

UNITED STATES TARIFF COMMISSION



**ECONOMIC CONTROLS
AND
COMMERCIAL POLICY
IN
VENEZUELA**

One of a Series of Reports on
Economic Controls and Commercial Policy
in the American Republics



Washington
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UNITED STATES TARIFF COMMISSION

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FOREWORD

This is one of a series of reports on Economic Controls and Commercial Policies in the Latin American Republics.

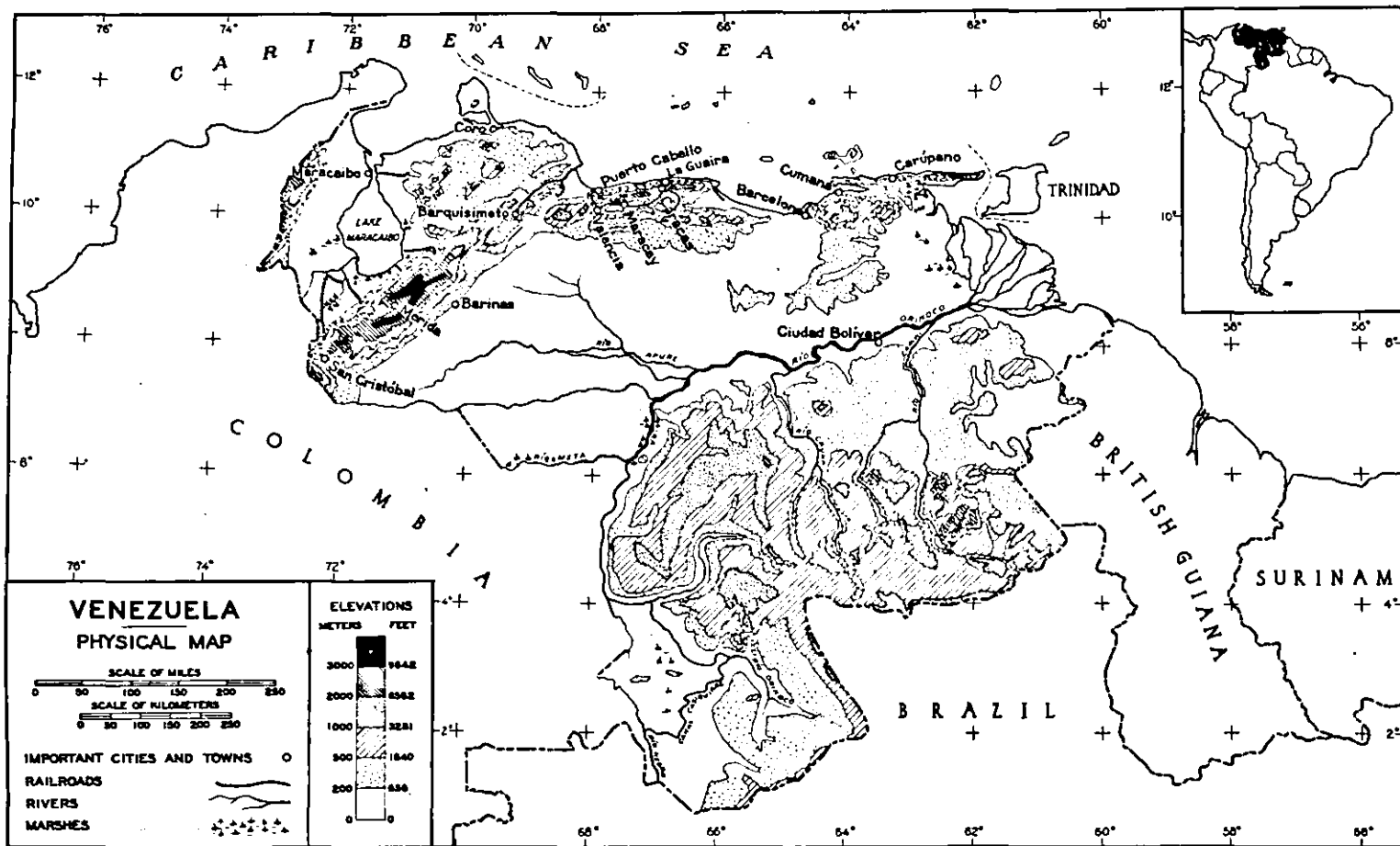
Other work in preparation by the Commission relating to trade problems of the American Republics includes a series of reports under each of the following headings: Mining and Manufacturing Industries; Agricultural, Pastoral, and Forest Industries; and Recent Developments in Foreign Trade.

In the preparation of this report the Commission had the services of David Lynch, Allyn C. Loosley, and other members of its staff.

(23310)

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ECONOMIC CONTROLS AND COMMERCIAL POLICY IN VENEZUELA

Introduction

Venezuela—a summary description.

Located on the northern coast of South America, the United States of Venezuela^{1/} is bounded on the west by Colombia, on the east by British Guiana, and on the south by Brazil. Extending about 900 miles from east to west, and nearly 800 miles from north to south at its widest point, its area is 352,000 square miles, slightly smaller than that of the States of Texas and Colorado combined.

In general, Venezuela may be divided into four regions—the mountainous region of the Andean and Coastal ranges in the west and north, the Orinoco plains to the south, the Guiana Highlands on the east, and the coastal plain. The mountainous region extends from the Colombian border northeast to the Caribbean Sea, and thence eastward along the coast. To the south of the Andean and Coastal ranges, stretching more than 600 miles from east to west, lie the Orinoco lowlands, or llanos, one of the three major plains regions of South America. South and east of the Orinoco system, toward British Guiana and Brazil, are the Guiana Highlands, a plateau largely covered with tropical forests, much of which still is unexplored. Between the Andes and the Caribbean Sea is a narrow coastal plain; at its western end, surrounded by the Andean highlands, lies the low region around Lake Maracaibo, the country's principal oil-producing area.

Although Venezuela lies entirely within the Tropics, its climate varies greatly with the elevation. There are three general climatic areas—the torrid region, from the coast up to an altitude of about 2,000 feet; the temperate region, from 2,000 up to about 6,000 feet; and the cold region, over 6,000 feet. In the lower altitudes along the coastal plain and in the interior plains and river valleys, the climate is tropical. Because of the heavy precipitation during the rainy season large areas in the llanos are annually in flood. The climate in the highlands, where most of the cities are located, is mild, healthful, and invigorating. In the very high altitudes it is cold and damp.

In 1905 there were 2,598,000 persons in Venezuela; according to the census of 1936 the population was 3,468,000,^{2/} or about 10 persons to the square mile. Most of the inhabitants, however, are concentrated in the northern highlands and in the northwestern part of the country in the vicinity of Lake Maracaibo. Caracas, the capital and principal city, had a population of 203,000 in 1936. Other important cities, with their population that year, were Maracaibo (110,000), Valencia (49,200), Barquisimeto (36,400), Maracay (29,800), and Ciudad Bolívar (25,100).

Mixed races constitute about two-thirds of the Venezuelan population and persons of European extraction, about one-fifth; Negroes and Indians account for the remainder. There has been little immigration since the end of the colonial period. Only small numbers of persons are permitted to enter the country annually, and in some years emigration has equaled immigration.

The Venezuelan economy. ^{3/}

From the standpoint of international trade, the production of petroleum is the most important economic activity in Venezuela. No other country of

^{1/} Officially known as Estados Unidos de Venezuela. The federation consists of 20 States, 2 territories, and the Federal District.

^{2/} An estimate for 1940 placed the population at 3,943,000.

^{3/} This brief description of the Venezuelan economy relates principally to the period before the outbreak of the war.

Latin America, except El Salvador, is dependent upon the export of a single commodity to the same extent as is Venezuela. In recent years about nine-tenths of all Venezuelan exports, in terms of value, have consisted of petroleum and its derivatives. Practically the entire production is by foreign-controlled companies operating under Government concession. Other minerals occurring in the country include gold, ¹/₂ silver, copper, magnesite, coal, iron, tin, asphalt, asbestos, mica, and salt. The country's iron reserves are potentially important, but have not been exploited to any considerable extent. Venezuela also is believed to have extensive reserves of coal; in general, however, the fields are inaccessible and have not been developed.

Coffee is the leading Venezuelan agricultural export commodity; cacao ranks second. Other agricultural products, grown chiefly for consumption within the country, include corn, sugar, cotton, tobacco, wheat, rice, beans, potatoes, fruits, and a wide variety of vegetables. In recent years the Government has attempted to stimulate agriculture and agricultural exports by aids of various kinds to agriculturalists and by export bounties on agricultural products.

Pastoral activities, especially the cattle industry, form a significant source of national wealth. Cattle hides are an important export product; the beef is consumed largely within the country. Sheep, goats, hogs, and horses are also raised, and goatskins are exported.

The extensive forest resources of Venezuela include at least 600 species of wood. About two-fifths of the country's land area is forested, but there has been no extensive development of lumbering. The chief forest products are cabinet woods, rubber, balata (a gum resembling gutta percha), the tonka bean (a seed used for flavoring), divi-divi (a substance used in dyeing and tanning) copaiba (a resinous substance used for medicinal purposes), and vanilla.

Venezuelan manufacturing industries are not extensive, although in recent years there has been a considerable development in certain lines, and for some products the entire domestic requirements are produced within the country. High duties are imposed on imported manufactures, but domestic production on the whole is so small that there is little competition with imported commodities in most lines. Through the tariff and through loans, the Government encourages the establishment of small industries, especially those which utilize domestic raw materials. Manufactures produced within the country include cotton textiles, soap, cigars, cigarettes, candles, cheese, vegetable oils, canned meat and fish, sugar, chocolate, beer, shoes, clothing, cement, glass bottles, matches, paper, cordage, furniture, rugs, straw hats, refined petroleum products, lumber, and light iron products.

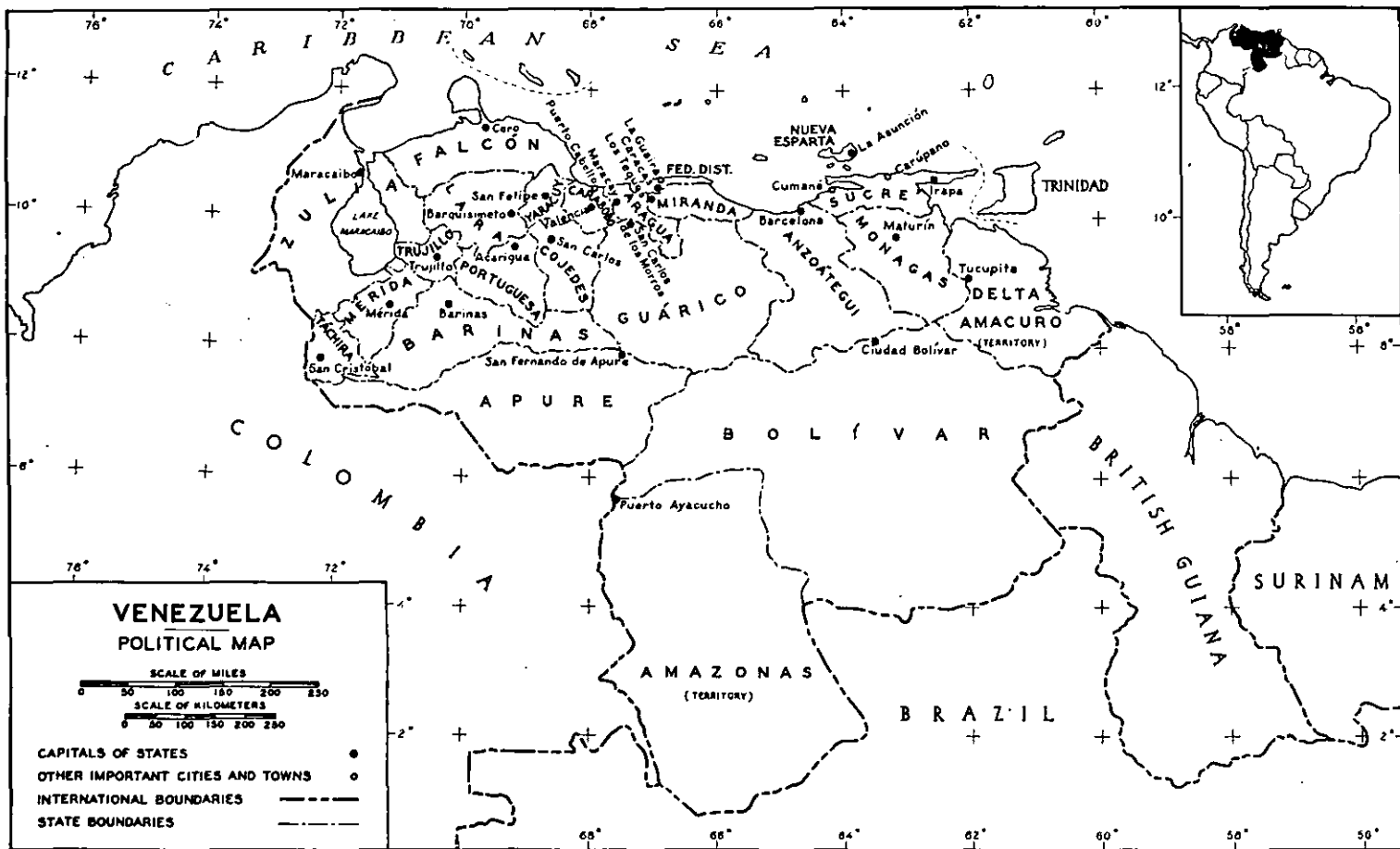
Pre-war foreign trade. ²/₁

On the basis of official statistics, Venezuela in 1938 ranked third among the Latin American countries as a foreign-trading nation. Exports in 1938 were reported to be valued at 887 million bolivares (287 million dollars); imports amounted to 311 million bolivares (97 million dollars). ²/₂ According to Venezuelan statistics, exports usually have exceeded imports, the export

¹/₁ The value of gold production in 1939 was estimated to be 4.4 million dollars.

²/₁ The effects of the war on the foreign trade of Venezuela are discussed in detail in U. S. Tariff Commission, Recent Developments in the Foreign Trade of Venezuela, 1945 [processed].

²/₂ Exports in 1938 have been converted to United States dollars at the rate of \$0.3233 per bolivar, and imports at \$0.3135.



balance in the period 1936-38 ranging from 142 to 190 million dollars. The figures, however, are inflated because exports of petroleum, ordinarily constituting about nine-tenths of the reported total, are highly overvalued.^{1/}

The predominance of petroleum in the export trade of Venezuela is relatively recent. Coffee, which long ago displaced cacao as the leading export commodity, remained the most important until 1925, when petroleum took the lead. Coffee constituted about one-sixth of total exports in 1929 but in 1938 accounted for only 3 percent of the total. Only two other commodities, gold and cacao, accounted in 1938 for more than 1 percent of total exports. Minor exports include cattle hides, goatskins, live cattle, bananas and miscellaneous vegetable products. The principal destinations of Venezuelan exports in 1938, with the share of the total value taken by each country, were the Netherlands West Indies, 76 percent; the United States, 13 percent; the United Kingdom, 3 percent; and Germany, 3 percent. Other markets included France, Italy, Japan, and Canada. Shipments to nearby Curaçao, in the Netherlands West Indies, consist almost entirely of crude petroleum sent there for refining and reexport, principally to the United Kingdom and the United States.

Significant features of the Venezuelan import trade in the decade 1929-38 were the maintenance by the United States of its position as the dominant supplier, and the decline in the importance of the United Kingdom. Imports into Venezuela consist of a wide range of manufactured products and foodstuffs and some raw materials. The most important dutiable group of imports in 1938—machines, instruments, apparatus, and vehicles—accounted for 28 percent of the value of total imports. Metals and metal manufactures, the second-ranking group, constituted 20 percent of the total, followed by foodstuffs and beverages (11 percent), textiles (10 percent), and chemical products (6 percent). On the basis of value, Venezuelan imports in 1938 came principally from the United States (56 percent), Germany (12 percent), the United Kingdom (7 percent) Belgium (7 percent), and the Netherlands (5 percent).

General Character of Economic Controls and Commercial Policy

Economic controls in Venezuela differ somewhat from those of the neighboring republics because of the general absence of export taxes and the granting of export subsidies to the country's two major agricultural products. Another outstanding feature of the Venezuelan system relates to the vital petroleum industry; all important productive activities in this industry are carried on under permits issued by the Government and are subject to extensive regulation.

Venezuelan controls affecting foreign trade have been utilized to secure revenues for the National Government, to foster and protect domestic industry, to husband exchange balances, to conserve essential supplies, and to restrict the activities of enemy aliens. Internal controls have been directed to similar objectives among which are the development of industrial resources, the stabilization of the domestic economy, the supervision and control of petroleum resources, the production of strategic materials, the rationing of essential supplies, and the control of prices.

The Venezuelan customs tariff, one of the highest in the world, has been employed to foster domestic production as well as to raise revenue; customs revenues constitute the most important source of Government income. Since 1936 exchange operations in Venezuela have been subject to varying degrees of government control; on the whole such control has been less rigid than in most other South American countries. Exchange operations are subject to the control of the Central Bank, and imports, to that of the

^{1/} Exports of petroleum and its products in 1938 were officially valued at 828 million bolívares; if the statistics are adjusted to take into account the overvaluation, they amounted to about 500 million bolívares.

Import Control Commission. Import quotas and licenses, employed since 1935 primarily to husband exchange balances, have been utilized since 1940 to foster the development of domestic industries.

In contrast to commercial agreements of the bilateral and compensation type negotiated by Venezuela during the decade preceding 1940, those concluded since then have generally provided for reciprocal most-favored-nation treatment. A system of export subsidies for agricultural products inaugurated in 1934 was replaced in 1941 by special foreign-exchange premiums now available only to exporters of coffee and cacao. In 1940 Venezuela became a signatory to the Inter-American Coffee Agreement, which established export quotas for the principal coffee-producing countries of Latin America.

Since the outbreak of the war a number of measures have been adopted to mobilize the domestic economy to meet the needs of hemispheric defense; these include reexport control, regulation of the flow of domestically produced strategic materials, and blocking of funds of Axis nations and their nationals.

Perhaps the most important governmental controls in Venezuela are those which extend to virtually all aspects of the petroleum industry. Concessions or permits are required for the exploration, extraction, refining, or transportation of petroleum products. These controls, instituted in part to regulate the development of natural resources and in part to represent the over-all interest of the country in an industry primarily financed by foreign capital, have for one of their principal purposes the raising of revenue. Government monopolies of the match and salt industries are likewise maintained for fiscal reasons, although the resulting revenues are of minor significance.

In 1938 the Government initiated an extensive program, frequently referred to as the Three-Year Plan, to develop the industrial resources of the country and to raise the general standard of living. Since that time, a number of developmental projects have been initiated, many of which have been completed. The National Coffee Institute, established in 1936 to function within the Ministry of Agriculture, has engaged in numerous activities to develop and stabilize the Venezuelan coffee industry; in June 1942 its functions were taken over by the Agricultural and Cattle Bank. A National Price Control Board, operating in conjunction with local price-control boards, is undertaking to ration prime necessities and to fix maximum prices for these products.

Economic Controls and Commercial Policy Before 1940

Before the war the chief purposes for which economic controls were imposed in Venezuela were to raise revenue, to protect domestic industries, to husband exchange balances, or to promote the economic development of the country.

The tariff.

Venezuelan import duties are generally higher than those of any other country in South America and are among the highest in the world. As early as 1909 tariff revenues were equal to 59 percent of the value of total imports, in 1913 they were 47 percent and, in 1940, 41 percent. The effective rates of duty on imports actually subject to the tariff are of course higher; in 1937 customs revenues were equal to 70 percent of the value of total dutiable imports. An analysis of 393 representative import commodities for that year indicates that 21 commodities were subject to an average equivalent ad valorem duty of 273 percent; another 20 commodities to an equivalent of 169 percent; 58 others, to 122 percent; 99, to 72 percent; 88, to 39 percent; and 107, to 12 percent.

The burden of the tariff falls most heavily upon the low income groups. In 1937 foodstuffs and textiles accounted for 57 percent of the total duties collected. The rates of duty on these two groups of commodities were among the highest in the tariff schedule; those on foodstuffs averaged 113 percent ad valorem and those on textiles, 93 percent. The average ad valorem equivalent of the duties on metal products and machinery, by contrast, was only about 30 percent.

The rates of duty on basic individual import items in August 1939 emphasize the height of the Venezuelan tariff structure. ^{1/} wheat flour, the most important food product imported into Venezuela, ^{2/} was subject to an average duty of 252 percent of its original c.i.f. ^{3/} cost; the duty on rice was the equivalent of 174 percent. For other representative items the rates of duty were as follows: Olive oil, 71 percent; potatoes, 151 percent; cotton drill, 145 percent; rayon fabrics, 319 percent; cod-liver oil, 174 percent; iron bars, 55 percent; barbed wire, 10 percent; and radios, 40 to 135 percent. Many of the duties are highly restrictive of imports and serve to raise the prices of commodities produced within the country.

Many of the essential elements for a self-supporting industrial development are lacking in Venezuela; hence tariffs have been employed, in part, to compensate for such disadvantages and thus to foster manufacturing industry. High-cost industries have been established which show no indication of being able to operate independently of such aids. On this point, the American Advisory Economic Mission to Venezuela observed:

For some time Venezuela has pursued a policy of extreme protectionism, but unfortunately high tariffs have not succeeded in accomplishing their avowed purpose; on the contrary, they have served to sustain inefficiency and high-cost operation. ^{4/}

Despite its protective character, however, the Venezuelan tariff is one of the principal instruments for raising national revenue. Between 1930 and 1940 tariff revenue accounted for more than one-third of total governmental income. About 60 percent of all imports ordinarily are subject to duty. Virtually all Venezuelan tariff rates are specific, being assessed in most instances on gross weight; additional ad valorem duties, ranging from 3 to 25 percent, are provided for 15 items.

The basic law governing Venezuelan tariff policy is embodied in the Tariff Act of October 23, 1936. ^{5/} Between 1915 and 1936 seven revisions of the tariff were enacted by the Congress, ^{6/} establishing, on the whole,

^{1/} Report to the Minister of Finance Submitted by the American Advisory Economic Mission to Venezuela, Washington, 1940, pp. 28-47.

^{2/} Nearly 90 percent of the Venezuelan requirements of wheat and rice are ordinarily imported.

^{3/} Cost, insurance, and freight at Venezuelan ports.

^{4/} Report to the Minister of Finance Submitted by the American Advisory Economic Mission to Venezuela, Washington, 1940, p. 76.

^{5/} The Gaceta Oficial for August 30, 1939, published the tariff law of 1936, incorporating all changes which had been effected by Executive decree in the interim.

^{6/} July 4, 1924; July 2, 1927; July 1, 1930; July 22, 1933, July 7, 1934; July 15, 1935; and October 20, 1936. These are published respectively in the Gaceta Oficial dated July 8, 1924; July 20, 1927; July 17, 1930; August 15, 1933; July 31, 1934; July 17, 1935; and October 23, 1936.

successive increases in the rates of duty. During this period the effective duties for most products were more than doubled. Sharp increases were made in 1933, followed by further increases for most products in 1934. This trend was continued by the tariff law of 1935, which also authorized penalty duties as high as 50 percent and established quotas on certain kinds of imports. The Tariff Act of 1936 did not alter substantially the general level of rates. It did, however, provide for numerous increases in the duties on luxury products and other articles not considered necessities, and reduced the duties on designated "necessity" items.

Although the tariff law of Venezuela contemplates reductions by commercial agreement, a single set of rates was applied to the products of all countries, with minor exceptions, until the tariff law of 1936 became effective. Since that time a few reductions have been granted to France and to the United States by unconditional most-favored-nation agreements. A reduction in the duty on Danish butter, apparently intended as preferential, became effective on September 6, 1936. Since 1881 a surtax of 30 percent of the duties has applied to articles shipped or reexported to Venezuela from the West Indies and the Guianas. This surtax, the purpose of which is to encourage the establishment of warehouses in Venezuela, is similar to those levied in certain European countries on products of non-European origin imported through other European ports. The only other exceptions to a policy of equal treatment for all countries are certain Venezuelan export duties and transit taxes remitted on trade with neighboring countries. ^{1/}

The tariff law of 1936 confers comprehensive powers over foreign trade on the Executive, some of which were provided by previous legislation. These include authority to admit imports free of duty (for "justifiable" reasons), to prohibit them, and to raise or lower duties. The Executive is specifically authorized to double import duties; to apply duties not exceeding 100 percent ad valorem, irrespective of existing tariff rates; to establish import quotas and an import permit system; to prohibit imports; to reduce import duties by as much as one-fourth; and to conclude compensation or similar agreements. These powers were conferred with the provision that any action taken should be reported to the Congress at its next regular session, after which it continues in force unless Congress provides to the contrary.

In addition to the duties prescribed in the customs tariff, various consular fees are imposed for the authorization of import documents; these ordinarily account for nearly 2 percent of government revenues. An internal revenue tax on cigarettes likewise has the effect of an import duty, as it discriminates in favor of products of domestic origin.

In 1938 the Customs Tariff Advisory Board was created by a resolution of the Ministry of Finance. ^{2/} This Board was authorized to make an analytical study of the tariff law and to submit recommendations for its improvement, to assimilate into a given tariff category, or to incorporate additional items into the tariff schedules specifying the rates of duty to be applied, to make recommendations relative to claims and appeals arising from the interpretation and application of tariff classifications, and to suggest the time interval which should elapse before tariff modifications made by the Executive become effective. The Board does not appear to have exerted a significant influence on the development or administration of the tariff, nor does it appear to have made full use of even its limited powers.

^{1/} Venezuela has exempted transit trade with Colombia from export duties, consular fees, and the transit tax.

^{2/} Gaceta Oficial, November 26, 1938.

Import quotas have been employed to a limited extent in Venezuela. The tariff law of 1936 ^{1/} empowered the Executive "to establish import shares or quotas applicable to selected merchandise originating in or proceeding from any country;" this authorization was more comprehensive than the measures actually taken under it. On April 11, 1938, the Minister of Finance, after consultation with the Minister of Foreign Affairs, was authorized by the Executive to impose or suspend quotas on individual products or on products from particular countries when the interest of the national economy required it. ^{2/} The purpose of this action was to reestablish trade equilibrium with countries with which Venezuela had an excess of imports over exports. The intention at the time was to set up "contingent" quotas which would, in effect, restrict imports, particularly from those countries which discriminated against Venezuelan products. There is no indication, however, that the restrictions thus authorized were employed before 1940.

The only Venezuelan import quotas before 1940 were initiated by an Executive decree of November 15, 1938, to aid the domestic cotton-textile industry. Global quotas were established for heavy cotton duck, coarse cotton goods and bedspreads, blankets, cotton towels, and cotton wicks. With little modification, the quotas have remained in force since 1938. ^{3/}

Exchange control.

Among the countries of Latin America now regulating foreign exchange, Venezuela was the last to employ such controls, and the measures adopted have generally been less stringent than in other Latin American countries. The problems created by the breakdown of world trade during the depression were somewhat less severe in Venezuela than in neighboring countries inasmuch as the Government had no foreign debt and because of the strong financial position of the treasury. In 1931, 1933, and 1936, however, conditions became sufficiently acute to evoke regulatory measures. In 1931, as a consequence of declining exports and lower prices for export products, there was not sufficient foreign exchange to pay for essential imports. This emergency was met by an agreement among the banks to peg the rate of exchange and to ration foreign currency to applicants as exchange became available. The Venezuelan currency, the value of which in 1930 was close to its par of 5.17 bolívars to the United States dollar (or 19.3 cents to the bolívar), depreciated to about 7 bolívars before the close of 1932. Soon after, however, the gold value of many other currencies was reduced so that the foreign-exchange value of the bolívar in terms of those currencies appreciated. This appreciation imposed additional hardships upon exporters and tended to curtail the exportation of the country's principal agricultural products. On the other hand, it had the effect of stimulating imports, and, as a consequence, another shortage of exchange developed.

The exchange position of Venezuela again became critical in 1934 after the United States departed from the gold standard and devalued the dollar. The bolívar continued to appreciate until July 1934, when the average selling rate was 3.12 bolívars to the dollar. As a result, the growers of coffee and cacao, the principal agricultural export crops, failed to receive a sufficient return in Venezuelan currency to cover their costs of production.

^{1/} Article 17 (3), tariff law in force October 23, 1936.

^{2/} Executive decree, April 11, 1938, Gaceta Oficial, April 12, 1938; supplementary regulations were set forth by Executive decree, May 30, 1938, Gaceta Oficial, May 31, 1938.

^{3/} Renewed on May 16, 1939, November 16, 1939, and June 26, 1940.

Because of the hardships thus created, another system of informal exchange control was inaugurated; on August 22, 1934, the Government entered into an agreement with the banks and the petroleum companies to prevent further appreciation of the bolívar. The petroleum companies agreed to sell sufficient dollar exchange to the Government to meet ordinary commercial import requirements at a rate of 3.90 bolívars to the dollar. These funds were made available to the banks at the same rate and they, in turn, agreed to peg the selling rate at 3.93 bolívars to the dollar. Dollar exchange in the hands of the petroleum companies in excess of commercial requirements was purchased by the Government at the gold exchange rate, which approximated 3.00 bolívars to the dollar. This arrangement continued to operate with minor modification until 1937.

Another exchange crisis developed during 1936. Imports continued to increase throughout the year, creating new demands for foreign exchange. A political change in the Government was accompanied by a "flight of capital," many persons expatriating their funds; strikes which interrupted the production of oil for several weeks further curtailed the available supply of exchange. To meet this situation official exchange control was instituted. Partial control was established in December 1936, ^{1/} when exporters of coffee and of certain other agricultural products were required to sell their foreign drafts to the Bank of Venezuela (Banco de Venezuela) in order to receive export bounties. ^{2/} These funds were delivered to the Central Bank at a rate of 3.90 bolívars to the dollar. The bank, in turn, apportioned half to commercial banks for sale to importers; the remainder was made available to the Government for official use or was sold directly by the bank at a rate of 3.93 bolívars to the dollar.

The National Exchange Centralization Office.—In February 1937, the National Exchange Centralization Office (Oficina Nacional de Centralización de Cambios) was created ^{3/} to operate under the joint supervision of the Ministries of Development (Fomento) and Finance (Hacienda). The petroleum companies continued to sell their drafts (amounting to about 80 percent of the total supply of exchange) to the Government; exporters taking advantage of the agricultural subsidies were required to do so. The newly organized Exchange Centralization Office represented the Government in the purchase and allocation of these funds, which usually represented about 95 percent of the available exchange. After sufficient exchange to cover Government requirements had been deducted, the remaining funds were made available to private importers and others through regular banking channels.

The initial purchase rate by the Central Bank when the Exchange Office was created remained at 3.90 bolívars to the dollar and the selling rate was 3.93. Profits arising from these transactions were used to defray the expenses of the Exchange Office and to provide funds for agricultural subsidies. On April 27, 1937, the Exchange Centralization Office reduced the purchase rate for exchange derived from petroleum and agricultural commodities to 3.09 bolívars to the dollar. ^{4/} and the selling rate to the public to 3.19 bolívars to the dollar. ^{5/} During a substantial portion of the period between November 30, 1937, and the outbreak of the war in 1939, the Exchange Centralization Office extended preference in the allocation of exchange to imports of prime necessity. Banks were required to furnish regular reports of their foreign transactions, and the available exchange was allocated to importers in rough proportion to their previous imports.

^{1/} Executive decree, December 1, 1936.

^{2/} See the section on agricultural export subsidies.

^{3/} Executive decree, February 3, 1937, effective February 20, 1937.

^{4/} 1 bolívar = \$0.3154.

^{5/} 1 bolívar = \$0.3135; the annual average dollar equivalent of the bolívar (official selling rate) before 1940 was as follows: 1929, \$0.1930; 1932, \$0.1509; 1936, \$0.2551; 1937, \$0.2824; 1938 and 1939, \$0.3135.

There are two types of exchange in Venezuela—official (controlled) and free (uncontrolled). Balances subject to the control of the National Exchange Centralization Board, as described above, constitute the supply of official exchange and provide the cover for most imports. Funds for the free-exchange market are derived from drafts arising from sources other than exports of petroleum and subsidized agricultural products; ^{1/} these may be sold in the open market without restriction, but the rates (in terms of bolívares) ordinarily have been higher than those authorized for official exchange.

Commercial treaties and agreements.

Before 1937 Venezuela, in its commercial policy, adhered quite generally to the most-favored-nation principle, which was embodied in agreements with 13 countries. Unconditional most-favored-nation guarantees had been exchanged in treaties with the United Kingdom, Spain, El Salvador, Belgium-Luxemburg, France, and Germany; those with Italy, Ecuador, Bolivia, Peru, Colombia, and the Netherlands were conditional. At times, moreover, concessions made in commercial agreements were generalized to all countries irrespective of most-favored-nation agreements. ^{2/} However, as a result of discriminatory restrictions imposed upon foreign trade by various countries and of the impact of these discriminations upon the Venezuelan exchange position, the Government felt itself compelled to introduce the principles of compensation and bilateralism in subsequent trade agreements.

In the decade 1930-39, Venezuela entered into commercial agreements with Denmark and France, providing for increased import quotas for Venezuelan coffee in those countries, and for tariff reductions by Venezuela on Danish and French products. Since 1938 agreements have been concluded with Germany, Italy, Japan, and the United States. ^{3/}

The agreement with Germany, effective December 1, 1938, recognized the principle of bilateral trade-balancing and provided for German purchases of Venezuelan coffee and cacao, payment to be made in German goods. Similar agreements with Italy (June 29, 1939) and with Japan (July 1, 1939) established import quotas for Venezuelan products in those countries. By the terms of a barter agreement with Spain (December 1939), Venezuelan coffee was exchanged for Spanish cement.

The trade agreement between the United States and Venezuela, effective November 6, 1939, provided for tariff concessions (including bindings) by both countries. Concessions granted by Venezuela to the United States covered 96 tariff items; in 1938 these products represented about 36 percent of total United States exports to Venezuela. Reductions in rates of duty, ranging from 2.5 to 62.5 percent, were granted on 35 products, as well as assurances against less favorable customs treatment (principally bindings of rates on dutiable products) on 61 products. Concessions granted to Venezuela by the United States included the guarantee of continued free entry of crude petroleum and fuel oil for use of vessels, and a reduction of 50 percent in the import-excite tax on these products for other uses up to an annual quota of imports (from all countries) not in excess of 5 percent of the total quantity of crude petroleum processed in the continental United States during the preceding calendar year. ^{4/} On two other products (cubé root and tonka beans) reductions of 50 percent were granted, and on one product (orchid plants) the existing

^{1/} Primarily from tourists and travelers.

^{2/} U. S. Tariff Commission, Extent of Equal Tariff Treatment in Foreign Countries, 1937, pp. 37-38.

^{3/} U. S. Tariff Commission, The Foreign Trade of Latin America, pt. II, vol. 1, pp. 278-279.

^{4/} Imports in excess of the quota are subject to the former rates.

duty was bound against increase. On the remaining nine products listed in the schedule of United States concessions, most of which are tropical commodities not produced in the United States, existing duty-free entry into the United States was bound against change. All the products covered in the agreement had accounted in 1938 for 89 percent of the total value of United States imports from Venezuela.

Petroleum concessions.

Exploration and development of Venezuelan petroleum resources may be carried on only under concessions granted by the Government, to which all subsurface soil rights belong. Concessions do not confer ownership of the deposits but convey only the legal right to explore and develop them for a specified period of time in strict accordance with the Venezuelan mineral laws, which are designed to secure an orderly development of the oil resources of the country.

The first comprehensive petroleum law was enacted in 1920. ^{1/} Concessions had been granted before that time, however. The oldest are those originating under the Mining Law of 1905; a number of important concessions were awarded in accordance with the Mining Code of 1910 and others under the Mining Law of 1918.

The most recent legislation ^{2/} applying to subsoil rights is the Petroleum Law of 1938. ^{3/} Under it either Venezuelans or foreigners, including both individuals and corporations, may acquire concessions; foreign governments and their agencies, however, are denied this privilege. Regulations affecting the granting of concessions were made more stringent; a substantial reduction was made in the acreage of national lands open for concessions, and the period of exploitation was reduced. At the same time the special taxes for exploration and development were increased.

Revenues from Venezuelan mining taxes constitute an important source of overnment income, ordinarily accounting for from one-fourth to one-third of the total. These revenues are obtained almost exclusively from petroleum and its derivatives and are collected in the form of taxes and royalties. Concessionaires who hold permits to develop Venezuelan petroleum resources are subject to the following taxes:

(1) The exploration tax.—Concessionaires authorized to engage in exploration are required (by the Law of 1938) to pay an exploration tax of 4 bolívars (about \$1.25 U. S. currency in 1938) for each hectare (2.4 acres) contained in the concession. This tax is paid only once and covers the entire exploration period of 3 years.

(2) The initial production tax.—If petroleum deposits are discovered and the concessionaire desires to develop the field, he is subject to an initial production tax on each hectare contained in the concession from which the oil is to be extracted. The law of 1938 fixed this tax at 8 bolívars per hectare for all new concessions.

^{1/} The Petroleum Law of 1920 has been succeeded by the Petroleum Laws of 1921, 1922, 1925, 1928, 1935, 1938, and 1943.

^{2/} Before the Petroleum Law of 1943.

^{3/} Gaceta Oficial, January 6, 1939.

(3) The surface tax.—Another tax, operative once production actually begins, must be paid annually and the amount per hectare is increased throughout the life of the concession. ^{1/} The law of 1938 imposed an annual tax of 2 bolívars per hectare for the first 3 years, 4 bolívars per year for the next 27 years, and 5 bolívars during each of the next 10 years until the termination of the concession, which is limited to 40 years.

(4) The exploitation tax.—The exploitation tax, which is in effect a royalty levied upon actual output, has been the most important source of petroleum revenue. Under the law of 1938 the tax has varied, in accordance with the type of land on which the concession was granted, from 12¹/₂ to 16 percent of the commercial value of the petroleum produced. ^{2/} A minimum royalty was fixed at 3 bolívars per cubic meter (6.29 barrels of 42 gallons) of petroleum produced.

In addition to the foregoing, a consumption tax has been collected from refiners and manufacturers of petroleum products on their sales for domestic consumption. The tax rate has been equal to 50 percent of the import duties, ^{3/} thus providing protection to the domestic industry.

Government monopolies.

As do a number of other Latin American countries, Venezuela maintains monopoly control over the match and salt industries. Although their purpose is to raise revenue, the combined receipts from these two monopolies are small. ^{4/} A special salt tax and a match tax are collected by these monopolies.

The domestic manufacture and sale (wholesale) of matches is reserved to the Government. The National Match Monopoly has not engaged in manufacturing in recent years but, before 1940, imported sufficient matches from Swedish and Italian sources to meet national requirements. ^{5/} The match tax (renta de fósforos), as determined by a law of 1929, ^{6/} has been the equivalent of about 42 percent of the retail price. The gross yield (proceeds from sales) of the match monopoly, including the match tax, was about 3 million bolívars annually between 1935 and 1940, or about 1 percent of the total governmental income.

Another Government monopoly controls the mining and sale of salt. ^{7/} As in the case of matches, a salt tax ^{8/} (renta de salinas) is imposed for revenue purposes. This tax, originally (1927) 25 céntimos per kilogram, was reduced to 10 céntimos (about 2 cents per lb., U. S. currency) in 1933:

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- ^{1/} Regardless of the quantity of oil produced.
 - ^{2/} Based upon its value at the Venezuelan port of embarkation.
 - ^{3/} In 1940 the consumption tax on representative petroleum products was as follows: Gasoline, 3.88 céntimos per liter; kerosene, 0.52; and Diesel oil, 1.23.
 - ^{4/} Exclusive of the salt and match taxes.
 - ^{5/} A contract with the Swedish Match Company expired in 1937; thereafter the Government purchased matches from an Italian firm, the Sociedad Anónima Finanziaria Fiammiferi ed Affini.
 - ^{6/} Executive decree, Gaceta Oficial, September 20, 1929.
 - ^{7/} Ley Organica de la Renta de Salinas, 1933.
 - ^{8/} Introduced by a law of July 2, 1927, and modified by a law of June 1933 and an Executive decree of March 26, 1936.

in terms of the retail selling price of salt this has constituted a consumption tax of about 33 percent. Before 1940 the gross yield from the sale of salt, including the tax, was about 4 million bolívars annually, or about 2 percent of total government revenues. In view of the burden which these taxes have imposed upon consumers and upon Venezuelan industry, the American Advisory Economic Mission recommended in 1940 that the salt tax be removed and that the match tax be replaced by a more moderate import duty. ^{1/}

Agricultural export subsidies.

Export subsidies, initiated in 1934 primarily to relieve distress among agricultural producers, have served somewhat the same general purposes as were achieved in other countries by monetary depreciation and exchange control. As an alternative to currency depreciation, the subsidies have operated to increase the volume of exports, and, in lieu of a rigid system of exchange control, they have increased the supply of available foreign exchange during periods when shortages might otherwise have been severe.

The situation in 1934 created particular difficulties for the exporters of Venezuela's two major agricultural products, coffee and cacao. Growers already had suffered severely from the depressed world market; their position became more critical with the devaluation of the United States dollar. The immediate impact of this action upon the Venezuelan economy was an appreciation of the value of the bolivar by about 50 percent in terms of the United States dollar. As a consequence of the resulting decline in the prices received for coffee and cacao in terms of Venezuelan currency, growers sustained serious losses; an exchange crisis threatened the economy of the country. In July 1934, therefore, an appropriation of 10 million bolívars was authorized ^{2/} to aid the growers of these commodities. Export subsidies were awarded on a graduated scale with the object of extending proportionately greater assistance to small producers. In 1934 subsidies were granted for the export of 891,745 bags of coffee and 190,020 bags of cacao, the average benefit being 9.24 bolívars per bag of 46 kilograms.

Total appropriations for agricultural subsidies between 1934 and 1940 amounted to more than 150 million bolívars. ^{3/} By a decree of January 27, 1936, the bounties were extended to nine additional agricultural export products, including sugar, oleaginous seeds, tobacco, and bananas. By 1939 the scope of the subsidy payments had been expanded to include virtually all Venezuelan export products with the exception of petroleum, rubber, and gold.

The subsidies appear to have alleviated the exchange situation by increasing the amount of foreign exchange available; at times, exchange originating from subsidized agricultural exports has been sufficient to supply all commercial requirements. The bounties, however, have not resulted in any material permanent expansion of exports of basic agricultural products; exports of coffee and cacao in 1939 and 1940 were actually below those in 1929 and 1932. Moreover, it has been reported that the quality of the product has declined. The Government, in return for its aid, exercises little control over the methods of production or over the

^{1/} Report to the Minister of Finance Submitted by the American Advisory Economic Mission to Venezuela, Washington, 1940, pp. 206-207.

^{2/} Executive decree, July 24, 1934.

^{3/} Some of the more important measures providing either for renewal or modification of the subsidies were promulgated by Executive decrees of December 21, 1935; January 27, 1936; March 21, 1936; December 1, 1936; February 3, 1937; and October 10, 1938.

use to which bounty payments are put. Coffee culture does not appear to have improved since the subsidies were inaugurated and, by their dependence upon the bounties, the attention of producers is said to have been diverted from the search for improved and efficient methods of production. ✓

The National Coffee Institute.

Numerous governmental aids have been extended to coffee, which is Venezuela's principal agricultural crop as well as its most important export commodity other than petroleum. Coffee growers, in addition to being the first to benefit from the agricultural bounties, have been aided by Government loans, by crop-purchasing programs, and by the establishment of minimum prices. Some of these activities have been supervised by the National Coffee Institute (Instituto Nacional de Café) which was established in 1936. 2/ At first the institute operated under the Ministry of Agriculture and was financed by an appropriation of 1 bolívar for each bag of subsidized coffee exported.

To provide a more comprehensive and more permanent program for the coffee industry, the National Coffee Institute was reorganized in 1939 2/ as a semi-independent Federal corporation. The broad powers assigned to the Institute included the authority to develop improved methods for the growing and processing of coffee; to promote exports of Venezuelan coffee; to devise improved standards of grading, packaging, and marketing coffee destined for export; to extend financial aid to producers through Government loans and through the rediscount of commercial paper; to engage in the purchase and sale of coffee in both the domestic and foreign markets, in order to control prices; to arrange educational programs among growers to improve coffee culture; to act as a marketing agent for Venezuelan producers at home or abroad; to install modern processing plants; and to purchase and distribute machinery and essential supplies. 4/

The Three-Year Plan and other aids to industrialization.

The marked dependence of Venezuela upon the petroleum industry, the necessity of importing many articles basic to domestic consumption, the lack of an integrated economy, and the relative backwardness of Venezuelan agricultural and industrial methods have been problems of national concern. The new Government in 1935 signified its intention of initiating a program of general economic development. This program, known as the Three-Year Plan, was presented to the Congress in May 1938 and became effective July 1 of that year.

The principal objectives of the plan were to stimulate production, to improve sanitation and educational facilities, to raise standards of living, and to encourage an increase in population. An extensive program of development requiring an expenditure of 364.5 million bolívares (117.6 million dollars) was undertaken; it involved the construction and improvement of transportation and communication facilities, water works, irrigation projects, airports, welfare centers, schools, hospitals, port facilities, hotels, low-priced housing, and other public works. By 1940 the Three-Year program was well under way. New port facilities had been developed, the principal project being at La Guaira, the port for Caracas. Nearly 100 sanitary projects had been initiated, about one-third of which

1/ Report to the Minister of Finance Submitted by the American Advisory Economic Mission to Venezuela, Washington, 1940, p. 12.

2/ Executive decree, December 6, 1936.

3/ Executive decree, January 18, 1939.

4/ For a detailed description of the Venezuelan coffee industry, see U. S. Tariff Commission, Agricultural, Pastoral, and Forest Industries in Venezuela, 1945 [processed].

were completed by 1940; most of these were water-supply systems. A total of 1,134 miles of new highways had been built, of which 480 miles were paved; 1,903 miles of old highway had been reconstructed; and 187 bridges had been installed. A new railroad line was under construction; two hospitals had been built, as had been nearly 100 rural schools, a normal school, and an aviation-training center.

Closely related to these undertakings has been the extension by the Government of direct aid to encourage the establishment of numerous private business enterprises. In March 1937 a Division for the Promotion and Protection of National Industries was created to function under the Ministry of Development (Fomento).^{1/} Since that time the Government has subscribed to the capital stock of a number of enterprises, either to encourage new operations or to facilitate the expansion of established concerns. A partial list of the enterprises thus fostered includes cement plants at Maracaibo and San Cristóbal, a corporation to engage in banana production, another to supply gas and coal to the city of Caracas, and a firm to develop the processing of fish products; in each of these the Government invested 1 million bolívars.

In addition to the direct investment of capital, credit has been extended to aid in the establishment of other industries; illustrative of this policy are loans to Government-controlled meat-processing plants (1.5 million bolívars), to the Maracaibo cement firm (1 million bolívars), and to a cotton textile plant (600,000 bolívars). Various financial aids of a similar character have been extended to smaller enterprises, including a button factory and a concern engaged in the manufacture of hemp bags.

Economic Controls and Commercial Policy Since the Outbreak of the War

The essential features of the system of economic controls employed in Venezuela before 1940 have been retained since that time, with, however, some important modifications largely in response to conditions created by the war. Because of its dependence upon European markets, the initial impact of the war was somewhat more severe on the Venezuelan economy than on that of neighboring countries. European markets were closed, particularly affecting the sale of Venezuelan coffee, and the supply of many essential imports was restricted. Since 1941 shortages of shipping, as well as controls employed by the belligerent nations, have made these problems more acute. These and other factors have combined to intensify the serious high-price situation already existing in Venezuela. New Government measures, evoked at least in part by the war, have included the establishment of the new Import Control Commission and the National Price Control Board, as well as participation in the Inter-American Coffee Agreement. Measures have also been adopted to expand the production of rubber and to block the flow of strategic materials to the Axis Powers.

Modification of import duties.

Except for a number of minor modifications (in both directions) in the rates of duty on individual commodities, the Venezuelan tariff system has not been altered substantially since 1940. Rates of duty were increased on potatoes, cotton knit goods, petroleum products, rayon, and babassu nuts in 1940, on perfumed lotions in 1941, and gasoline in 1942. With the exception of the increased duties on gasoline and certain other petroleum products, which were essentially revenue measures, most of these increases were designed

^{1/} Executive decree, Gaceta Oficial, March 3, 1937.

to protect domestic industries. Moreover, most of the reductions in rates of duty since 1940 have been made to aid domestic processors in obtaining essential industrial materials. Such reductions were made on Diesel and fuel oils, materials for the manufacture of rubber tires, malt extract, asbestos-cement pipes, liquid ammonia, tin-plate containers, and calcium and sodium phosphate in 1940; kraft paper in 1941; crown-pressure caps in 1942; and canvas cloth in 1943. A number of commodities have been placed on the free list, the motive in most cases being to encourage domestic agriculture and industry by removing the tariff on essential supplies; commodities thus affected include commercial fishing supplies and milk bottle caps in 1940; cook stoves, water heaters, and accessories in 1941; spare parts for agricultural machinery and Roman cement in 1942; and newsprint in 1943.

In 1940 the American Advisory Economic Mission to Venezuela recommended that the Customs Tariff Advisory Board be reorganized to increase its effectiveness. Early in 1941 the membership of the Board was reconstituted and regulations requiring regular meetings and reports were adopted.

Exchange and import control since 1939.

Three important modifications in the Venezuelan exchange-control system have been made since the outbreak of the war in 1939. Early in 1940 the exchange situation once more became serious; this condition has subsequently improved, primarily because of wartime restrictions which have been imposed by other countries upon exports. Early in 1940 several factors combined to create an exchange crisis. These included the virtual closing of European markets to Venezuelan exports, affecting particularly petroleum and coffee; the increase in demand for foreign exchange to finance imports from the United States; and a general movement to expand foreign purchases in anticipation of wartime dislocations and price changes. Because of the consequent drains upon available exchange, in March 1940 the Exchange Centralization Office revised its method of exchange control. Under the new plan, the supply of foreign exchange was allocated in accordance with the following schedule of priorities: (1) Government payments abroad, (2) strictly commercial payments abroad, (3) payment of interest or dividends on foreign capital invested in Venezuela, and (4) all other demands for foreign exchange. Banks selling exchange were requested to give preference to imports from countries with which Venezuela had an export trade balance, or with which the import trade balances were smallest.

A result of this policy was an increase in the demand for exchange in the uncontrolled market; the selling rate for free exchange increased rapidly from a point near the price for official exchange (3.19 bolívars to the dollar) to 3.55 bolívars to the dollar. On June 25, 1940, therefore, the free market was abolished, ^{1/} and all foreign-exchange transactions were subject to control by the Exchange Centralization Office. Throughout 1940 and the first half of 1941 the selling rate maintained by the Exchange Office was identical with the official rate, 3.19 bolívars to the dollar.

The Import Control Commission.--In October 1940 the Government abolished the National Exchange Centralization Office and inaugurated a new program under the joint control of two completely new bodies, the Central Bank (Banco Central de Venezuela) and the Import Control Commission (La Comisión de Control de Importaciones). The exchange functions of the former Exchange Centralization Office were transferred to the Central Bank ^{2/}, and shortly thereafter all imports were made subject to the control of the Import Control Commission. ^{3/} In accordance with the new plan the Central Bank advises the Control Commission as to the quantities of foreign exchange available, and the Commission in turn allocates the supply to importers and other buyers. Prior import permits have been required; the granting of such authorization has been tantamount to a right to purchase exchange inasmuch as permits have been issued only when funds have been available.

^{1/} Free-exchange transactions were again authorized by an Executive decree of July 23, 1941.

^{2/} Executive decree, October 15, 1940; the Central Bank of Venezuela began operations on this date.

^{3/} Executive decree, October 25, 1940.

At first exchange was allocated in accordance with a definite plan, 43 percent being available for new imports, 40 percent to liquidate commercial obligations previously incurred, 12 percent for Government imports and services, and 5 percent to defray the expenses of Venezuelan nationals living abroad. These percentages were altered by later decrees. ^{1/} After November 16, 1940, the Import Control Commission undertook to allocate exchange for import purposes in accordance with the following order of priority: (1) Prime necessities, (2) goods of secondary importance, and (3) luxuries. This was superseded on May 29, 1941, by a new, though basically similar, classification in which, for purposes of priority, all items in the customs tariff were grouped in Class I, II, or III, according to their importance to the economy.

An important modification of the new control system was made in July 1941, when free-market exchange operations again were authorized. ^{2/} Since that time two legal exchange markets, the controlled ^{3/} and the free, have operated in Venezuela. The official rate, fixed by the Central Bank, has been available for preferred imports in Classes I and II; the free rate, available at the commercial banks, has applied to merchandise in Class III. Only persons possessing import licenses from the Control Commission have been permitted to acquire foreign exchange at the controlled rate.

Exchange control in Venezuela is still relatively uncomplicated (April 1944). The supply of official exchange (controlled rate) is derived, as before, from the exportation of petroleum products, coffee, and cocoa. Petroleum companies are now required to sell to the Central Bank all foreign exchange derived from their exports; ^{4/} this exchange is sold at the official rate determined by the bank. All foreign exchange arising from the exportation of coffee and cocoa may now be sold to the bank ^{5/} at premium rates. These premiums have replaced the export bounties previously granted to exporters of agricultural products. Other export transactions involving foreign exchange are no longer subject to control, hence a substantial business in the sale of exchange is conducted in the free market. Because of the improved exchange position of Venezuela since June 1942, the legal free-exchange rate has been no higher than the official rate of 3.35 bolívars to the dollar. The decree of July 23, 1941, authorized the Central Bank to employ any surplus of foreign exchange in the controlled market to build up an Exchange Stabilization Fund. The bank, however, has not officially created such a fund, although its recent balances with United States banks could readily be used for such a purpose.

Apart from official measures affecting exchange, the recent trend of exports and imports has improved the exchange position of Venezuela. During 1941 exports of petroleum reached a record high. Imports into Venezuela have been restricted by the export controls of foreign countries. The emphasis on import control, therefore, has changed from one of restriction to conserve exchange balances to one of encouraging imports and of allocating among importers materials subject to foreign export controls. Because of this newsituation, the Import Control Commission was reorganized

^{1/} By an Executive decree, published in the Gaceta Oficial, January 31, 1941, the above percentages were altered to 63, 15, 15, and 7 percent, respectively; another decree of July 23, 1941, established a new system of exchange rationing; controlled exchange balances were thereafter rationed as follows: 15 percent for Government purposes and 85 percent for authorized imports.

^{2/} Executive decree, Gaceta Oficial, July 23, 1941.

^{3/} Since July 26, 1941, the official rate of exchange has been fixed by the Central Bank at 3.35 bolívars to the dollar.

^{4/} Executive decrees of July 23, 1941, March 4, 1942, and May 18, 1942.

^{5/} See the section on revision of agricultural export subsidies.

in May 1942 ^{1/} and given new duties. The import license system was abolished, thereby almost completely eliminating the necessity for exchange allocation. Since then the Commission has had the following functions: (1) To distribute among importers quotas assigned to Venezuela by countries which have established export controls, to grant certificates of necessity to obtain such imports, and to cooperate with the various agencies of foreign Governments charged with the regulation of exports; (2) to grant licenses for imports of articles which the Minister of Finance has subjected to import quotas; ^{2/} and (3) to allocate exchange should circumstances again require it.

Import quotas and licenses.—Since 1939 Venezuela has imposed additional quantitative restrictions on imports under the powers granted to the Executive and to the Minister of Finance by the legislation of 1936 and 1938. ^{2/} The import quotas, initiated in 1938 to aid domestic cotton textile producers, were extended for an additional 6 months in 1940. ^{4/} The principle of bilateral trade balancing was invoked with respect to trade with Portugal; quota restrictions were established limiting total imports from Portugal to the value of Venezuelan exports to that country during 1938. ^{5/} This was equivalent to a virtual prohibition of such imports. This restriction was extended in 1941, the quota then being limited to the value of Venezuelan exports to Portugal during 1939. ^{6/} Inasmuch as the Venezuelan exchange position had improved, whereas the importation of essential commodities had become more difficult, quota controls for Portuguese products were removed late in 1941.

A recent important use of Executive authority to control imports has been the prohibition of imports of specified commodities except as authorized by import licenses secured from the Ministry of Finance. ^{7/} The Ministry has acted for the Executive in selecting the commodities thus subjected to control. The restrictions all appear to have been imposed to protect domestic industries; prior import permits have thus far been required for cement and butter (1940), processed cocoa (cocoa-malt) (1941), and potatoes (1942).

Commercial agreements concluded or extended.

Since 1940 Venezuela has concluded or extended commercial agreements with eight countries. It is significant that most of those negotiated since the conclusion of the trade agreement with the United States in 1939 have been more liberal than previous agreements. Moreover, those which have been renewed, though more restrictive, do not represent rigid or narrow types of bilateralism.

New agreements, most of which have provided for reciprocal most-favored-nation treatment, have been negotiated with Norway, Belgium, Switzerland, Chile, and Argentina. This policy was adopted with respect to customs duties, internal taxes, and other matters affecting trade in a modus-vivendi between Norway and Venezuela, effective March 1, 1940. The agreement with Belgium, effective June 20, 1940, in addition to embodying most-favored-nation assurances, contained provisions designed to balance the trade between the two countries. In 1941 a modus vivendi between Venezuela and Switzerland contained similar provisions; ^{8/} Switzerland, moreover, agreed to adopt measures to stimulate the importation of Venezuelan products. In the same

^{1/} Executive decree No. 105, May 18, 1942, Gaceta Oficial, May 19, 1942.

^{2/} See the section on import quotas and licenses.

^{3/} See the section on import control.

^{4/} Resolution of the Ministry of Finance, June 26, 1940.

^{5/} Resolution of the Ministry of Finance, effective January 1, 1940.

^{6/} Executive decree, Gaceta Oficial, February 21, 1941.

^{7/} Since 1942 this function appears to have been performed by the Import Control Commission.

^{8/} Effective February 12, 1941; renewed February 27, 1941.

year, ^{1/} most-favored-nation treatment with respect to all matters affecting the trade between the two countries was assured by a new agreement with Chile. On October 29, 1942, a reciprocal treaty was signed between Venezuela and Argentina; in addition to provisions for mutual most-favored-nation treatment, this agreement dealt with the exchange of students and professors, the treatment of tourists, and other matters of mutual cultural interest.

Agreements with Denmark, Japan, and Colombia, negotiated before 1940, have been extended; these embodied the principle of bilateral trade balancing and established quota controls. In 1940 the agreement with Denmark, originally concluded in 1939, was continued for an additional year; Denmark accorded a specified exchange quota for the purchase of Venezuelan coffee, and Venezuela agreed to retain in force a reduction of one-fourth of the import duty on Danish butter and to maintain at least specified minimum purchases of Danish products. The Colombian agreement, originally concluded in 1934, was extended in 1941; it established quotas for imports of Venezuelan salt into Colombia and continued provisions to facilitate the border and transit trade between the two countries. The Japanese agreement of 1939, providing for bilateral trade balancing and import quotas, was renewed on March 11, 1941. In addition, Japan agreed to purchase Venezuelan goods equal to one-half of what it sells to Venezuela besides making up the deficiency in imports under previous quota obligations.

Revision of agricultural export subsidies.

Bounties formerly paid in Venezuela to exporters of agricultural products have been discontinued; some, however, have been replaced by a new type of subsidy. The bounties were originally designed as temporary measures to alleviate the distress accompanying the appreciation of the bolivar in 1934. Late in 1940 the export bounties on sugar and liquors derived from sugarcane were eliminated. In July 1941 all bounties were discontinued, ^{2/} but premiums on foreign exchange, resulting from exports, replaced the subsidies on exports of coffee, cacao, and livestock. No similar subventions, however, were granted on the other articles formerly entitled to export bounties--divi-divi, sheepskins, goatskins, sharkskins, chicle, bananas, and certain forest products.

Under the new plan, special exchange rates, sometimes spoken of as the "coffee dollar," the "cacao dollar," and the "cattle dollar," were established. The Central Bank was authorized to purchase dollar exchange arising from coffee exports at 4.60 bolivares to the dollar; this represented a premium of about 35 percent over the official exchange rate of 3.35 bolivares to the dollar. On June 8, 1942, the exchange rate available to coffee producers was reduced to 4.30 bolivares to the dollar for washed coffee and 3.75 for husked coffee. This reduction of the premium was designed to make allowance for the higher prices which were being obtained for Venezuelan coffee in the United States. Similarly, the special exchange rate of 4.30 bolivares to the dollar (constituting a premium of about 20 percent), granted to exporters of cacao, was reduced to 3.75. The rate accorded shippers of livestock was fixed in July 1941 at 4.30 bolivares to the dollar; in March 1942, however, this premium was removed completely. ^{3/} Since that time, only coffee and cacao have enjoyed such benefits; these products have, in effect, been subsidized by revenues derived from petroleum, Venezuela's chief export product.

The Petroleum Act of 1943.

The Venezuelan petroleum law of 1943 ^{4/} designated as public utilities the major activities relating to the production of petroleum, including exploration, exploitation, transportation, and refining. These activities

^{1/} Modus vivendi, effective October 11, 1941; renewed, November 27, 1942.

^{2/} Executive decree, July 23, 1941.

^{3/} Executive Decree No. 40, Gaceta Oficial, March 4, 1942.

^{4/} The Petroleum Act of 1943 (Law of Hydrocarbons), March 13, 1943.

may be pursued only under concessions granted by the Government. The essential features of previous petroleum legislation ^{1/} were incorporated into the new law; the most significant change was a general increase in taxes on petroleum producers. The law sought to induce producers to convert old concessions to the new basis. Uniform regulations will henceforth apply to all concessionaires previously operating under permits granted at different times, authorized by different laws, and subject to varying taxes and regulations.

Although concessionaires become subject to new and heavier taxes by agreeing to convert to the new uniform basis, they have received in return concessions of unquestioned legality and with definite rights of renewal. There was thus an important advantage in conversion inasmuch as the legality of a substantial number of concessions had been challenged and the duration of others was about to expire.

Four types of petroleum concessions are now granted by the Government of Venezuela. Exploration concessions, valid for a period of 3 years, grant the privilege of exploring within a specified zone and of carrying on investigations and activities essential to the discovery of new reserves. Exploitation concessions confer upon their owners, heirs, and assignees the exclusive right for 40 years to extract, within the designated area, all minerals contained therein; these concessions are renewable. Owners of concessions granted under earlier legislative authorization, who elect to convert to the new basis, may receive entirely new concessions which are valid for the full 40 years and are then renewable. Manufacturing and refining concessions are granted for a period of 50 years; they may be extended for successive periods of the same duration as long as the enterprise continues to operate. Similar concessions are required for the transportation of petroleum.

In most instances taxes for which petroleum producers formerly were liable have been increased by the law of 1943. The exploration tax was fixed at 6 bolívars per hectare (about 75 cents per acre, U. S. currency), payable in three annual installments; this represents an increase of about 50 percent over the previous tax. The initial production tax remains at 8 bolívars per hectare. ^{2/} The "surface" tax appears to have been more than doubled; it now amounts to 5 bolívars per hectare for the first 10 years of the concession; to 10, 15, 20, and 25 bolívars, respectively, for successive 5-year periods; and to 30 bolívars for the last 10 years of the concession. Royalty taxes (the exploitation tax) previously paid may be applied, in part, against the amounts now payable as surface taxes. The exploitation tax, payable either in cash or in kind, was fixed at 16-2/3 percent of the market value of all oil produced, with a minimum royalty of about 3 bolívars per cubic meter of petroleum (about 15 cents per barrel U. S. currency). Under the law of 1943, a new tax (the transportation tax) of 2½ percent is levied upon freight revenues derived by common carriers from petroleum. Manufacturers and refiners of petroleum products continue to be subject to a tax equal to one-half of the import duties on their products.

Venezuelan legislation has on the whole provided for the orderly development of the oil resources of the country. In 1920, when the first comprehensive petroleum law was enacted, the production of petroleum in Venezuela was insignificant. Among the nations of the world the country now ranks third in oil production and first in oil exports. The capital for this development has been derived largely from foreign sources. Taxes have generally been moderate, although those provided for by the law of 1938 apparently were of such nature as to discourage the major companies from

^{1/} See the section on petroleum concessions.

^{2/} Specified reductions have been granted to some concessions converted to the new basis.

developing new concessions. Reactions of the petroleum companies to the law of 1943 appear to be favorable; they have indicated that their best interests will be served by converting their concessions to the new basis. The president of one of the larger companies has referred to the law of 1943 as the adoption of a long-range policy of cooperation, as the recognition of the mutual interests of private capital and the Government in the development of petroleum resources, and as a guaranty of the right of private operation in the industry. ^{1/}

Further assistance to the coffee industry.

The Venezuelan coffee industry was severely affected by the outbreak of hostilities in 1939. Before the war, continental Europe had been the principal market for Venezuelan coffee, ordinarily purchasing about 70 percent of the total; Germany alone usually accounted for more than 50 percent. After the war began, the German market was completely cut off and exports to other European countries declined rapidly. In 1935, exports of coffee from Venezuela to continental Europe totaled 85 million pounds, in 1940 they amounted to 13 million pounds, and in 1941, to only 90,000.

The Inter-American Coffee Agreement.--Because of the demoralization of their markets for coffee and the accumulation of surplus stocks, Venezuela and the other coffee-producing countries of the Western Hemisphere, together with the United States, appointed a committee to study the problem and to recommend joint action which would be beneficial to the coffee industry. An agreement reached in November 1940 provided for export quotas to control shipments from the producing countries (a) to the United States and (b) to all other countries combined, and for quotas to control imports of coffee into the United States. ^{2/} In the original 1940-41 allocation Venezuela's annual quota for exports to the United States was set at 420,000 bags of 60 kilograms each, and at 606,000 bags for markets outside of the United States. This division assured Venezuela 2.7 percent of total coffee exports from the 14 producing countries to the United States and 5.2 percent of those to the rest of the world.

Venezuelan exports of coffee during the 1940-41 quota year exceeded its allotment; as a result the exportation of coffee was made subject to licenses obtained from the Ministry of Finance. ^{3/} The Government, through the Ministry of Agriculture, allocates quotas to individual exporters within the country. Because of its coffee-buying activities, the Agricultural and Cattle Bank (Banco Agrícola y Pecuário) ordinarily has been assigned more than one-half of the domestic quotas. The Inter-American Coffee Board, charged with establishing the quota from season to season, fixed Venezuela's export quota to the United States in 1941-42 at 431,527 bags, and in 1942-43 ^{4/} at 463,078 bags. The 1941-42 coffee crop was large enough to fill the quota and, in addition, to create a substantial carry-over at the close of the year. Because of the severe damage caused to crops by heavy rains, the 1942-43 quota was not filled. In general, the Coffee Agreement has functioned to the advantage of Venezuelan growers; despite the complete loss of the former German market, exports of coffee in 1941 exceeded those in 1939 by more than 10 percent in terms of both quantity and value.

^{1/} The Oil and Gas Journal, March 18, 1943.

^{2/} The United States selects one-third of the members of the Inter-American Coffee Board. The consumer in the United States is protected from unwarranted price control by a provision in the agreement that in the event of an "imminent shortage" imports may be increased beyond the established quota by a one-third vote of the Board.

^{3/} Executive decree, effective February 18, 1941.

^{4/} Increased to 680,558 bags on March 5, 1943.

Reallocation of the National Coffee Institute's functions.--Government activities in support of the coffee industry since 1939 have been directed increasingly by the Agricultural Bank, a Government-owned agency created to finance growers of coffee and other agricultural products; the importance of the National Coffee Institute meanwhile has declined. Immediately after the outbreak of the war in 1939, the Government guaranteed fixed prices to exporters of coffee; the prices established were somewhat higher than those quoted in the New York market. ^{1/} By a joint resolution of the Ministries of Agriculture and the Treasury on November 3, 1941, minimum coffee prices were established. The Agricultural Bank proceeded to make these prices effective by means of an organized purchase program. Since that time the Bank has become the predominant purchaser of coffee in the domestic market; in 1942 it accounted for two-thirds of all exports. Domestic prices have not fallen below the established minimum, which has been increased twice. ^{2/} In general, the bank's buying activities have controlled prices paid in the Venezuelan market.

The most significant addition to the activities of the Agricultural Bank have been those which until recently were performed by the National Coffee Institute. ^{2/} By two decrees early in 1942 the Institute was reorganized; the Board of Directors was replaced by a single director and the Institute's duties were broadened to include the promotion of other agricultural industries and to permit a more liberal credit policy. In 1943 the functions of the National Coffee Institute were taken over by the Ministry of Agriculture and the Agricultural Bank.

Wartime mobilization of the domestic economy.

Venezuela severed diplomatic relations with the Axis Powers on December 31, 1941. Early in 1942 the Government created a Board of Economic Defense to develop a program for the stabilization of the national economy during the war and to promote the development of domestic production. A serious problem confronting the country since 1940 has been its general inability to secure many essential imports, particularly machinery, construction materials, wheat flour, rice, and other vital foodstuffs. Several steps have been taken to assure more efficient allocation and use of such imports as have been obtainable. Importers of products subject to export controls or priority systems of foreign countries have been required to obtain certificates of necessity from the Import Control Commission, ^{3/} and a Co-ordination Agent has been appointed to handle matters relating to shipments of merchandise and shipping priorities.

The Foreign Ministers of the American Republics, meeting at Rio de Janeiro in January 1942, recommended the adoption of cooperative programs for the mobilization of strategic materials in the Western Hemisphere. Venezuela possesses important rubber resources; a contract between the Venezuelan Government and the Rubber Reserve Co., of the United States was signed, giving the latter, for the period October 13, 1942 to December 31, 1946, the exclusive right to purchase all rubber produced in excess of domestic requirements. On its part, the Rubber Reserve Co. agreed to provide \$500,000 to develop and increase rubber production in Venezuela. Expenditures of this sum will provide certain permanent public works connected with the production and transportation of rubber, such as roads, docks, and warehouses, which ultimately will become the property of the Venezuelan Government. In addition to a guaranteed minimum price for rubber for the duration of the contract, premiums are offered for all production in excess of specified

^{1/} Executive decree, December 5, 1939.

^{2/} February 2, 1943, and March 1, 1943.

^{3/} Executive Decrees No. 63, April 6, 1942, and No. 123, June 5, 1942.

^{4/} Executive decree, February 6, 1942.

quantities. On its part, the Venezuelan Government agreed to initiate various measures designed to assure the success of the project. ^{1/}

Export and reexport control.—To protect their domestic economies from shortages of essential materials and to prevent shipment of these commodities to Axis-controlled nations, most of the countries of Latin America have undertaken to control both the export and reexport of vital industrial materials. Measures initiated by Venezuela to conserve domestic supplies have included the prohibition of exports of scrap iron (1939), and cement (1942), as well as the reexportation of automobiles (1942).

At the meeting of Foreign Ministers of the American Republics held at Panama in September 1939 resolutions were adopted affirming the necessity and purpose of maintaining hemispheric solidarity and of mobilizing economic resources for common defense. The first important Venezuelan measure to implement this policy, adopted in August 1940, prohibited the exportation of a number of metals, including copper, aluminum, and tin. ^{2/} The decrees of 1939 and 1940 prohibiting exports of metals and scrap were revoked in July 1941, at which time exportation of these products was made subject to license by the Ministry of Finance. ^{3/} Finally, in September 1941 the reexportation of all merchandise subject to export control in the respective countries of origin was forbidden unless licensed by the Ministry of Finance. ^{4/} Licenses were also required for the exportation of any articles considered essential to the domestic economy or to the national defense, regardless of their origin. The Ministry of Finance, charged with the administration of these controls, has published a comprehensive list of commodities for which export licenses are required.

Wartime financial controls.—The Ministers of the American Republics, meeting at Rio de Janeiro in January 1942, recommended the adoption of measures to block within the American Republics the use or transfer of funds held by nations (or their nationals) which had committed acts of aggression against the American continent. Venezuela had already taken steps to achieve these purposes; within a week following the Japanese attack upon Pearl Harbor two decrees established control over the funds of all nationals of countries at war with any American nation. The exportation of merchandise and securities and the transfer, in any form, of funds belonging to Axis or Axis-controlled countries or their nationals was forbidden, except under licenses issued by the Central Bank, which was vested with the general administration of these measures. ^{5/} This authority was later strengthened by extending control over the financial transactions of any person, regardless of nationality, whose activities are found to be contrary to national or hemispheric security. ^{6/}

It does not appear that these controls over Axis funds have been as complete or as effective as was recommended by the Foreign Ministers. This arises primarily from the fact that the regulations of December 1941 have not been revised in the light either of the recommendations of the Foreign Ministers or of the numerous circumventions which have been employed by individuals to evade the original purposes of the decrees; moreover, a more rigorous interpretation and enforcement of the present restrictions has been suggested in some quarters.

^{1/} Executive Decrees No. 235 and No. 238, and Resolution No. 2, Ministry of Agriculture, Gaceta Oficial, October 9, 1942.

^{2/} Executive decree, Gaceta Oficial, August 6, 1940.

^{3/} Executive decree, July 29, 1941.

^{4/} Executive decree, September 9, 1941.

^{5/} Executive decree, Gaceta Oficial, Edición Extraordinaria No. 5, December 12, 1941.

^{6/} Executive decree, Gaceta Oficial, December 16, 1942.

Another measure designed to reinforce wartime economic controls established by the United States relates to the circulation of United States currency in Venezuela. All transactions in United States currency are now subject to the control of the Central Bank; commercial banks may no longer deal in such currency. To secure conversion, such currency must be turned over to the Central Bank, though such delivery is not mandatory. ^{1/} If it is subsequently validated by the United States Treasury, the owners receive payment in Venezuelan currency. This measure is neither so rigid nor so comprehensive as are similar controls employed in a number of other Latin American countries. It appears, nevertheless, to have been quite successful in establishing control over dollar holdings; the total value of such currency turned in by the close of 1942 (\$1,300,000) was more than six times as much as had been estimated.

Price control and rationing.

Conditions resulting from increased costs of living are probably more acute in Venezuela than in any other country of the Western Hemisphere. Even before the war the cost of living was considerably higher than in other countries; in 1939 many commodities basic to Venezuelan life were selling at from two to four times as much as in Washington, D. C., where living costs are high in comparison with those in other parts of the United States. The selling prices of a few representative commodities are illustrative: In 1939 wheat flour in Caracas sold for 268 percent of the Washington price, butter, for 285 percent; rice, 133 percent; eggs, 285 percent; a representative breakfast cereal, 390 percent; lard, 447 percent; and sugar, 258 percent. ^{2/} Although the price situation and the cost of living have been aggravated by conditions created by the war, prices in Venezuela were not materially higher in 1939 than they had been 25 years earlier.

Some of the factors contributing to the price situation in Venezuela are of long standing; others have resulted from war conditions. Chief among the former are the tariff duties. ^{3/} Venezuela ordinarily imports a large proportion of its domestic requirements of many basic articles of consumption and the high import duties on these commodities result in high prices. Distributors' margins likewise are an important factor; they frequently are from 100 to 250 percent of the c.i.f. ^{4/} value of imported commodities. In 1939 distributors' margins (including landing expenses other than tariffs, and wholesalers and retailers' margins) for representative commodities were as follows: Wheat flour, 240 percent of the c.i.f. value; rice, 125 percent; oats, 125 percent; lard, 150 percent, and potatoes, 240 percent. Another factor responsible for high prices has been the high cost of transportation to and within the country.

Prices in Venezuela have risen rather rapidly since 1940. Shipping restrictions, as well as export controls imposed by foreign countries, have combined from time to time, especially since 1941, to create serious shortages of essential supplies, including foods, construction materials, repair parts, electrical appliances, and hardware. This situation has been aggravated by speculation, hoarding, and "black market" operations. Furthermore, the excess of exports over imports since 1941, arising in part from the country's inability to obtain imports, has resulted in a substantial increase of bank balances, with further inflationary tendencies. Moreover, the quantity of currency in circulation has nearly doubled since 1940.

^{1/} Executive Decree No. 152, July 3, 1942, Gaceta Oficial, July 4, 1942.

^{2/} Report to the Minister of Finance Submitted by the American Advisory Economic Mission to Venezuela, Washington, 1940, pp. 15-19.

^{3/} See the section on the tariff.

^{4/} Cost, insurance, and freight, not including duty.

Almost immediately following the outbreak of the war in September, 1939, the Venezuelan Government established a system of price control; ^{1/} local price-control boards were created for each of 162 districts throughout the Republic. A list of articles of prime necessity was published, including selected items of food, clothing, raw materials, building materials, and industrial supplies; and the price-control boards were authorized to fix maximum and minimum wholesale and retail prices for these commodities. These boards, however, operated independently, with no coordinating organization or policy.

The National Price-Control Board.—Inasmuch as the local price boards did not prove particularly effective, there were numerous appeals for more adequate controls. In October 1941, therefore, the National Price Control Board (Junta Nacional Reguladora de Precios) was created. ^{2/} This Board, however, did not operate as its name implies, as an over-all price-control agency; its authority was limited primarily to the Federal District. The local boards, though reduced in number to 73, continued to function in their respective districts. The National Board, however, was authorized to hear and settle appeals from decisions of the local boards and to serve in an advisory capacity to the Executive. A selected list of articles of prime necessity, for which the local price control boards were authorized to fix maximum prices, was established.

The powers of the National Price Control Board were broadened by two important decrees in 1942 which authorized it to ration scarce commodities and strengthened its control over prices. In May 1942 the Board was empowered to control and conserve articles of prime necessity, commandeer, and allocate merchandise stocks, to establish maximum sales quotas; and otherwise to ration products among buyers. ^{3/} In November 1942 the National Price Control Board was reconstituted as a national control agency in authority as well as in name. Its powers to requisition, allocate, and ration prime necessities were broadened at this time. ^{4/} It is now authorized to fix maximum sales prices throughout the country, although it continues to confine its activities largely to the Federal District and the District of Sucre in the State of Miranda. From time to time, the list of articles designated as prime necessities has been extended. The Board has acted in many instances to fix maximum retail or wholesale prices for specified articles.

Penalties have been imposed in a number of cases. The local price-control boards also have been authorized to fix rents. Although no formal system of rationing has been inaugurated, various measures designed to conserve scarce commodities have been adopted. These have been confined largely to licensing or limiting of sales of articles such as structural iron and steel, motor vehicles, automobiles, tires, and wheat flour.

Although price control in Venezuela appears not to have been vigorously applied, it has exercised at least some moderating influence on prices; without its operation, price increases probably would have been even more extreme. Nevertheless, prices have continued to rise since 1941; the Central Bank's index of wholesale prices (1938 = 100) rose from 105 in January 1942 to 128 in March 1943. Prices of foodstuffs in general increased more than 20 percent; the price of rice appears to have risen by about 90 percent; corn, 85 percent; lard, 30 percent; potatoes, 65 percent; beans, 30 percent; and cheese, 75 percent. In view of the high prices which obtained at the beginning of the war period, these increases are particularly significant.

^{1/} Executive decree, September 9, 1939.

^{2/} Executive decree, October 1, 1941.

^{3/} Executive Decree No. 93, May 7, 1942; further revised by Executive decree No. 142, July 10, 1943.

^{4/} By the Decree of May 7, 1942, the National Price Control Board was granted broad powers to regulate transportation; Executive decree No. 281, of November 9, 1942, transferred these functions to the newly organized National Transportation Board (Junta Nacional de Transporte).

In addition to the general difficulties confronting all countries, the effectiveness of Venezuelan efforts to control prices has been limited by the small budget and personnel made available to the National Price Control Board. Moreover, the fact that the Board still operated in conjunction with numerous local boards, and the absence of an integrated over-all program of control have restricted its opportunities for effectiveness. The policy of the National Control Board has not been to freeze prices at specified previous levels, but to fix them from time to time at levels which allow what is considered to be a reasonable profit. This frequently has resulted in official prices which follow, rather than determine, market trends, and ceiling prices often have been altered in order to legalize price increases. Complete success of the objectives sought by the Price Control Board may, of course, require additional control over the volume of currency in circulation. ^{1/}

Post-War Problems Relating to Controls and Commercial Policy

Since 1938 the Venezuelan Government has displayed increasing interest in developing and expanding the economic resources of the nation and in laying a broader and more secure foundation to sustain national standards of livelihood. The program initiated under the Three-Year Plan has been one of several developmental projects undertaken to achieve this objective. Industrial and agricultural techniques in Venezuela, however, are still on the whole relatively unadvanced (except in the crude-petroleum industry), and extensive modernization and improvement will be required.

In agriculture leaders have urged the development of a broad educational program to promote improved methods of cultivation and the utilization of modern implements and methods. Somewhat the same problem exists with respect to Venezuelan industry. A fundamental problem confronting the Government in its present program of economic development and modernization is that of selecting for governmental assistance those projects and industries which, in the course of time, will prove to be self-sustaining and which will contribute to, rather than impair, national prosperity.

The Venezuelan tariff structure.

The Venezuelan program of industrial and agricultural development cannot be considered separately from other phases of national policy. The unique character of the Venezuelan tariff already has been discussed. After the war, two obstacles of long standing will continue to retard the development of a more efficient economy, namely, the high-price situation and the corresponding low real incomes in Venezuela. These conditions are due to a very substantial degree to the high rates of duty imposed on imported articles. Moreover, the many tariff rates which were levied for the specific purpose of promoting domestic production have not, in fact, resulted in a vigorous and efficient development of industrial plants. Partly because the rates are so high that even inefficient industries can survive, modernized methods and processes seldom are utilized, obsolete machinery and high-cost industrial units continue to be employed, and often inferior-quality merchandise is produced.

^{1/} A comprehensive discussion of rationing and price control in Venezuela is contained in an unpublished manuscript of the U. S. Office of Price Administration, Venezuela: Price Control, Rationing and The Cost of Living, Washington, 1942; see also U. S. Foreign Service Report No. 11, Caracas, August 17, 1942.

Agricultural subsidies.

A similar problem arises with respect to agricultural subsidies. When unduly high, they tend to cancel many of the efforts of the Government, through the National Coffee Institute and other agencies, to improve Venezuelan agriculture. Inefficient methods of cultivation continue to be employed, the quality of the crops has suffered, and yields tend to be uniformly low. The American Advisory Economic Mission reported that "in agriculture there is too much dependence upon Government subsidies and too little reliance on efficiency in operation and practically no attention to cost of production." The Mission recommended that all future aid to agriculture and industry be granted with discrimination to assure the proper maintenance and efficient operation of the industry involved.

Petroleum taxation.

Neither the Federal nor the State Governments in Venezuela levy any direct taxes on property or on individual and corporate incomes. About one-fourth of the total Federal revenue is provided by taxes on petroleum and more than one-third from customs duties; most of the remainder is derived from consumption taxes and miscellaneous sources. The heavy dependence of the Venezuelan fiscal system upon petroleum taxes may ultimately create a serious problem as petroleum resources become depleted. Revenues derived from the nation's petroleum resources, represent, in a sense, the actual depletion of the patrimony of the State. To a substantial extent this patrimony is now being consumed in defraying current costs of governmental operation and in subsidizing industries which have not demonstrated an ability to carry the tax burden when petroleum revenues are no longer available. An alternate course would be to invest a substantial part of the Government's share of the depleting petroleum resources in permanent national improvements, public or private, capable of creating new revenues from recurring income.

