be materially wealthy, with appliances, cars and highways, -he said-, but if we do not produce ideas, if we are not creative in art, culture, science and technology we will be a subordinated country, a frustrated country."

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July 13

The Venezuelan press quoted extensively President Perez's address at the swearing - in ceremony of Carlos Guillermo Rangel as Minister of State and President of the Fondo de Inversiones (Investment Fund). Mr. Perez said "Nobody can deny us the right to manage our own national resources... The new oil prices are indeed, and thanks Heavens, a way to balance our economy as they will allow us to cover the cost of our imports."

Mr. Rangel said at a press conference after being sworn-in the Fund's main functions will be to manage the surplus resources now available from oil. He added the Fund must see that the investments made "be high yielding and be fully guaranteed, so that when we reach a point when we can use those resources, they may be usefully applied to our future development."

Mr. Rangel said that negotiations were well underway to make Venezuelan funds available to inter tional organizations assisting development in other Latin American countries. Mr. Rangel listed the World Bank, the Inter-American Development Bank and the Caribbean Development Bank, and others, among the institutions in which the Fund may invest or "place resources in trusteeship."

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El Nacional, Caracas, July 15

Agriculture and Livestock Minister Luis Oropeza has stated the Government will continue importing food stuff to ensure an adequate supply to all sectors in Venezuela. In a statement made at Barquisemeto, Mr. Oropeza said that to prevent beef scarcity the Perez Administration has imported 10 million pounds of beef and has purchased 25,000 cows from Costa Rica. "If scarcity continues -of beef or any food product needed for the people's diet- the Government will import what is needed" he was quoted as saying. Mr. Oropeza said the Government is considering irrigation projects to increase production.

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July 18

The Caracas press carried several stories on the resignation of Minister of Development Carmelo Lauria, and his replacement by Constantino Quero Morales. Some press reports (the daily "2001" for instance) said Lauria resigned as a result of pressures from economic and political groups, particularly because of disatisfaction with Lauria's price policies. Lauria denied those reports. The new Minister, Mr. Quero Morales, stated that there will be no changes in the Administration's economic policies.

El Universal, Caracas, July 17

President Perez has given his approval to an amendment to the existing Income Tax Law, whereby all persons earning Bs. 2,000 (about US$80) or less a month will be exempt from paying income tax.

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July 19

After the resignation of Minister of Development Lauria, there were rumors in Caracas that other Cabinet members would also resign, among them the Ministers of Mines, Finance, and Planning. The rumors were flatly denied by Gonzalo Barrios, leader of Democratic Action, the Government party.

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El Nacional, Caracas, July 23

In a step to abolish subsidies, the Government authorized a Bs. 0.05 increase to Bs. 0.35 per liter on high-octane gasoline (about 33 US cents per gallon). The Government was compensating independent distributors with around Bs. 60 million (about US$15 million) a year.

The increase authorization was announced by President Perez in a speech to the Federation of Gasoline Distributors at a meeting held in Maracay. A 10-cent (Bs.) tax on low-octane gasoline has been eliminated.

The President's announcement was subject to critical comments in the press, and among economic and political groups. The main opposition party, COPEI (Christian Democrat) said higher gasoline prices may affect transportation and other costs. The A D (Government party) has claimed high-octane gasoline is used by only 20% of Venezuelan gasoline consumers.

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July 24

The Ministry of Mines and Hydrocarbons announced an increase of Bs. 1.9 billion (about US$470 million) in oil exploitation tax revenues in 1974 second quarter over the estimate made earlier by the Ministry. The estimated income had been set at Bs. 757,830,000; actual income for the period was 255.78% higher, or a total of Bs. 2,696,195,000 (some US$675 million). The announcement said the increase was due to a much higher oil posted prices and to the decision to apply the oil exploitation tax to oil from the Caribbean Zone which so far had been exempeted.

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El Nacional, Caracas, July 24

Venezuela will make available over $1.6 billion equivalent of its oil additional resources for "international cooperation". El Nacional quoted a statement made to an ECOSOC meeting in Geneva by Minister of State for International Economic Affairs, Manuel Perez Guerrero (former UNCTAD head). Among Venezuela's commitments, Mr. Perez Guerrero listed the following:

$100 million for the U.N. Special Programme
$500 million for a trust fund to be administered by IDB
$150 million for the Andean Development Corporation
$150 million for the Central American Bank for Economic Integration
$150 million for the Caribbean Development Bank (CDB)
$ 10 million for a special fund in the CDB
$540 million for the IMF "oil facility".

Mr. Perez Guerrero was quoted saying that Venezuela will also contribute to the proposed OPEC Development Fund, which he said will be established by the end of 1974.

He also said the above listed commitments do not include operations by the Fondo de Inversiones (Investment Fund).

Mr. Perez Guerrero also defended at ECOSOC Venezuela's and other OPEC members pricing policies, saying that in real terms current prices are 5% lower than at the time they were posted due to inflation.

El Nacional, Caracas, August 1

Revenues: 42 Billion

Budget for 1975: 23 Billion bolivares for Ministries, Autonomous Institutions and Regional Governments

19 Billion bolivares 1/ for the Venezuelan Investment Fund

"The authorities of the Ministry of Finance have begun work on the national budget for 1975 estimating that total revenues of the country will be 42 billion bolivares.

The information obtained from the Ministry reveals that after consulting the Ministry of Mines and Hydrocarbons in order to estimate the revenues resulting from petroleum, Minister Hurtado has set a national budget of 42 billion bolivares which will be assigned as follows: 16.7 billion bolivares for current and investment expenditures of the Ministries and autonomous institutions; 6.3 billion bolivares for the regional governments and 19 billion bolivares for the Venezuelan Investment Fund. At the close of the next fiscal year, the Venezuelan Investment Fund will have a total amount of 32 billion bolivares.

Sources from the Ministry of Finance explained that the 16.7 billion bolivares that will be credited to current expenditures of the ministries and autonomous institutions, include service of the public debt. It was also explained that the 16.7 billion bolivares do not include contributions to the Agricultural Development Fund, and resources to be credited to Corpoindustria to assist the development of small and medium scale industries. This indicates that the next investments of the Government to push development in 1975 are larger than those estimated in the ordinary budget. The budget allocations for each Ministry have been allocated by the Ministry of Finance and discussions on the proposed budget have begun in order to establish the final amounts."

1/ $4.4 billion.

World Bank President To Confer With Gov't

Daily Journal Staff

Robert McNamara, former U.S. Secretary of Defense and presently President of the World Bank, will arrive in Venezuela August 14 for a visit with government officials here, according to finance Minister Héctor Hurtado.

McNamara is one of several economists who have been invited to Venezuela to offer their views of the world economic situation in discussions with top government officials.

With the influx of additional oil income here, however, it seems likely that the World Bank president will present the Venezuelan government with investment projects which would help recycle oil money to countries whose economies have been hard hit by rising oil bills.

in Venezuela

IRON INDUSTRY CONTEMPLATES FUTURE

The State will take over the giant U.S. iron ore extracting companies operating here before the end of this year, according to Argenis Gamboa, president of the Corporación Venezolana de Guyana — Venezuelan Guyana Corporation — (CVG.)

Negotiations with the companies began on June 2. An auditing group is already at work on the companies' accounts and on their inventory of assets. The group's report will be handed in by October.

Compensation to be paid to the companies (in as yet unspecified government bonds) will be based on the report's estimate of their book value, or net depreciated assets.

The companies are the Orinoco Mining Co., a subsidiary of U.S. Steel, which has been operating here for 20 years and exported 19 million tons of ore in 1973, of which 11 million went to the U.S. and 8 million to Europe; and Bethlehem Steel's Iron Mining Co., which exported 3 million tons. The whole of the country's iron ore extraction is in the hands of these two companies. Production now stands at 2 million tons a month, and prices have risen eight times so far this year to reach the current U.S. $21.73 per metric ton.

The companies' administrative structure will remain untouched: each will continue to operate as an entity, although a policy-making holding company may oversee both. All U.S. personnel who wish to remain in their jobs will be welcome, according to Gamboa, who has also assured personnel that their wages and benefits will suffer no change.

Meanwhile President Carlos Andrés Pérez has presented the Congressional Special Committee with the draft of a decree freezing the companies' assets. He had previously announced that it was the State's intention to recuperate, immediately, the concessions granted to the two companies, which run until the end of the century. The draft decree says that all terrain, permanent structures, installations, equipment, and all other assets of the companies or their affiliates and subsidiaries, used in the process of exploration, exploitation, processing, and transport of iron ore, are to be considered as part of the concessions, and cannot be dismantled, sold, modified or in any way touched without permission of the Ministry of Mines and Hydrocarbons. The companies are also obliged to maintain all these goods and assets in efficient order, and to maintain productivity until the day of nationalization.

With similar legislation on the oil industry as precedent, the companies are not deceiving themselves about the extent of this decree. Venezuela means to take over everything right down to the last typewriter in the companies' offices. Everything, in this sense, includes the companies' ports on the River Orinoco, their roads and railways, and finally the Orinoco Mining Company's U.S. $ 85 million high-iron briquette plant, (the world's first,) with a capacity of one million tons a year of 86.5 percent iron content product, and its complementary U.S. $46 million ore shifting and preparation plant.

The Treasury's take in income taxes from the industry's operations has been about U.S. $93 million a year. On takeover this is expected to increase by U.S. $30 million. But the real objective is to halt export of ore and to export semi-processed steel instead. Venezuela will invest U.S. $ 1,000 million to quadruple steel output to 4 million tons by 1977, and the eventual target is production of 15 million tons by 1985. This would put the country among the world's top ten producers.

Nation Gets Bs. 2.7 Billion In Oil Production Taxes

Daily Journal Staff

The Venezuelan government collected Bs. 2,696,195,000 in oil production tax during the second quarter of this year alone, a communique from the Mines Ministry disclosed yesterday.

The production revenues, according to the bulletin, surpassed the ministry's goal of Bs. 757,830,000 by nearly 256 per cent, or Bs. 1,938,365,000.

The enormous increase was due in large part to hikes in crude reference prices for the purpose of royalty payments, the ministry's bulletin added.

The payment of Bs. 16,426.833 in production tax for the Caribbean area, formerly exonerated, also accounted for a significant portion of the increase, the communique stated.

A production tax of 22,078,000 for the Oritupano, a recent addition to the state's tax rolls, also added to the overall production tax paid by the oil companies for the April to June period.

National Steel Council Installed by President

Daily Journal Staff

President Carlos Andres Perez officially installed the National Steel Council yesterday in a ceremony held at Miraflores Palace.

The council was part of the economic package that the President announced late last month. Its role will be to oversee the development of the steel industry in Venezuela.

The government of President Perez is attempting to build a strong steel industry here that is primarily funded by local capital. Eventually, the government wants to turn the nation into a major steel exporter and manufacturer of heavy machinery. Venezuela is presently moving to nationalize the iron ore companies that operate here.

The President said in a televised address yesterday that mixed companies will be formed for the future comercialization of iron ore.

"National capital would be dominant in these mixed companies and would be subject to the terms of the sub-regional Andean common market," Perez said.

"Placing the exploitation of our national resources into our hands is an irrenouncable goal."

Perez went on to say that the negotiations with the foreign concessionaires are currently taking place so that the concessions would go back to the state as soon as possible after Congress approves the bill which reserves to the state the exploitation of iron ore.

The U.S.-dominated iron ore industry is run by Orinoco Mining, a subsidiary of U.S. Steel, and Iron Mines Company of Venezuela, a subsidary of Bethlehem Steel.

President Perez said that over the last 24 years some 300 million tons of iron ore have been extracted from Venezuelan deposits, of which nine per cent was processed in Venezuela.

In about a quarter of a century, the country has received only 1.3 billion dollars income for the exploitation of iron ore. This represents an average of about 4.20 dollars a ton, he added.

But he also said that the import value of processed iron ore has cost the country five times more than the raw material.

Venezuela produces an average of 2.2 million tons of iron ore a month. In 1973 exports totaled about 23.1 million metric tons, of which more than 13 million were sent to the United States.

The council will be headed by the Development Minister, Carmelo Lauria. Other members are: Mines Minister Valentin Hernandez; Cordiplan Minister Gumersindo Rodriguez; the presidents of Corporacion Venezolana de Guayana and Siderurgica del Orinoco (Sidor), Argenis Gamboa and Luis Jose Hernandez; the presidents of Metallurgical Industries and Mining and Metallurgical Engineers, Marcelino Barquin and Enrique Alvarez, and a representative of the Confederacion de Trabajadores de Venezuela, Vicente Piate.

Attending the installation ceremony, which was held in the Salon Boyaca, were members of the Cabinet, Congressmen from the Mines Committees in the Senate and Chamber of Deputies and representatives of labor organizations and the Venezuela steel industry.

The Program...And The Problem

A careful reading of recent statements and speeches concerning the new economic program of Venezuela points to some obvious conclusions. Among them:

There is desire to redistribute income so as to help the poorer classes. Some of the instruments: direct subsidies, new social benefits, modifications in taxes, new employment programs.

There is the purpose to encourage agriculture, fishing and livestock-raising — by means of new incentives.

There will be a policy of decentralization of industry (attracting it out of Caracas) and of development of the interior.

The government will be "interventionist", in the sense of controlling certain types of prices, excess profits, monopolistic tendencies — protecting consumers, etc.

The conclusion, then, is that the government leaders want to create a kind of "welfare state", although not a socialist one.

And the chief problem — a grave one, they agree — will be to educate and train competent personnel of integrity to discharge the many new functions that are being contemplated.

The Prospect For Oil

The announcements concerning the oil industry serve, in a way, to clear the atmosphere, and, in that sense, are to the good.

One now knows that there will be a six-month study of the implementation of "reversion" and that many of the chief decisions will be initiated by the five-man coordinating committee. One also can be fairly sure that the three chief companies will continue their operations — state-owned, and "venezuelanized" — but their organization and structure will probably be pretty much as now, having proven efficient and productive as they now operate. Their personnel, it is said, will be kept as much as possible, since it is trained and competent. Of course, there will be new personnel, and everything possible will be done to train engineers, geologists and workers in all branches, so that the operations can continue and can expand if necessary.

One question-mark is the "holding company" that has been announced. Details concerning this idea are still not available, so one cannot know just what functions this company will have.

In any case, there is certainly no occasion for panic or fear. There is every hope that the transition will be orderly and successful, — and that there will still be plenty to do for the foreigners and the foreign companies.

THE DAILY JOURNAL -- VENEZUELA -- MAY 24/1974 -- pages 1-2-15

A DJ Interview

Minister Gumersindo Rodríguez Discusses the Economic Program

By Jules L. Waldman

Minister of Economic Planning Gumersindo Rodríguez is considered to be one of the leading brains behind the new economic program (NEP, shall we call it?) of the Venezuelan government. Faced with a battery of questions, he did not hesitate to answer all of them; his words, therefore are of special significance.

First a word about him, and then, a word about the "Cordiplan" organization he heads. Then the interview.

Dr. Gumersindo Rodriguez is a leading economist for Acción Democratica. He studied economics here and in London, and has been a university professor. He has held posts with the Central Bank, the Ministry of Finance and the Venezuelan Development Corporation, and written profusely on monetary and general economic matters.

The department he heads — "Cordiplan" — was created during the Betancourt administration (1959-1964) and its first head was Dr. Enrique Tejera Paris. Its first job was to make a "five-year plan" for the economy of the nation covering both the government and private sectors. Since then it has been keeping its data current and serving as forecaster and planner for the nation. It is concerned not only with the projection of economic statistics and indexes (from GNP to employment-percentages, from oil production to trade-balances), but also with general economic policies. In this administration — obviously — CORDIPLAN will have a more important voice than ever.

Dr. Rodriguez himself has a small office (for a Minister) and a busy staff. He works indefatigably, beginning early in the morning and finishing late at night. His relations with the press are excellent — perhaps because he is so accessible and so willing to spend time with inquiring reporters.

THE INFLATIONARY SPIRAL

A good fifteen minutes of the DJ talk with the Minister had to do with inflation, and what the government intends to do about it. Just how, he was asked, does he see this problem, and how does he expect to solve it?

The DJ interviewer mentioned that many economists are afraid of an inflationary spiral and maintain that a general wage-hike such as that to be decreed leads to a price-hike, and this in turn causes demands for higher wages which, when granted, lead to another round of price-hikes, etc. The experiences of other countries that had suffered galloping inflation were mentioned, and Dr. Rodriguez was asked his opinion.

"The first thing that should be clarified," he answered, "is whether this theory of the inflationary spiral is really true."

In a highly developed country, he said, an increase in the cost of labor has a very moderate effect on prices, because labor represents a small part of the total cost. For example, "if the cost of labor is 20 per cent and wages are raised 20 per cent, the increase is only 4 per cent."

In Venezuela, he went on, there are special circumstances in addition.

First, he said, "there is an unused capacity in our industrial installations of over 45 per cent." The wage - hikes, he continued, can be considered as income that increases the demand for goods and services — especially in such fields as textiles and foods. This increased demand permits the exploitation of the excess capacity of industry, and this results in economies and lower costs.

Second, he stated, Venezuela has a huge number of unemployed and unemployables. In countries where there is full employment and the income of the family depends on the members of the family who work — and they all do — there is a problem. The only way to increase income is to increase the numbers of the employed — "so in a situation such as ours, where there is no full employment, a way to increase income is to increase employment.

"The real income of the family would increase in Venezuela," he explained, "unlike the situation where there is full employment, so that the purchasing power of the family rises, not only because of the wage-hikes but also because of the new employment."

This results, said the Minister, in an increase in net income and in a braking of the inflationary tendency.

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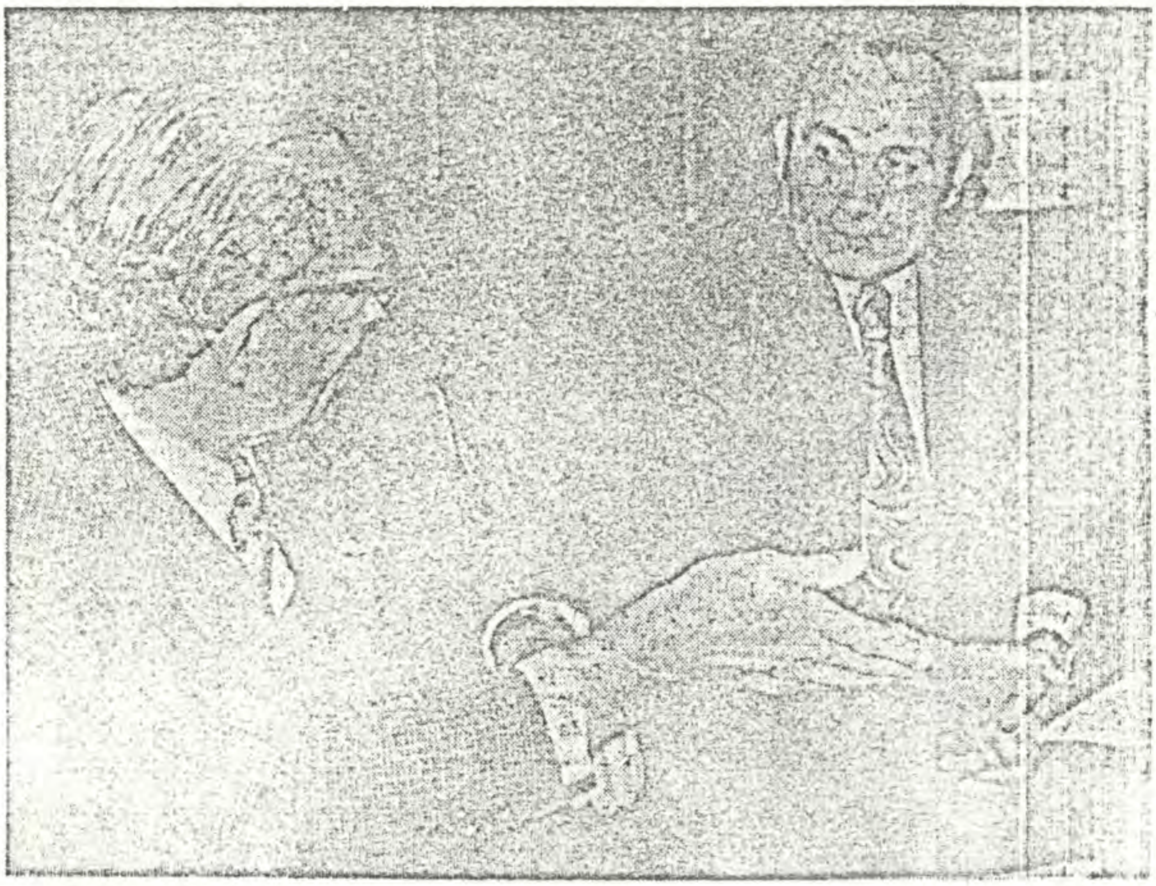

MORE IMPORTANT THAN EVER — Cordiplan Minister, Dr. Gumersindo Rodriguez talks with DJ Publisher, Jules Waldman, about the government's new economic program and Cordiplan's role in it. (Photo by Freddy Marin).

When questioned concerning the scarcity of raw materials that might make it impossible for industries to utilize their full capacity, the Minister assented. "The government must guarantee the supply of raw materials, and that will be a principal task: Industry must be allowed to grow and thus to absorb a large part of the wage hikes."

The minister was confident that the effect of the wage - hikes would be much smaller in terms of percentage than the wage-hikes themselves. He insisted that the theory of the inflationary spiral would not work in Venezuela and that the measures would result in encouraging and increasing production and actually stabilizing prices in the future.

What other measures would be expected to brake inflation? Dr. Rodriguez was asked.

He mentioned the "Investment Fund" which would take half of the oil-revenue out of the country and invest it; the withdrawal of government deposits and funds from the local banks in order to reduce liquidity; the stimuli and incentives that would be given to depressed areas, such as agriculture, livestock, fishing.

FUNDS TO OTHER LATIN AMERICAN COUNTRIES

Minister Rodríguez was asked what the plans were for aid or investment in neighboring countries.

"The precise amounts have not yet been determined," he said. "that will depend on what will be available here and on the opportunities. But, Venezuela plans to invest in industries and activities especially in the Andean region. We will not go in for subsidies, but for wise and useful investments — useful both to the country that get them and to us."

"Our criteria will be: good return, small risk", he said, smiling. He went into details:

"For example, suppose the Andean Pact assigns certain types of agricultural machinery to nations other than Venezuela. Or trucks, or parts, or other articles. By investing in such enterprises abroad that are not assigned to us, we make a contribution both to the other country and to ourselves."

THE TARIFF QUESTION

The DJ then went into the issue of high tariffs and their effect on the local price structure.

"I know The Daily Journal has editorialized about this— I read the Daily Journal all the time— and I think your position is attractive and interesting."

"Importation is a factor in inflation," he said. "But a relative one. Important, yes. But not the determining factor. Imports affect 20 per cent of Venezuelan consumption, not much more."

"Yes," "it is true that an ad valorem tariff on constantly rising prices tends to multiply the effects of inflation — has a kind of "built-in" (he used the English term) effect. And higher - priced raw materials, he said, have an immediate effect on prices, just as higher-priced agricultural machinery — because of gradual amortization— does not have such an effect.

Also, he said, since machinery is bought with foreign currency that has to be purchased, the effect of this is anti-inflationary because it reduces liquidity. "On the one hand, the price may go up, but on the other hand, liquidity goes down."

Another difficulty, he pointed out, is "our obligation under the Andean Pact."

But, he added, there is the possibility of revising tariffs on articles and materials not made in the Andean region— "and in this area, studies and revisions can be made."

REVALUATION RUMOR?

"What we think of revaluation?" repeated the Minister. "We have discarded it because it contradicts our other policies."

"For example," he said, "revaluation would prejudice us in the Andean Pact." Besides, it would hurt the exportation of non-traditional exports, "and would only remunerate all the foreign speculators who have brought money into this country in hope of an easy profit."

Then the Minister took time out to deny the rumor of a tax on foreign-currency purchases of certain types. "That would amount to a partial devaluation, and that too is against our policy." It also violates the principle of unity of foreign exchange — there will be no change in the value of the bolivar, he reiterated.

AND THE PRICE FREEZE?

"We will still regulate certain basic-fields," said the Minister, "even after the price-freeze is over." (The freeze will end in June). "Certain types of food, medicines, clothing, recreation, education." Price-freezing, he added, "does not mean indefinitely controlling— there should be time to readjust production and "rationalize prices." The advantage of a price- freeze, is that if a merchant knows there is freeze he does not raise prices, for he does not "anticipate" a change.

The United States, he said, would have had even worse inflation if it had not had the freeze. The freeze was also able to improve the U.S.' balance of payments, he said.

TAXES AND SUBSIDIES?

The Daily Journal had heard much about "tax reforms," and asked about them.

"The purpose will never be to get income", said the Minister, "the purpose is to reorient the budget so as to benefit the masses, and also to encourage certain activities such as agriculture, livestock - raising, fishing and also industry in the interior. So there will be adjustments, exonerations and exemptions.

"We want only to redesign the apparatus of income and expense so that those who contribute less to development pay higher taxes and those who contribute more pay less by means of exemptions."

The purpose, he emphasized, will not be "punitive." It will be to "re-orient" and to "channel."

Tax exemptions in certain activities, he said, might be for a period of up to ten years. And he again mentioned agriculture, livestock, fishing and industry in the interior. The "reorientation" he said, would be designed to discourage speculation in land and in commerce.

In line with this desire to promote agriculture and industry, Minister Rodriguez hinted at the issuance of tax-free interest-bearing bank certificates whose proceeds would be used to encourage these two activities.

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Mortgage certificates, he said, would continue as before; but it would be hoped that some of the funds that now go into them will be diverted to the new certificates that would provide financing for agricultural and certain types of industries. "The stimulus at present is only for "luxurious" construction, either commercial or private; it must be spread out to include other activities."

"We wil have a different kind of subsidy," said the Minister when asked about policy on this front. "We will not have general subsidies in consumption, which benefit both the rich consumer and the poor." The government prefers to subsidize the poor consumer directly, even with free supplies, such as free milk for pregnant and nursing mothers and for poor children. "The traditional type of subsidy", he said, "will be suspended." In the traditional subsidy, "the price can be too high for the poor consumer."

This is the plan, said the minister, as far as subsidies to consumption are concerned. Subsidies to production will be in the form of fiscal stimuli", and these stimuli would be transitory, never permanent.

SMALLER BUSINESSES AND RAW MATERIALS...

The DJ pointed out that many small businesses were complaining about the burden of the wage-hikes and other new expenses, predicting bankruptcies and liquidations among their numbers because of inability to absorb the new costs.

"Yes, some will have problems", agreed the Minister.

"But we will help them."

There would be a special fund for loans to this sector, he said, to help companies abide by the new labor-law regulations.

There would also be a special government commission in which these companies would participate, he said, for the purpose of obtaining the raw materials they might need.

"Their complaints will be listened to", he said.

As for the raw-material problem, which he admitted is grave, he said that one of the prime tasks of this government would be to stimulate their production within the country.

Venezuela will not revive the "old-style" anti-monopoly laws, said Minister Rodriguez. "Nothing like the Sherman Anti-Trust Act, which was a populist measure for its time."

"Our object is not to eliminate the large producers — only to translate their productivity into lower prices." This means, he said, that no collusion or price-fixing among companies would be permitted. The consumer must get the benefit of their efficiency.

FOREIGN CAPITAL... AND THE GOVERNMENT'S ROLE

Finally, Minister Rodriguez was asked two important questions:

Just what will the role of foreign capital be in the future?

What will the role of the goverment be?

Foreign capital, said the minister, will continue to play an important part in the development of Venezuela. In fact, he said, once the foreigners know the exact rules of the game, there will be a significant inflow of capital from abroad. "We expect to define the rules so precisely that there will be no uncertainty."

He said that Venezuela will need foreign know-how and technology, as well as foreign capital, in many of the projects it was planning. Government policy and the Andean Pact, will define the areas. And, as for foreign capital, he said, "it will tread on very firm ground in the fields that are clearly left for it." He also stressed the possibility of mixed companies."

"Oil, iron, natural resources will be reserved for the state", he said. "Certain terminal fields, (ramas terminales") should be managed by the state.

"Our government will not be socialist", he said. There will be government capital, private Venezuelan and private foreign capital ,he stated. And private capital — including foreign — will be specially important in "the production of machinery, of raw materials and of intermediate goods, not only for the domestic market, but for the international markets, where the foreign companies have connections."

'AUSTERITY MID ABUNDANCE'

"And when we say 'austerity in the midst of abundance,' we mean it." Despite the abundance, he said, "there is a scarcity of viable projects and of personnel."

The telephone interrupted the conversation. Coming back, he said, ruefully, "If you could eliminate the telephone, the GNP of this country would go up considerably."

And, a propos of austerity and abundance, he concluded the interview by citing the cartoonist Zapata. Zapata he said, recently captioned a cartoon, "Los reales cuando abundan mucho, se vuelven irreales". ("When the reales — funds —are abundant, they become unreal ")

This, said the Minister, summarizes the challenge facing Venezuela.

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An Interview with the Minister of Finance

Daily Journal Staff

The following are excerpts from an interview with Dr. Hector Hurtado that took place this week on the program, "Buenos Dias."

Q. Whither are you bound with the measures, and why?

A. Venezuela is at a critical juncture right now. On the one hand there is the agricultural crisis; on the other, a crisis of abundant financial resources which, if they become part of the money in circulation, could produce a rise in prices that would neutralize the wage increases, affecting the welfare of the people.

And internationally, we find ourselves facing a problem of world inflation and shortages of raw materials, also political problems. So, altogether, we are in a situation of emergency, just when we are faced with decisions concerning the nationalization of oil and of iron and entry into the Andean Pact. So we have to measure our path very precisely, or we expose ourselves to risk.

The fundamental purpose is to speed social and economic development! a better distribution of wealth, greater welfare for all.

Q. And how do you think the measures will accomplish this purpose?

A. By employing more resources, increasing the purchasing power of the people, balancing production and supply with this greater acquisitive power.

We remain within the capitalist scheme, introducing reformism so that the system will better distribute the wealth and increase the general welfare. We do not want to "convulse" society.

Q. Could you tell us what influence these measures will have so that you can calm us all?

A. All right. I will explain some of the measures. For example, concerning the Investment Fund we are planning — people ask why lend and invest abroad when we have so many necessities right here. Well, the idea is to impede extra money from getting into circulation. We have to prepare projects before we can absorb these extra amounts. Later, we will use this money; now we want it to earn interest abroad.

This year we can put at least Bs. 15 billion in the Fund. SIDOR will spend Bs. 5 billion — but in there years with the National Steel Plan we will be producing 10 million tons yearly in 1980, which means Bs. 12 or 15 billion later on.

Q. In the Andean Pact we are linked with Chile, Ecuador, Peru, Bolivia and Colombia. In view of our wealth and potential, wouldn't it be sounder to be related with countries like Russia, USA, Japan the Common Market perhaps in bilateral agreemeins?

A. I believe that Venezuela, within its strategy of development should be interested in association with the Andean nations. This does not mean it cannot conquer world markets. An example is the petrochemical industry, which has a great future abroad outside of the Andean region. I think it is possible to combine the Andean Pact with the world markets.

Q. Haven't your views concerning, for example, wage increases changed? You now approve salary increases even in high brackets?

A. Circumstances have changed. At one time higher income taxes were desirable. Now I think that the poor can be better benefited by price freezes, changes in the installment - plan system, etc.

On installment prices, we proved that credit purchases charged interest of between 27 per cent and 45 per cent. Now we will fix the interest at 12 per cent plus 6 per cent for costs. Before that, the companies were charging too much.

Q. And the mortgage certificates?

A. It is better to refer to all the rumors. Look, the President asked for special powers in three fields: banking and finance institutions; industrial and agricultural financing—funds of Bs. 2 billion each for credits; and third, reforms in social legislation, so that "cesantia" and "antiguedades" become the right of all, the wage hikes and the reorganization of Social Security. Also, theer is the fiscal aspect, so that for example we can modify taxes on the oil companies and modify the systems of exemptions and exonerations.

As for mortgage certificates, they are exempt by law up to 6 per cent, later this was raised to 8 per cent by decree. So they are "exempt" to 6 per cent, and "exonerated" another 2 per cent. We want to eliminate these and make it all a single "exoneration". No change in the return is contemplated.

Q. When will the wage increases come through and in what form?

A One has to wait, first, for the approval of the law then for the decree to be made. In the case of public employees it is possible that the increases will be effected as of a certain date — that of the decree or any modification, for example as of a previous date retroactive. In the case of the private sector I would think that the increases would become effective from the moment of the decree.

Q. How does one justify the "Special Powers"? Is the wage increase a kind of presure over Congress so they should approve the whole package?

A. No, no, no. I think the most obstinate opponent has to accept the fact that the government is proceeding with the utmost seriousness. Even though the government has great popular support. I would say that it is not acting with that in mind but only with great seriousness. There is no idea of pressuring the Congress so that it should act more speedily now than on other occasions.

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The proposals simply include the minimum necessary to solve eventual emergencies.

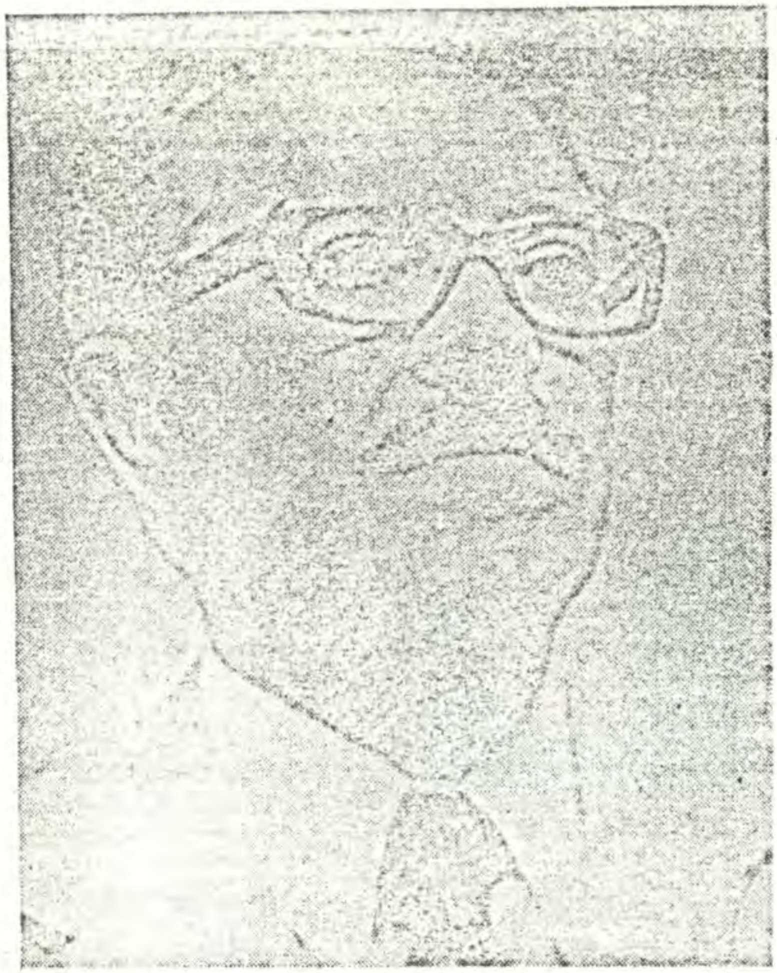
Then, you might ask, why incorporate the wage raises within the Law of Special Measures? Because I think that if we proposed the wage hikes alone we could be accused of demagoguery and there would be much debate on the details — 5 per cent more here, 5 per cent less there, etc. We could even create greater inflationary pressures this way.

And why cannot Congress act with ordinary measures? I would say that the complexity of the world situation the uncertainty in monetary matters and other problems may make corrective measures necessary within two or three months. In such a case we would have to propose another law. More convenient is to have the mechanisms ready so one can react rapidly to world developments.

The Executive could quickly introduce modifications if necessary. We must not forget that we are in an emergency concocted out of both the national and the international situation.

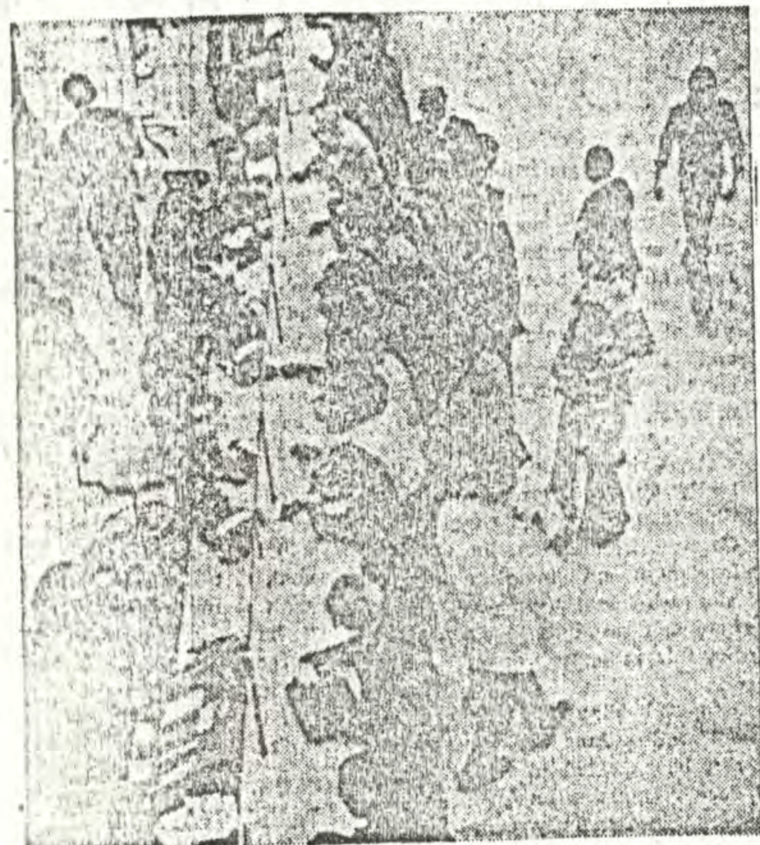
Q. We think you should begin taking measures and not take up old matters...?

A. We are not seeking out what has happened in the last five years. We see the future of Venezuela with faith and with optimism. . .we are not criticizing the past. we are only trying to consolidate the administrative structure of the nation and also to ask the privete structures to ready themselves to meet the challenge in using efficiently the resources that will come from our oil.



Dr. Hector Hurtado
Minister of Finance
(Photo by Juan Noguera)

'Business Conditions...



NEVER BETTER — Monday morning customers transact business in the main office of Banco Mercantil y Agricola. (Photo by Freddy Marín).

argue with the rights of a government to nationalize, but the country must make immediate and adequate payment for the property to stay on the good side of the U.S. government."

The petrochemical situation in this country, he went on to explain, demonstrates precisely the disadvantage of taking a hard line on foreign investment. While greatly needed by the country, the high technology and expensive cost of the operation for a long time proved prohibitive for Venezuelans. However, the danger of nationalization made the project equally unattractive to foreign investment.

"I must say one thing, however, regarding nationalization," admitted Mr. Grimes, "I'm impressed by the fact that though people always say, these countries could never run their industries yet one way or another they always manage to do so."

DECISION 24

Foreign investment in Latin America is governed by Decision 24 of the Andean Pact. The opportunities are good, explained Mr. Grimes, so long as one recognizes the restrictions and adheres to them. Many new business are coming. Exactly how the new government in Venezuela will apply the pact has yet to be revealed.

President Carlos Andres Perez has stated that he is preparing a Banking and Insurance Reform Law, and while its exact provisions have not been announced, it is assumed that Venezuela will probably take a hard line. It is expected that they will bring insurance companies, financiers, and leasing companies into line with the provisions that govern banks. At the current time, finance companies (financiers) can have up to 40 per cent foreign capital. Leasing companies and such things as factoring businesses (companies which buy debts at a discount, then collect them), have no restrictions at the present time.

Mr. Grimes feels that Venezuela would be the logical financial center for the Andean Pact nations, and that the bolivar, having been recognized by the International Monetary Fund as a strong currency, could become the Pact currency.

Already there have been strong indications that Pact countries are interested in borrowing bolivars. Mr. Grimes stated that they have been approached by potential borrowers in a number of countries, and feels that it is only the uncertainty brought about by continued rumors of revaluation that have kept many countries from borrowing. Other Daily Journal sources report that several million bolivars have already been loaned to foreign countries.

BMA RELATED ACTIVITIES

As for Venezuela's ability to resist the jaws of inflation, Mr. Grimes said, "you have to look at the track record, and Venezuela's is extremely good. In fact, they have out-performed most sophisticated economies of the world."

In one particular area [illegible] President Perez' concern, [illegible] is already a leading [illegible] and that is agricultural [illegible] ment. Among other things, the bank has a cattle financing program designed to develop the fattening process of beef cattle.

At the present time eight per cent of the bank's portfolio is tied up in the cattle fattening process, and Mr. Grimes believes that his bank is "making a real contribution to the cattle industry."

"We are the only commercial bank in Venezuela doing anything in the cattle line." It dates back to a cattle farmers assistance program Chase started in Panama, he explained. Chase provides the technical assistance, and the farmers put up some of their cattle as collateral. Already there are 143,000 head of cattle with the BMA brand.

Farmers have proven to be an exceptionally responsible group when it comes to meeting their obligations." BMA is also financing agricultural programs in other areas, among which are sugar, cotton, sesame and tobacco.

A sidelight of the current oil nationalization studies and discussions has recently involved BMA. Many of the employes of the foreign owned oil companies became concerned that with nationalization, their severance pay would be endangered. Most petroleum companies, according to Mr. Grimes, have found it necessary to establish individual trusts for each of their employees.

All in all, Mr. Grimes believes Venezuela is a wealthy, strong country. It has the economic conditions to make it potentially the center of the Anean Pact. Moreover, he believes that business conditions have never been better, and that the Venezuelan business community can look forward to many more prosperous years.

VENEZUELA

President Carlos Andrés Pérez' April 29 message announcing a broad range of economic measures designed to transform the economic, social and financial systems of the country has created some confusion among business circles and received support from unexpected quarters. (L.A. Report, Vol. II, no. 9). In the same speech, Pérez asked congress for special powers to impose the economic measures by executive decree. (The constitution establishes that special powers can be granted to the president to dictate "extraordinary measures in financial and economic matters when they are required in the public interest and have been authorized by a special law".) The request was approved in the chamber of deputies by all parties except the opposition Social Christian Party (COPEI), which abstained. The far left Movement to Socialism (MAS) not only approved the measures, but has offered the collaboration of its intellectuals in state cultural organizations and the foreign service. COPEI opposed the measures as "anti-democratic", while some business sectors were still uncertain of their consequences.

National Planning Minister Gumersindo Rodríguez, a principal coordinator of the measures, together with Development Minister Carmelo Lauria, said all the measures are valuable individually, but gain real importance from their interrelation in fixing a new direction to the country's economic progress. According to Gumersindo, they include plans for 1) heavy investment to create solid bases in agriculture, agro-industry and industry capable of satisfying consumer needs, and providing industrial raw materials and employment; 2) redistribution of income to increase buying power of lower classes, financed by reduction of public expenses and excessive profits; and 3) a decentralization of industrial production toward less developed regions, reducing the exportation of inflation to those areas from industrially saturated zones.

A commission appointed to study the reversion of the petroleum industry to the state will present its findings within six months. The Ministry of Mines and Hydrocarbons is expected to establish methods for calculating compensation to be paid the companies; determine transitory norms for operation of the industry during the take-over period; establish guarantees for protection of workers' rights and constitute a supervisory committee for the whole process, with congressional representation. Three national firms will be formed to assume control of the assets of Creole, [illegible] and [illegible], and a fourth for all of the smaller companies. The Mexican state oil corporation, PEMEX, has offered consultant services to Venezuela during the process of nationalization.

in Venezuela

FUTURE OF IRON INDUSTRY AT STAKE

The Venezuelan government has opened negotiations with big U.S. steel companies about nationalization of their operations in this country. Officials say this is the first step towards making Venezuela one of the major steel centers of the world with annual production of 15 million tons of semi-processed metal by 1985.

The firms are Iron Mines Company of Venezuela, a subsidiary of Bethlehem Steel, (which began exporting in 1950 and last year shipped three million tons of iron ore to the U.S. from its own port, El Palúa, on the River Orinoco,) and Orinoco Mining Co., a subsidiary of U.S. Steel, (which started exporting in 1954 and last year shipped 11 million tons of ore to the U.S. — specifically to its Fairless, Pennsylvania plant built to process Venezuelan ore — and 8 million tons to Europe.)

In October of last year, Orinoco Mining started up an 85 million dollar high-iron briquette plant, the first in the world, at Puerto Ordaz.

Capacity is one million tons a year of 86.5 percent iron content briquettes. Ancillary to this is a 40 million dollar ore handling and preparation plant. The company has built 80 miles of paved road and a railway, and dredged 200 miles of the River Orinoco to get ships up to its 6,000 ton-an-hour loading area at Puerto Ordaz.

These two companies handle all iron ore extraction. Production rates this year are running 33 percent higher than in 1973.

In the first five months of the year, prices rose eight times and are now at U.S.$ 21.73 per metric ton. The State treasury receives some 80 million dollars a year in taxes from the companies, or about 4 dollars per ton of iron ore. If Venezuela processed that ton of ore itself, the country would earn more like 350 dollars for it. Moreover, the State steel mill, Siderúrgica del Orinoco or SIDOR, produces just short of one million tons a year, or less than half of the country's internal needs. Most of the rest, gallingly, is imported from the U.S. at a cost of 230 million dollars a year. Thus Venezuela earns less from export of some 22 million tons of iron ore, than it has to pay for imported steel.

A crash effort to reduce this imbalance slightly will be made with a 1000 million dollar investment to quadruple steel output to four million tons in the next three years. The program then entails boosting production to 10 million tons by 1980, and to 15 million by the middle of the next decade.

The ~~first aim of the~~ government is to recuperate concessions given to the U.S. companies, which run until the end of the century.

Reserves in these concessions are estimated at about 830 million tons. These will be added to reserves in the five deposits held by the State in the same region, (in the state of Bolívar, south of the River Orinoco,) which amount to some 1,000 million tons. At a projected maximum extraction rate of about 30 million tons a year, these deposits will last at least 60 years. Two tons of ore will produce one ton of semi-processed metal and, if Venezuela were processing this quantity of ore, her earnings — even at current prices — would be in the region of 4,250 million dollars a year. Prices in fifteen years will of course be far above current levels.

The government has said that it will accept mixed foreign-Venezuelan firms if the State has a majority holding. It is not clear whether this majority holding must be 80 percent, as called for in Decision 24 of the Andean Pact agreement regulating foreign investment, or 51 percent. Neither is it clear what the government intends to do with the roughly two million tons of ore now being exported per month. The country does not have a plant to process it, nor does it need the money earned because of enormous oil revenues. Venezuela could afford to leave it in situ until the necessary plant is built but it will be difficult to cut off exports abruptly to customers in the U.S. and Europe who need iron ore.

These are the major questions now being discussed by the government and the top U.S. steelmen. There is also, of course, the touchy point of compensation, which, says the government, will be based on the book value of the companies' assets. The auditing and legal jousting is likely to be rough.

Venezuela: the price of change

The government's growing dispute with the private sector is reflected in recent cabinet changes, which demonstrate that the left-wing nationalist line is to continue.

Beset by inflationary pressures and a government which sprang an unexpectedly radical economic policy upon it, the private sector — or at least that part of it with strong foreign contacts — has been fighting back, both inside the cabinet and out. But this month's cabinet changes, which culminated in the resignation of development minister Carmelo Lauria last week, spell out a very clear defeat for business on that battle front. The resignation of Lauria, who has close links with the influential business organisation Fedecámaras, came after what seems to have been a running row with planning minister Gumersindo Rodríguez, the one-time marxist who has master-minded the government's emergency new economic policy.

[illegible] incompatible with his 'mission' of contributing to the country's development'. In fact Lauria had been under pressure for some time from his business friends for accepting government policy. Even more unpopular among businessmen than the price freeze, perhaps, has been the proposed law on security of employment, which the government says is needed to prevent unjustified dismissals and protect workers in a society of high unemployment, but business says will make it impossible to get rid of unsuitable or surplus employees. The bill was approved by the chamber of deputies on the very day that Lauria resigned. The new minister is Constantino Quero Morales, until now president of the agricultural marketing corporation.

Earlier this month the minister of agriculture, Froilán Alvarez Yépez, resigned and was transferred to the lusher pastures of Rome as Venezuela's ambassador. How much political significance there was in his departure is not entirely clear, but agriculture has been as much affected by the new policies as industry. The new minister is Luis José Oropeza, a lawyer. Rumours — quickly denied — were also flying around last week of the impending resignation of the minister of mines and hydrocarbons, Valentín Hernández, and of health minister Blas Brunicelli. But even if, as seems likely, there was nothing to these rumours, they are symptomatic of the tensions within the cabinet as both the new economic policies, and the pressures of inflation, begin to bite. At any rate the survival of Rodríguez — now perhaps established more clearly than ever as the key figure in the cabinet — demonstrates that President Carlos Andrés Pérez has no intention of abandoning the left-wing nationalist line he has chosen. Not that this line is more left-wing than, say, the Peruvian government's; it is just that in Lima people have learned to live with it, whereas in Caracas they are still reeling.

None of this means that the private sector has surrendered on the broader economic stage, or that the government has won its fight against inflation. Indeed this is currently the point at which the heat of battle is greatest. With minimum wages raised by government decree (*see* Vol. VIII, No. 18), many private firms have complained that they cannot sell within the minimum price levels set by the government for certain goods. The government, on the other hand, accuses certain businesses of deliberately hoarding goods in an effort to maintain excessive prices and profits. For example, cheap cuts of meat which fell within the scope of price restraint almost disappeared from the shops last month, while the better cuts, which [illegible]

Given the huge inflow of dollars for oil, the government can always threaten home producers with cheap imports; spending on imports also has the advantage of reducing the amount of money within Venezuela and so combating inflation on another front. But this card has to be played with care, since the government's long-term strategy is to develop a strong domestic industry, and not to be tempted by the easy, but ultimately fatal, course of spending its temporary oil bonanza on imported consumer goods. It remains to be seen how far the private sector will eventually conform to the ideas of Gumersindo Rodríguez, who has spoken of the lessons to be learned from Cuba and China as well as capitalist countries. But it is unlikely to survive in its existing form.

Translation of an article published July 19, 1974 in the "Nacional" of Caracas, Venezuela.

"McNamara Coming to Sign Bonds for US$500 Million -

The President of the International Bank for Reconstruction and Development - World Bank - will arrive in Caracas the 14th of August. Dr. Hector Hurtado, Minister of Finance, yesterday indicated that by this date the negotiations between the World Bank and the Investment Fund of Venezuela, will have been completed for the placement of a US$500 million bond issue of the above-mentioned public international lending institution. He also indicated that this may be the first investment by the Investment Fund of Venezuela, which is beginning operations with resources of US$13 billion. The Fund will officially be established Monday (July 22) when its first Meeting, chaired by the Minister of Finance, will take place. Minister Hurtado explained that the negotiations with the World Bank are very advanced, and that it is expected that during his visit to Venezuela Mr. McNamara will be able to sign the necessary documents in order to place in the country - through the Fund - bonds for US$500 million. The Government organization (the Fund) will absorb the whole issue."

* the statements in parenthesis have been added for clarity.

OFFICE MEMORANDUM

TO: Mr. Jorge Bravo

DATE: August 1, 1974

FROM: Rodolfo Schmidt

SUBJECT: The Venezuelan Press

There are more than 150 dailies in Venezuela (pop. 12 million) but only 6-8 influential morning and evening newspapers. Because of economic factors and traditions, about 50% of all published material is provided by the Government or its agencies; 25% are foreign news items supplied by the international news agencies and 25% has been written by staff reporters. There is freedom of the press but the Government is the biggest advertiser, and now the Central Information Office, (Oficina Central de Información) has the sole power of giving (or not giving) official advertising to the media.

The overall quality of straight news reporting is better than average. There is extremely little investigative reporting, there are no editorials (both because of fears of economic repraisals) and practically no specialized journalism. Nevertheless, many of the journalists with the main dailies in Caracas are aggressive in a positive way and expect free access to their source. Some are heavily ideologically biased (both ways) but they are not allowed to reflect this in their stories. So, most published stories are rather dull, and quite accurate.

The most influential newspapers are:

El Nacional - circulation 115,000 (Politics)
El Universal - circulation 80,000 (Business)
El Mundo and Ultimas Noticias - circulation 100,000 each (Capriles Group) (Sensational)
"2001" - circulation 30-40,000 (De Armas Group) (Sensational).

Magazines:

There are three important weekly news magazines:

Bohemia (Pro-Government)
Semana (Pro-Government)
Resumen (Independent) (Grupo Olavarría)

Television:

Three private and one official TV Channel cover most of the country. Programs are based mostly on US shows, like "Mission Impossible", "Gunsmoke", etc. News programs are similar in format and techniques to US productions although they have much less resources. TV coverage of news conferences, panel presentations and interviews are frequent, specially when an internationally known personality is visiting Venezuela.

Chanel 2 (Radio Caracas Television), Channel 4 (Venevision) and Channel 8 (CVTV) are private. Channel 5 is official.

RS:bks