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SUMMARY

Venezuela is the seventh largest Latin American country and covers an area of 912,050 km². Its population in 2000 reached 24.2 million. It has a Caribbean coastline 2,718-km long and an Atlantic coastline of 1,008 km. It is considered to be one of the world's most ecologically diverse countries with four different geographical regions. The country has the largest economy in the Andean Community (CAN) and although it is very unevenly distributed, Venezuela enjoys one of the highest GNPs per capita in Latin America.

Venezuela is going through a period of important changes that affect the political, social and economic spheres. The government started with reforms in the political arena: a new Constitution, a single-chamber National Assembly and extension of the presidential mandate with the possibility of re-election. A number of significant economic reforms, with important social implications, have also been tackled, resulting in strong protests from some social and productive sectors. Venezuela underwent major political turmoil in April 2002, which has highlighted the country's social polarisation.

The Venezuelan economy is characterised by a striking duality. Its energy sector is highly developed and efficient compared to other sectors. The energy sector represents almost 30% of GDP and 80% of exports, making the Venezuelan economy highly vulnerable to oil price fluctuations. Diversifying the economy has become a key objective and an urgent prerequisite for its development. Venezuela's growth potential is very high, provided that the government applies an efficient long-term economic programme, capable of restoring investor confidence.

Severe floods in 1999 ravaged some of the coastal regions of northern and north-eastern Venezuela with an estimated 15,000 to 20,000 deaths, more than 8,000 homes affected, with total damage amounting to between €2 and €4 billion. The floods contributed to a fall of 6.1% in GDP for that year. The international community reacted rapidly to the catastrophe; the European Commission provided €7.15 million in emergency aid.

There are two main dimensions to European Community co-operation with Venezuela: regional and bilateral. On a regional level, the dialogue between the EU and the Rio Group aims to strengthen relations with Latin America, covering political, economic, social and humanitarian domains¹. On a bilateral level, the Commission will focus on two of Venezuela's main needs in accordance with the priorities of the government. First, on the prevention plans to mitigate the effects of natural disasters. Second, on helping to diversify the economy, by carrying out actions in the fish sector, which is included in the Government's plans, and which affects some of the areas with high poverty levels and at risk of flooding.

¹ A number of horizontal programs have been developed by the Commission from which Venezuela will benefit, as it will from the EC's support to CAN regional integration.

1. EU CO-OPERATION OBJECTIVES

1.1 EU Development Policy Objectives

The European Union's policy with regard to co-operation in Latin America is based on Title XX of the Treaty establishing the European Community. Article 177 establishes that Community policy in the field of development co-operation is to encourage sustainable economic and social development in developing countries, in particular the most disadvantaged; the harmonious and progressive insertion of the developing countries into the world economy and the fight against poverty. Furthermore, the general aim of EU policy is to develop and consolidate democracy and the rule of law, as well as the respect of human rights and fundamental freedoms.

The European Union's development policy was defined in a November 2000 Statement by the Council and the Commission, setting out the principle that co-operation is an expression of solidarity and is consequently an essential feature of the Union's international activity. The European Union's development policy is conceived in terms of sustainable, equitable and participatory human and social development. It also asserts that the promotion of human rights, democracy, the rule of law and good governance are an integral part of this policy.

Given the current panorama of poverty in many regions of the world, a principal aim of EU development policy is to reduce poverty with a view to its eventual eradication. In this respect, it is believed that sustained growth is a necessary, but not sufficient condition, in the reduction of poverty. More focused, pro-poor actions are necessary to advance in this direction. At the same time, it is recognised that the integration of the developing countries into the world economy is a precondition for their growth and sustainable economic and social development, and is therefore also a precondition for the eradication of poverty.

In the November 2000 Statement, the Council and the Commission explained that the EU intends to concentrate its development co-operation efforts on six areas: the link between trade and development; regional integration and co-operation; support for macroeconomic policies and the promotion of equitable access to social services; transport infrastructure; food security and sustainable rural development; and institutional capacity building.

1.2 The Rio Summit and EC Regional Objectives

Relations between the European Union and Latin America are carried out using a number of political dialogue frameworks (up to ministerial level) and regional agreements. They are inscribed in the spirit of the Rio Summit of 28-29 June 1999, and the accords reached at the same, which have since been developed further in various ministerial working groups and will very likely be further strengthened at the Madrid Summit in May 2002. Enhanced and closer relations between the European Union and Latin America are a logical outcome of the importance of economic interchange between the two regions. The EU is the second most important trading partner for Latin America and it is the second largest investor in the region. The Summit was also built on the cultural affinities that exist between the two regions as a basis for closer relations.

The Rio Declaration, adhered to by all attending heads of State, underlines the common objectives agreed upon in the political, economic and human domains and outlines the general action plans to achieve these objective, including regional co-operation. These general action plans were later defined more specifically at Helsinki in late 1999. With the 2002 Madrid Summit in view, the Commission proposed an intensification of its action in three priority fields: the protection of human rights, the promotion of an information society and the reduction of social imbalance using an overall approach in the fight against poverty². The central objective is “to place human development and civil society at the heart of relations between the two regions in question”. These lines of action will be pursued through existing co-operation instruments, and particularly through decentralised horizontal programmes.

The majority of EU co-operation funds for Latin America countries are governed by the Council Regulation (EEC) N° 443/92 of 25 February 1992 on financial and technical assistance to, and economic co-operation with, the developing countries in Asia and Latin America. This Regulation explains that financial and technical assistance will targeted primarily the poorest are of the population and the poorest countries in both regions, through the implementation of programmes and projects in whatever sectors Community aid would have the most impact . In particular, measures shall be implemented in areas where domestic, economic and human resources are difficult to mobilise, but which are of strategic importance either for the development of the countries concerned or for the international community as a whole.

Venezuela is also party to the Framework Agreement on Co-operation between the European Economic Community and the Cartagena Agreement and its member countries (with Bolivia, Colombia, Ecuador and Peru), signed on 23 April 1993³, which aims at promoting in particular the development of co-operation relating to trade, investment, finance and technology, taking account of the Andean countries’ special status as developing countries, as well as promoting the intensification and consolidation of the process of integration in the Andean subregion.

Country specific objectives

As regards Venezuela, the overriding objective of Community co-operation is to avoid disasters such as the floods of 1999, which had such devastating effects. In this respect, the General Affairs Council Conclusions of February 2000 addressed the 1999 flood disaster, asking the Commission to study ways and means to provide support for rehabilitation and reconstruction. The Commission's working document “Programme to support regions affected by the floods of December 1999”⁴ attempts to encompass prevention and management of risks, as well as the rebuilding aspect. The same concern is underlined by the European Parliament in two resolutions on reconstruction and rehabilitation in Venezuela, one in January and again in July 2000.

² In COM/2000/670 of 31 October 2000; see also COM/95/495 of 23 October 1995 and COM/99/105 of 9 March 1999.

³ O.J.E.C. L 127 of 29 April 1998, pp.10 to 25

⁴ SEC (2000) 1571

2. THE POLICY AGENDA OF THE VENEZUELAN GOVERNMENT

Since President Chávez took office in 1999, several strategic programmes have been designed: in June 1999, *Economic Programme for the 1999-2000 transition*; in May 2000, *Economic Programme 2000*, *Government Programme: Hugo Chávez' proposal to continue Revolution* and an *Economic Programme 2001* and finally, in September 2001 the *General Guidelines of the Economic and Social Development Programme for the country, 2001-2007*. This last one is considered by the government to be the first Plan for the new Bolivarian Constitutional era. Several additional laws and plans complete the policy agenda, most notably among them, the government plans to address the consequences of the 1999 disaster (point 3.2.3) and to develop prevention measures, which constitutes one of the priorities for the Venezuelan government.

The General Guidelines for 2001-2007 are structured around “five equilibria”: Economic, social, political, territorial and international balance, the first two of which are of greatest interest.

With respect to the “*economic equilibrium*”, the main goal is to create a productive model which generates self-sustainable growth, promotes diversification of production and increases international competitiveness. In order to diversify production, some specific sectors have been chosen: mineral fuels, agriculture, fishing, parts of forestry, basic industries (aluminium, nickel, steel and non-metal minerals), tourism and high technology services.

Fiscal sustainability is planned by cutting expenditure and by introducing a more efficient allocation of funds with additional income expected from non-oil fiscal revenue. With respect to exchange rates, the government has recently abandoned its policy of keeping the Venezuelan Bolivar (VEB) within a pre-determined band with respect to the US dollar, and has let the currency float in order to ease fiscal pressure.

The government plans to stimulate investment by reducing the gap between bank deposit and loan rates. The public financial system is to complement the private financial system in order to implement investment programmes in infrastructure. Furthermore, the government is determined to facilitate small credits through government banks and through a new mechanism for financing small and medium-sized enterprises.

So as to improve income distribution, the government intends to develop a social economy using two basic programmes: 1) Capital democratisation and legitimacy of the market providing for different means of ownership such as micro-enterprises, community enterprises, new co-operatives, SMEs and land democratisation; 2) Organisation of the micro-finance system to facilitate small credits.

As for the policies by sector, special government decrees, approved under the powers granted by the Enabling Law (Ley Habilitante)⁵, provide for important reforms in e.g. agriculture, fisheries and hydrocarbons.

Agriculture is one of the key sectors in the production diversification strategy and a way to repopulate some rural areas. This underdeveloped sector, with highly concentrated land

⁵ Special temporary power given to the government, which allowed the introduction of legislation in a range of areas without debate in the National Assembly

ownership⁶, contributed 4.8% to GDP in 2000. It is hoped that land reform will reduce dependence on food imports by influencing the use of land. The use of private and public land will be evaluated and if it is considered “under-used”, the “shortfall in income” will be taxed and land can be expropriated to the benefit of small farmers.

The new *fishing* law encourages traditional fishing. It has caused concern, mainly because it does not allow trawling (industrial fishing) within 6 miles of the continental coast or within 10 miles of island areas; this will have a significant effect on the industrial fleet, which catches tuna and prawns for export to Europe. Other concerns include the increase in the price of licences, the reduction in the period of validity for trawling and the reservation of certain fishing areas for the exploitation of traditional fishing.

Hydrocarbons are a key natural resource for the Venezuelan economy. The government’s policy aims to maintain stable oil prices by strengthening OPEC co-operation. The new *Hydrocarbons Law* has also raised concern among the business community. It increases royalties (levied irrespective of production costs) paid by oil companies. It also establishes a minimum participation of 51 % by the State in joint ventures, which, it is thought, will lead to a fall in private investment.

Tourism, industry, science and technology are other focal sectors with specific strategic plans. The development of tourism, which is very much under-exploited and has great potential, would help diversify the economy. A new law and a National Plan for Science and Technology are intended to support agriculture, industry and services. A plan for the mining industry has been developed in two phases, aimed at first “recovery and strengthening” and then at “expansion and modernisation” of the sector.

With respect to Social Policy, the government intends to reduce poverty and social inequalities by equalising access to education, health and by creating new jobs in micro-companies, SMEs and co-operatives. Reconstruction of the areas affected by the floods as well as disaster prevention will reduce poverty since population and poverty are concentrated in the affected areas. The basic principles for the social policy are universality, equity, participation and co-responsibility.

Education is one of the key policies chosen by the government to alleviate two problems: unemployment and violence. Furthermore, the Chávez administration is reforming what it considers to be a corrupt educational system. The May 2000 programme describes the access to and quality of teaching in Venezuela as poor by international standards, and proposes access to good quality education for everyone. Projects in basic education include the appointment of school inspectors, the conversion of all basic education institutions into “Bolivarian schools”, the centrepiece of the educational revolution, aimed at creating a new political culture of co-operation and solidarity. They emphasise Bolivarian themes, and offer pre-military training, as well as full meals. In higher education, the objectives include a reorganisation of the education system, strategic negotiations between universities and government, raising quality and efficiency, promoting equal access and strategic alliances with business.

In health, the most important goals address the poorest sectors; public health programmes and improving the control of endemic-epidemics (dengue fever, malaria, aids; vaccinations against other diseases). Reform of the Social Security is under discussion.

⁶ 74 % of the agricultural land belongs to 4% of the producers, while 44 % of the farmers have 1%

Plan Bolívar 2000 is a civil-military plan addressing the social needs of the country in the health and education sectors.

3. ANALYSIS OF THE POLITICAL, ECONOMIC AND SOCIAL SITUATION

3.1 Political situation

President Hugo Chávez Frías won the elections in December 1998 and was re-elected in July 2000, with 59.17 % of the votes, for a six-year period. He has named the period 1958-1998 the 'Fourth Republic', inaugurating the 'Fifth Republic' in 1999. His "Bolivarian Revolution"⁷ affects political, social and economic matters.

A new Constitution has been adopted following a referendum, which includes some important changes. The country was renamed the República Bolivariana de Venezuela. The Presidential period has been extended to six years with the possibility of immediate re-election. The concept of participative democracy, a form of democracy by plebiscite, in which the leader communicates directly with the people, was introduced. The number of public powers has been increased to five, adding a "citizen" and an "electoral" power⁸. Nevertheless, in practice, the Executive is accumulating more power. The new Constitution includes new forms of participation for the citizen such as the referendum and citizens' assembly. A single-chamber National Assembly has replaced the previous, two-chamber Assembly.

There is universal suffrage in Venezuela and free elections are organised at municipal, regional and national level by the National Elections Council. There is a multi-party structure. The military have regained their right to vote. Civil society is involved in the nomination of certain candidates (Supreme Court, Ombudsman and other government posts).

Venezuela is a federal republic comprised of 72 federal dependencies, 23 states, two federal territories and one federal district. Decentralisation is included in the Constitution, defining the State as "federal and decentralised" as opposed to the centralised federation formula of the old constitution. A Capital district is created with the five town councils of Miranda State working in co-ordination with Caracas. However, the National Assembly has been turned into a single chamber implying that the federal states lose their voice at national level. Furthermore, a state-centred and paternalist conception of the social and economic order has been accentuated in some respects e.g. the status of the state-owned oil company, Petróleos de Venezuela.

To complete President Chavez' "Bolivarian revolution" significant changes affecting political, economic and social matters have been undertaken through the above mentioned Enabling Law. A total of 49 laws have been passed, including reforms regarding income and capital gains tax, value-added tax, hydrocarbons, fishing,

⁷ The term "bolivarian" comes from Simon Bolívar. President Chávez admires his legacy and affirms that his policy is inspired by it.

⁸ - Legislative power, with just one House: Unicameral National Assembly (the Lord House has been eliminated).

- Executive power formed by the President, Vice President, Government Federal Council and the Council of Ministers.

- Judicial power, the Justice Supreme Court (Tribunal Supremo de Justicia)

- Citizens power, put in practice by the Republican Moral Council, and formed by the Ombudsman, the General Public Prosecutor and the , Controller of the Republic;

- Electoral, the National Elections Council becomes one of the five National Power

budgetary laws, agricultural law and personal security. This legislation has faced strong opposition and resistance in society and led to a general strike in December 2001, organised by the private sector federation Fedecamaras and supported by the main trade-union confederation (CTV). This represented the first strong reaction to Chávez' policy. The concerns relate to the economic effects and implications for private ownership of the policy as well as its legality and constitutionality. Furthermore, in April 2002, a political turmoil with a coup and a counter coup d'Etat has shown the deep division in Venezuelan society with respect to the current policy, and the need for a conciliatory approach.

Within the civil service and government, the traditional political elite has been removed from public institutions, the Cabinet and the organisational structure of the State. The majority of members of the National Assembly, governors and mayors are new. Furthermore, the military plays an important role in the Chávez administration with military officers heading several ministries, social development funds, the customs service, the budget office and some local governments.

This process has affected the political arena. Traditional parties have undergone a crisis and are facing a process of reform. The two biggest, Acción Democrática, with social-democratic tendencies, and COPEI, with social-Christian tendencies, went into crisis, and a new political organisation was consolidated, the Movimiento Primero Justicia, whose origin is an NGO for Human Rights. As a consequence, political opposition is not well organised, as proven by the events of April 2002. Factors for President Chávez' success in the elections and the crisis of the traditional parties include the growing disenchantment with the Institutions, internal division of the main political parties, the emergence of protest movements and new parties, and the poor performance of successive governments.

Concerning *human rights*, the 1999 Constitution includes some of the most advanced safeguards in the Southern Hemisphere. The rights of indigenous people are explicitly included, as are environmental principles. International agreements and civil liberties are respected. In 2001, the law on refugees was passed and the UNHCR 1967 refugee convention ratified. There are cases involving Venezuela pending in the Inter-American Commission of Human Rights. In practice, the police are criticised for using harsh methods and the prison situation remains problematic. Human Rights Watch statistics show an increase in deaths of suspects while in police custody since 1999. There are ongoing investigations into the presumed participation of law-enforcement officers in gangs, delivering their personal "justice" without trial, often in the form of killings. After the political events in April 2002, the number of reports of human rights violations, acts of intimidation, and of vandalism and looting as well as the number of deaths and injured increased. Prison conditions are far removed from European standards and inmate violence figures have not shown signs of a decrease. The creation of new privatised jails is planned. With respect to NGOs, their freedom of action has been weakened: Supreme Court decisions in 2000 limit NGO participation in public decision-making when they receive foreign financial support. The National Ombudsman was an institution created by the 1999 Constitution.

Civilian *security* is one of the main concerns for the population and is one of the priorities for national and municipal authorities in Venezuela, due to widespread crime. Impunity and poverty contribute to this situation while other structural causes of violence, such as

ethnic, racial, religious and cultural tensions, or independence movements do not raise security problems.

The independence of the *judicial sector* is provided for in the Constitution and judicial reform is being prepared. The judicial sector demonstrates weaknesses in delivering justice: according to the prosecutor's office, in 2001, there were countless cases pending with enough resources to handle the workload. Figures presented in the National Assembly in 2001 indicate that 98.5% of crimes go unpunished. This is also reflected in the field of contractual law, making its position uncertain in most cases. The original penal code has been reformed on various occasions in the last few years, the latest version, in 2001, includes suppression of the jury system.

In order to tackle the main problems in these two areas, i.e. security and justice, Venezuela needs to further implement the existing legislative framework. This would require strong political determination, which is currently undermined by the frequent changes in key positions.

As to Venezuela's foreign policy, relations with Colombia are of particular importance because this country's internal conflicts pose a direct threat to Venezuela, especially in the border areas (they share a common border of 2,219 kilometres). Here kidnapping of ranchers and businessmen by guerrilla forces has occurred, as well as occasional attacks on Venezuelan frontier posts. This conflict has a significant economic impact on the border regions, due to extortion by the guerrilla, black economic connected to guerrilla activity, immigration from Colombia, etc...Venezuela has opposed the military component of "Plan Colombia", but it cautiously supports the elements relating to social development. The situation presents potential for major instability, but no real danger of military confrontation so far. In general terms, there is a risk of the Colombian guerrilla forces, vigilantes, or refugees fleeing the violence and crossing the border into Venezuelan territory. The UNHCR opened an office in the border state of Táchira in 2001.

Venezuela also has border questions pending in the North (Isla de Aves) and in the East (Esequibo disagreement with Guyana), but these do not represent an imminent source of destabilisation. Venezuela plays a leading role in the Caribbean basin; within the framework of the San Jose Pact, the Caracas Energy Pact guarantees the supply of oil to Central America, the Dominican Republic and Cuba, and was recently extended to include other countries, with special prices and extended payment periods. This grants Venezuela political influence in the region, since some beneficiary countries depend 100% on this supply (see annex 4). Venezuela also has good general, as well as privileged, energy trade relations with Brazil. They both have a rather negative attitude vis-à-vis the FTAA (Free Trade Area of the Americas), although Venezuela has an even more reticent strategy. This is relevant considering the size of both economies.

Relations with the US have been delicate at times. President Chavez' visits and contacts have been interpreted in some cases as defiance to the US. Furthermore some declarations about the terrorist attacks have reinforced the climate of distrust on the part of the US towards him. Bilateral energy relations are significant, Venezuela exports 58% of its oil to the United States and supplies 14% of the total United States oil imports. It was also the first country to receive high-technology weapons in the 80s in order to

control the access routes to the Caribbean basin. Thus, there is great concern in the US as to the strengthening of ties with Cuba.

Within OPEC, and more generally in the world energy market, Venezuela plays a leading role. It led the switch from a volume-orientated strategy to a price-orientated policy and tries to co-ordinate the current strategy to control prices. The last General Secretary of the OPEC was the former Venezuelan Minister for Energy, until he was designated President of the state-owned oil company, PDVSA.

As regards relations with the EU, President Chavez recently visited six EU Member States as well as the EU institutions in Brussels. He sympathises with the European-style social democratic approach, with the European Union integration model and is willing to expand bilateral relations, which would allow Venezuela to balance its current highly US-concentrated foreign policy.

3.2 Economic and social situation

3.2.1 Economic situation, structure and performance

With a GDP of \$120.5 billion in 2000, Venezuela is the biggest economy of the Andean Community and the fourth in Latin America. In terms of GNP per capita, at \$4,310 for that year, Venezuela is in 77th position in the world ranking and is classified as being in the upper middle income band⁹. The Venezuelan economy is highly *dependent on its oil sector*, which represents almost 30% of total GDP, 80% of its total exports and over 50% public budget revenue. Its GDP fluctuates with oil prices (see annex 2A). The country is mainly a commodity producer, 41% of the non-oil exports are common metal ores (aluminium, copper, nickel and iron).

The Chávez administration has pursued an expansionary *fiscal policy*, acting in a pro-cyclical manner in a situation of economic expansion. Although the overall public sector balance improved in 2000 due to the sharp increase in oil prices, finishing the year with a surplus of 2% of GDP, the non-oil budget deficit increased by almost 5 percentage points of GDP (to 10.7% of GDP). Part of this was due to a sharp increase in public sector wages, pensions and other social expenditure.¹⁰ This expansionary fiscal stance has continued in 2001 and latest estimates point to a deficit of 4.1%. With foreign investors reluctant to buy government debt and the flight of domestic capital abroad, the government is finding it increasingly difficult to place its domestic bonds.

The private sector is reluctant to *invest* in the country due to a perceived uncertainty created by the new regime, changes in the legal environment and the lack of clear economic policies. The oil industry is State-run through the state-owned oil company, Petróleos de Venezuela. However, the financial sector, as well as telecommunications and most of the services, were privatised by President Chávez and his predecessors. The Private sector as a whole accounts for almost 62% of GDP.

Despite its fiscal policy, which has kept consumption strong, *inflation* has been on a downward trend. After years of high inflation, with its peak in 1997 (103.2%), the policy of pegging the exchange rate to the US\$ resulted in 12.3 % inflation in 2001, the lowest in 16 years. Although very positive for investment and consumption, the exchange rate

⁹ Source: World Bank

¹⁰ The increase in expenditure in 2000 also reflected the need to provide emergency assistance following the tragic floods and land slides that took place in December 1999.

policy created problems for national production. This policy, combined with the increase in oil prices and the expansionary fiscal policy, resulted in a marked real appreciation of the exchange rate since 1996. The IMF estimated that the bolivar was overvalued by over 35% relative to its medium-term equilibrium value. By negatively affecting the competitiveness of the non-oil trade sectors, the over-evaluation of the bolivar has shifted resources away from those sectors and harming economic diversification. The flotation of the currency is expected to weaken the bolivar, improve public finance, stem capital flight and reduce imports, while inflation will probably increase.

Because of the increase in oil prices, the *current account* swung from a deficit of 3.4% of GDP in 1998 to a surplus of 10.8% in 2000, despite the loose fiscal policy and the real appreciation of the currency. The current account surplus, however, is shrinking rapidly¹¹. While this deterioration partly reflects the decline in oil prices and demand, it is also an indicator of the weaknesses in Venezuela's macroeconomic policies.

In order to stem the loss of foreign exchange reserves caused by continuing capital flight from Venezuela, the central bank announced three measures: 1) a reduction in the maximum foreign exchange amount banks can hold from 15% to 12% of their capital, 2) a regulation prohibiting currency dealers from selling US dollars to non-resident companies and 3) an increase in banks' reserve requirements on public sector deposits from 17% to 30%. In addition, the government has introduced some import restrictions.

Venezuela's *banking system* suffered a serious crisis in the mid-1990s. Since then, bank regulation and supervision has been considerably strengthened and the financial system has gone through a process of consolidation, including bank mergers and the disappearance of several inefficient small entities. The banking system, however, continues to show weaknesses (last year the authorities had to intervene in yet another bank) and remains very vulnerable to exchange rate or economic crises. This sector is largely in foreign hands.

Unemployment is around 13 % and is on a downward trend as economic recovery progresses, although the reduction remains quite slow. The proportion of the labour force employed in the informal sector has changed little, at 52 %.

Economic relations with the EU

The EU is only a moderately important trading partner for Venezuela 8.3% of its trade in 2000 was with the EU, compared with 46.1% with the United States. Venezuela accounts for 0.3% of the total trade of the EU. The main product exported from Venezuela to the EU is energy, which represents 59.8% of its total exports to the EU, followed by manufactured goods, with 12.9%, raw materials, except fuels with 12.6% and chemicals and related products with 6.1%. Europe imports around 7% of its oil from Venezuela. With respect to EU exports to Venezuela the main products are machinery and transport equipment, 44.7%; chemicals and related products, 14.1%, and manufactured goods, 13.2% (annex 2B).

The balance of payments has traditionally shown positive results for the EU, with a figure that depends to some extent on the price of oil. From 1996 to 2000 the average European surplus was € 774 million.

¹¹ Provisions for 2001 are 5% of GDP

Since 1995, Venezuela has been included in the European GSP drug scheme, as a result of which around 80% of its exports to the EU are duty free¹².

Venezuela has historically been a net recipient of foreign direct investment. This has not changed in the last four years. In 1999 the EU stocks in Venezuela stood at €1,315 million, according to Eurostat figures. The level of European investment is increasing; Europe is the first investor in the country with its investment concentrated in the energy and services sectors. China is becoming an important investor too. This represents an important change with respect to the traditional predominance of the United States.

3.2.2 Social developments

In spite of having a GDP per capita above the average level for Latin America, Venezuela presents a traditionally high level of inequity as regards welfare distribution. Nevertheless, it leads its Andean neighbours in practically all indicators of social development such as educational enrolment, especially at tertiary level, infant mortality (20 per 1,000), access to health care and piped water and sewage (84 % of the population has access to an improved water source¹³. When examining female life expectancy, education scholarship and incomes (the difference of the latter is more than 50%) Venezuela is placed in 57th position on the gender development index¹⁴. The PNUD in its Report on human development 2001, classifies Venezuela as being in the middle human development bracket, its Human Development Index¹⁵ is situated in 61st position (Mexico 51, Argentina 34, Chile 39, Colombia 62 and Peru 73).

Nevertheless, *poverty* is a pressing problem when measured in terms of unemployment or low income rather than severe deprivation. The human poverty index stands at 8.6¹⁶. According to the PNUD the population living below the national poverty line¹⁷ is 31.3%. The Gini index is 48.8¹⁸. The highest 10% have a 37.6 % share of income or consumption and the top 20% 53.7, in 1997. Population is concentrated in the north, along the coast-mountain region and in the regions with oil, mine and industrial production. Some States of these areas are included in the upper half of the poverty ranking (annex 3B), but given that the coast is more populated, it contains a higher number of poor people. The percentage of the population living in towns has increased from 75.7% in 1975 to 86.6% in 1999

The percentage of public expenditure on education has risen, 15% of public expenditure for 2002. Investment in education is concentrated in higher education; universities, which account for 11% of the student population, absorb an estimated 38% of the education budget. In contrast, the total budget for pre-school and primary education, together accounting to 75% of students, averages 22%. As guaranteed by the Constitution, education is free at all levels, but the high budget allocation to the University level has

¹² It is worth stressing that the country is excluded from the comparable US ATPA scheme.

¹³ Source: World Bank

¹⁴ -The gender development index is calculated from life expectancy index, education index and women income index. Differences in life expectancy are 76-70.2; scholarship for primary, secondary and university are 66-64 and income from remunerated work in PPA \$ are 3,104-7,855. PNUD

¹⁵ HDI is a synoptic measure which considers life expectancy, literacy and per capita income

¹⁶ HPI measures deprivation instead of development

¹⁷ Poverty line considered appropriated by the country's authorities

¹⁸ The Gini Index measures the extent to which the distribution of income (or consumption) among individuals or households within a country deviates from a perfectly equal distribution. A value of 0 represents perfect equality, a value of 100 total inequality.

been to the detriment of the basic levels. Catholic church schools have played an important role in education given that the number of public schools remain insufficient .

The Constitution establishes the right to a public health service and there is a Social Security system for the elderly and unemployed. Public expenditure on health, from 1990 to 1998 was 3% of GDP. The percentage of the population with access to health care has improved, from 45% in 1985 to 58% in 1996¹⁹. The national health system has suffered a deterioration in the last two decades, because of cuts in government spending, and because the private sector has expanded in an unregulated way accompanied by conflicts between the government and health service employees.

Environment

Venezuela faces environmental problems, such as desertification, degradation and erosion. Desertification mainly affects regions in the north of the country, and Guajira in particular, on the Colombian border. The areas affected by erosion and potential deterioration include the coastal cordillera (Estado Miranda, Caracas), which suffered the above-mentioned floods. The two projects committed by the Commission in 2001(section 4.1.2) and the two projects included in the Work programme (section 6) also aim at addressing this issue.

Venezuela has signed the following UN agreements: the Montreal Protocol on Substances that Deplete the Ozone Layer; the Vienna Convention for the Protection of the Ozone Layer; the Convention on Biological Diversity; the Framework Convention on Climate Change; the Convention to combat desertification; the Basel Convention on the Control of Cross-border Movements of Hazardous Waste and its Disposal; the World Conservation Union's Convention on International Trade in Endangered Species of Wild Fauna and Flora; and the Kyoto Protocol (signed but not ratified).

3.2.3 Consequences of the 1999 floods and land slides

In December 1999, northern and north-eastern Venezuela suffered from heavy rainfall; the State of Vargas being the worst affected. This was the first large natural catastrophe, which hit the country since 1954. Substantial damage was caused to services, infrastructure and productive systems by torrential mudslides (flowing water laden with heavy sediment). According to different sources, there were between 15,000 and 20,000 casualties, while 100,000 persons were affected and economic losses were put at between €2 and €4 billion. This event worsened the economic situation of a State where the main activities are port, airport and tourism services and whose development indices were already showing serious deficiencies. According to an official census taken after the disaster, its resident population dropped by 23% from 300,000 to 230,000, while the critical poverty level increased to 42%. Environmental pollution of shores and waterways increased because of the damage to drainage collectors, pumping stations and underwater outfalls. These effects showed clearly that the country is not prepared to face natural disasters, lacking adequate early warning and civil protection systems, which would have largely reduced the dimension of the disaster.

The central government led the rescue effort and reacted by creating an Environmental Protection and Recovery Area (APRA) managed by a special authority, the AUAEV

¹⁹ Source: World Bank

(Unique Authority for Vargas State). An independent body, Corpovargas (Vargas State Development Corporation) was created as well, with the objective of co-ordinating, implementing and funding the projects and programmes to reconstruct the area. This has helped the reconstruction process in the State of Vargas, but remains incomplete. Few prevention measures have been taken in the areas with high flood risks, implying the danger of repetition should a similar disaster occur.

As regards the areas adjacent to the State of Vargas, which were also hit by the 1999 disaster, reconstruction has progressed well, but work on prevention measures is slow.

3.2.4 Assessment of the reform process

While the rest of Latin American countries went through important economic and structural reforms throughout the 1980's and 90's, Venezuela was particularly slow and reluctant to do so. It tended to implement reforms only as a late response to financial turmoil, triggered in particular by a fall in oil revenues. In 1996 President Caldera implemented the "Agenda Venezuela", which included a 60% devaluation of the currency, a 400 percent increase in gas prices, a 20% hike in interest rates, new taxes and the elimination of exchange controls. This set of measures succeeded in stabilising the economy, thanks to the recovery in the price of oil, but only marginally addressed the causes of the problem such as an under-diversified economy and an inefficient productive sector.

The year 1998 saw the election of Chavez, who launched his "Bolivarian revolution". This was intended to overhaul the traditional political establishment, and to reassess the country's model for development, emphasising the priority of increasing support to the more deprived parts of the population. This programme was regarded as "populist" and generated strong suspicion among the business community. As a result, investment dropped and capital began to be withdrawn from the country.

In fact, the new government has not applied an economic plan that questions the basic economic model of the country; some key policies (subsidies for energy, the tax burden and income distribution, etc) have seen little or no change. Two key bills have, however, been approved: one relating to oil and the other to land (mentioned above); the currency has also been left to float. On the social front, few concrete steps have been taken. As a result of its actions, the government has been successful in keeping inflation and the rate of change under control until the move to flotation, as well as in reducing the budget deficit (1.8% in 2000). However, buoyant oil revenues and a positive international context aided this situation. Nevertheless, traditional Venezuelan weaknesses and imbalances are, as yet, unaddressed. Due to the lack of diversification, the country remains vulnerable to a fall in the price of oil, it still has a generally uncompetitive productive structure and the plans to prevent catastrophes are incomplete.

3.2.5 Structure of the public sector finances

In terms of public *income*, (Annex 2) the main characteristics are the strong dependence on oil exports, the low level of revenues generated by income tax, VAT and customs and excise duties, as well as the strong dependence on deficit financing and the use of a Macroeconomic Stabilisation Fund (FIEM). This is a clear indication of the poor performance of the current policies in terms of revenue from taxation. The draft budget

for 2002 maintains this situation and even foresees greater dependence on oil revenues and on public debt (the deficit is expected to reach 3.0 to 4.3% of GDP). This has been a major source of concern, since oil revenues have been based on assumptions that appear now to be clearly unrealistic, both in terms of price/barrel and total output. The country would then be facing the risk of a dramatic increase in its public deficit, which has traditionally been the first step on the path to one of its cyclical financial crises. With respect to *expenditure*, social spending accounts for around 40% of the total, with a slight increase in the budget for the year 2002 to 41%. Of this, the biggest items are education and social security, which account for 15% and 10% of total expenditure respectively.

3.2.6 External environment, including regional co-operation agreements

Venezuela has been a member of the GATT and the WTO since 1990, and agreed in Marrakech to reduce its overall bound rate to 35% by 2004. However, the process of opening its market has had its ups and downs, and has been influenced by the periodical fall in the price of oil. Considerable progress has been made in liberalising the service sector, especially banking and telecommunications and, as a result, foreign investment has flowed into these areas. Since 1992 the tariff scheme has been based on the Common External Tariff of the Andean Group, with the majority of the ad-valorem rates being 5, 10, 15 and 20%. However, Venezuela maintains safeguard provisions for 76 agricultural products.

As with many Latin American countries, Venezuela is involved in several regional integration schemes: CAN, representing 34% of total exports of the 5 member countries; G3, with Colombia and Mexico (7.6% of Venezuelan trade) and ALADI (Latin American Association for Integration). It is also taking part in the negotiations for MERCOSUR, both within the framework of the CAN, and on a bilateral basis (application for associate membership was presented in 2001). With respect to FTAA, President Chavez expressed strong concerns at the Quebec Summit.

3.3. Sustainability of current policies

The 2001-2006 Economic and Social development programme incorporates a number of the Venezuelan Government's priorities that correspond to the traditional areas of action for community aid.

- Support for the poorest tiers of society will take up 40% of the 2002 budget. However, effective financing is linked to an increase in petroleum income (which, as outlined above, is uncertain) and not to an economic review of income and company tax (non-petroleum), which continue to be weak. Improvement of income distribution is foreseen through employment plans, (e.g. small credits), but not through measures applied to the tax system.
- Productive diversification. The authorities are aware of the country's dependence on a restricted number of raw materials and a lack of competitiveness in the Venezuelan productive system. In practice, however, and with the exception of specific cases, Venezuelan industries are reticent when it comes to assuming the risk of international competition, and they insist on continuing to operate within a national market that is both protected and profitable. Some economists point to the contradictions between maintaining an over-estimated exchange rate to control inflation and at the same time seeking to encourage non-traditional exports and small and medium-sized enterprises.

- So far the government has not done enough to reconstruct the areas affected by the floods nor for natural risk management. This remains a problem for Venezuela's economic recovery and for alleviating poverty in the areas affected.
- Strengthening of the rule of law. The most visible weaknesses in this area concern the dysfunctional judicial system in its multiple facets (independence of the magistrate, flaws in the legal texts etc.), the problem of corruption in the public administration and a general weakness in the state mechanism. Although these weaknesses are recognised by the public authorities, which have often criticised the actions of past administrations, few concrete measures have been put in place to improve the situation.
- Environmental management. Because of the low population density, the problems tend to be localised around a certain number of 'hot spots': large urbanisations (in particular Caracas) and mining or oil-refining areas. The Vargas disaster (December 1999) highlighted to what extent the country is exposed to natural disasters. The authorities are therefore sensitive to the problem and a number of measures have been taken (in particular, strengthening local administrative powers regarding land management) which favour the implementation of effective action. However, the practical difficulties in passing and applying, appropriate legislation represent a weakness.

The lack of success of three key social projects of the Fifth Republic has cast doubt on the social policy. First, Plan Bolívar 2000, the main programme to fight poverty, which is centralised and managed by the Armed Forces, has suffered from problems of corruption. Second, in education, the Bolivarian Schools plan has been scarcely implemented (the number of schools actually created is a small percentage of those planned), even though the budget has already been spent. Finally, the People's Bank, which was to have been a key element in the revolutionary democratisation of capital, and whose aim was to help create mini- and micro-enterprises to reduce unemployment and stimulate economic activity. This ran out of capital in its second year of existence after granting credits to unfeasible projects, but it has since been re-launched with fresh capital, and now two similar institutions, the Micro-business Fund and the Women's Bank, which grants credits to poor women at an interest rate of 1%, have similar aims.

Vulnerability of the economy to a decline in oil prices

Venezuela is highly exposed to a further decline in oil prices, and to the deterioration suffered in the financial environment for emerging economies after the terrorist attacks of 11th September 2001. With over half of budget revenue coming from oil, the rule of thumb is that, for each US dollar by which the price of a barrel of crude oil falls, budget revenue will fall by about 0.7% of GDP. In addition, with petroleum products accounting for about 80% of total exports and about 30% of GDP, the current account and GDP are also very vulnerable to a fall in the price of oil. Venezuela has a large cushion of foreign exchange reserves (gross reserves stood at US\$13.5 billion at end-July 2001, or about 7 months of imports) and the *Fondo de Estabilización Macroeconómica*, which is fed by transferring a share of oil revenues and currently stands at a comfortable level, provides a safety valve for the budget. If oil prices continue falling, however, these cushions could be depleted quickly.

The vulnerability of the Venezuelan economy is exacerbated by the markets' perception that Mr. Chávez's difficult relations with the United States have put him in a bad position to hope for the support of the United States and, indirectly, the international financial

institutions in the event of a balance of payments crisis. In the new international context created after the terrorist attacks in the United States, Mr. Chávez's contacts with leaders of certain countries were not seen by the markets as particularly reassuring. For the time being, the government is not discussing a possible financial arrangement with the IMF and seems to have no intention of requesting one. The weakness of the traditionally dominant political parties has allowed the government to push through radical changes in a political vacuum. However, over the last year, opposition to Chávez has appeared in a number of sectors such as the trade unions, education, landowners and the business community, leading to a mass protest in December 2001 and the political turmoil of April 2002.

3.4 Medium-term challenges

Venezuela presents high growth potential, despite the recent downturn in macroeconomic indicators, and the important structural problems and a high degree of dependence on oil. Confidence within the private sector is low while foreign investment is mainly concentrated in telecommunications, banking, insurance and the private energy sector. Consequently, recuperating domestic and foreign investors' confidence constitutes a challenge, as does the levelling of the uneven income distribution. The government's revenue, if sustained, should allow it to make the steps necessary to reduce poverty and inequality, and to improve the social indicators.

Most sectors, such as agriculture, fishing and tourism, require steps to develop production capacity, and for all of them there are special plans to be implemented. In addition, Venezuela lacks sound land planning and management policies/instruments, such as early warning and civil protection systems, to cope with large-scale natural disasters, as the results of the last floods demonstrated. Finally, the post flood reconstruction process remains unfinished, and the prevention component for all the areas with a high risk of natural disasters also requires substantial further work.

In the political field, consolidation of democracy and respect for human rights remains a major challenge and constitutes an important condition to restore economic agents' confidence in Venezuela.

4. OVERVIEW OF PAST AND ONGOING EC CO-OPERATION

The European Community and its Member States play an important role in development co-operation with Venezuela. The United States does not provide such assistance, owing to Venezuela's income level.

4.1 Past and ongoing EC co-operation: analysis of results, lessons and experience

Due to its natural resources, Venezuela received very little foreign aid until it suffered a severe economic crisis, which started in 1989. Community funding increased significantly over the 90s, which was a period of crisis, rising from around €3 million a year in the early 1990s to reach over €15 million at the end of the 90s. Between 1992 and 2000 €96.5 million has been committed (see annex 4). In the year 2001 two projects have been approved for a value of €35 million. In addition, at regional level, the country has received more funds through measures to support Andean integration (e.g. Granadua,

Calidad, Concurrence) and horizontal programmes for Latin America (AL-INVEST, ALFA, URB-AL, ALURE, etc.).

4.1.1 Past EC co-operation (before 1998)

From 1989 to 1997, the European Community financed projects to the value of €66,647 million; most of it (43,115 million) in financial and technical co-operation. The level of aid stood at an average of €11 million a year. Projects were concentrated in the fields of education, training, health and, at a more general level, poverty. Co-operation was also provided to protect the Amazonian forest and for human rights initiatives. These areas were selected in consultation with national authorities.

4.1.2 Ongoing co-operation (1998-2001)

Immediately following the floods in December 1999, the European Commission was very active in providing emergency aid for the victims of the disaster, through its humanitarian office, ECHO. Since the end of December 1999, the EC has approved four Decisions totalling €7.15 million.

The European Commission approved in September 2000 a working document²⁰ to assist reconstruction in the area. This envisages allocating a total of €30 million to Venezuela's reconstruction effort. An additional amount of €25 million was made available to support the rehabilitation process, approved in the 2001 budget as an initiative of the Parliament²¹. Two projects were approved at the end of 2001, one of €25 million, budget line B7-313, and another of €10 million, budget line for technical and financial co-operation, to be committed in the same year. They are complementary in that both focus on Vargas, the region most affected by the floods with the first one covering disaster prevention issues and the second one contributing to the social reconstruction effort of the area.

In addition, in 2001 the EC is implementing 9 projects (committed over previous years) in technical and financial co-operation: 4 relating to education, 2 on health, 1 on prison conditions, 1 on regional development, 1 in environment and 1 to help fight against drugs²². The value of the EC contribution to these projects totals €53,560,500. Activities under the above-mentioned horizontal programmes and regional programmes are ongoing.

4.1.3 Lessons learnt from the past

In general terms, aid from the European Community, during the 90's, has been useful for Venezuela's development, but the impact has been reduced by the sector dispersion, even with the restricted level of funds. Another problem with regard to the impact of the Community is related to the time-span between commitment decision and actual implementation of the projects as well as the duration of the projects. This has meant that the life of projects face different government policies applied to a sector. The education sector provides a good example, where projects were designed when the government had a policy to stimulate professional training whereas, now, the policy priority is to spread basic education to the mass of unemployed people.

²⁰ SEC (2000) 1571

²¹ Budget line: B7-313 A Rehabilitation and reconstruction action in favor of Latin American developing countries

²² Committed in 2000, actual implementation has not started yet.

The change of government in Venezuela has also caused some difficulties in the implementation of projects, due to new administrators with little experience. As a result of the new administration's policy, some projects have required adjustments, which have caused a number of delays. This has been overcome with time. Availability of the national contribution to the projects has also caused some delays in implementation. The creating of a co-operation agency in Venezuela might help address some of these difficulties.

4.2 Information on EU Member States co-operation programmes

Almost all Member States are providing some kind of financial support to Venezuela, although this country is not seen as a priority for the allocation of aid. Thus, each Member State selected some key issues or partner (very often NGOs) on which it focuses its contributions. This gives a wide range of supported activities, which clearly fits with the most urgent and structural needs of the country (education/environment, technical and scientific co-operation, good governance, drugs, etc. (Annex 5).

Following the floods, which struck the country in 1999, all Member States embarked on an exceptional support to Venezuela, which was highly praised for its effectiveness. Together with immediate emergency aid – which was promptly delivered. Some Member States are also providing support for the subsequent reconstruction activities.

4.3 Information on co-operation programmes of other donors

The Interamerican Development Bank (IDB), in December 2000, had a portfolio made up of 23 credits to the value of US\$1,972.6 million. The projects being executed received the following percentages: 27% for reform and modernisation of the State, 16% for social investment, 16% for agriculture, 11% for transportation, and 5% for education. This last percentage also went to the following five categories: urban development, science & technology, energy, sanitation, and health. After the 1999 floods, the IDB made US\$20 million available for emergency aid and US\$154 million for reconstruction aid.

The Corporación Andina de Fomento (CAF), for the period 1995-2000, has approved operations for US\$2,653 million. The portfolio, in December 2000 stood at US\$919 million, 62% of which relates to the infrastructure sector. Their programmes include water sanitation in the basin of Valencia Lake (Estado Carabobo), Maracaibo (Estado Zulia), SMEs financing, the Caracas Underground, support for transport studies (for example between Colombia and Venezuela), the electricity sector, telecommunications, etc. After the floods, the CAF gave US\$25,000 in emergency aid.

The PNUD operates in the areas of human and social development: poverty, AIDS, governance, environment and energy, natural disasters, technology and sexual equality.

The World Bank is implementing 12 projects with a tendency to reduce the number. In the last few years, it has approved one or two projects per year (see annex) in the sectors of health, education, public sector management, urban development, environment, water supply and sanitation, agriculture and transport. Between 1992 and 2000 the total amount was US\$930 million.

5. EC RESPONSE STRATEGY

5.1 Principles and objectives for co-operation

The policy agenda of the Venezuelan government includes plans to diversify production, increase international competitiveness, encourage investment and develop prevention measures for natural catastrophes. The European Commission's strategy for Venezuela responds to this policy agenda. Its implementation combines a country-specific and a regional dimension.

One of the country specific priorities relates to the urgent need for post-flood reconstruction and prevention of similar catastrophes. After the 1999 floods, Venezuela envisaged significant efforts to reconstruct the areas affected and undertake disaster prevention. These efforts require the assistance of the international community. The areas in question still suffer from economic decline and increased poverty levels. The Commission will concentrate on addressing the problems of risk prevention and management, including its environmental components. Also, the Commission supports the Venezuelan government's efforts to diversify production and reduce the country's dependence on oil by helping it to develop one of the sectors chosen by the government, i.e. the fish sector. The use of other budget lines, in particular those for environment and tropical forests, is also foreseen to contribute to other objectives.

5.2 Priorities and specific objectives for co-operation

5.2.1 Reconstruction and prevention.

The 1999 catastrophe has drawn attention to the fact that the country is not well prepared to face this type of situation and that it lacks early warning and civil protection systems. In addition to the co-operation already approved, the Commission will continue to take action on the reconstruction and prevention effort:

A €20 million, risk prevention package, to define and adopt programmes and to manage the natural risks across an extensive area in the states of Falcon, Miranda and Yaracuy, adjacent to the area struck by the floods of 1999, will be carried out. These activities should include a detailed risk map, the implementation of early warning systems, the production of land use plans, support for the application of the necessary legislation, as well as the construction of flood-control and other risk-prevention structures. They should also concentrate on environmental aspects and institutional capacity building for the Venezuelan authorities. It is supposed that they will involve substantial transfers of European risk management know-how. The action should be carried out in close collaboration with the Venezuelan authorities.

5.2.2 Economic co-operation.

The economic and trade relationship between the EU and Venezuela has a lot of potential. EU foreign direct investment in Venezuela shows a rising trend. Venezuela's policy aims at diversifying trade, also with a view to exporting more towards European markets. The EC will support Venezuela in its efforts to build up its regulatory, legislative, and institutional capacities to implement and apply its existing WTO

commitments in fields such as TBT/SPS, Trade Related Intellectual Property Rights (TRIPS), and Customs Valuation.

With regard to the Doha Development Agenda the EC will provide support to Venezuela for capacity building measures in key areas agreed at Doha, notably in areas such as trade facilitation, trade and competition, trade and investment, trade and the environment and services. The EC will also support Venezuela in its efforts to increase its capacity to participate in the negotiations. The EC addresses some of these issues at regional level.

One of the sectors which encounters difficulties meeting sanitary and technical standards is the *fish sector*. Strengthening this sector also helps to achieve one of the main government's objectives, diversification of production, given that it is a sector included in their plans. While the exact implications of the recently passed Fishery Law still need to be assessed, Venezuela has the potential to develop both the traditional and industrial fish sector. EU assistance will help improve the quality and variety of production and help the country to export products to the EU by enabling it to comply with the EU's sanitary regulations for consumer protection. The country needs to strengthen its sanitary vigilance system to put it in accordance with international standards. Action in this sector would be complementary to the reconstruction and prevention effort because it would help to invigorate the economy of some of the areas affected and reduce poverty in these areas.

The envisaged support to the fishery sector may have to be examined in the light of recent legislative changes affecting the sector. Should a project assessment question sustainability, other sectors would benefit from the remaining funds following a revision of the current strategy. This will be chosen in consultation with the Venezuelan authorities and in accordance with the EC development policy statement of November 2000, which sets out six areas of intervention with a view to reducing poverty. Among them, the Doha commitments regarding trade technical assistance should be borne in mind. In any case, the Commission will explore with the Venezuelan authorities whether they wish to rediscuss the priorities identified in the Memorandum of Understanding in the light of the Doha agreements.

Other budget lines

Other budget lines should be used to help Venezuela address some of the main challenges outlined above: environment and tropical forest, human rights, drugs, research and development, etc.

- *NGO Co-financing*: the Commission wishes to support actions related to the activity of local and European NGOs which complement other types of co-operation and strengthen local/ municipal institutions.

- *Environment & Tropical Forests*: the focus should be on promoting intra-regional financing of an Amazon Eco-System Conservation Programme, in partnership with other countries –e.g. Brazil, Colombia, Ecuador, Peru...- to ensure a fully regional dimension. The financing of several small and unrelated projects in Venezuela should be avoided.

-Research, Science and Technology: the Commission plans to support, through its “International Co-operation” (INCO) instruments, research into areas and subjects that are in line with the main Co-operation activities of the Commission in Venezuela.

5.2.3 Regional dimension

The Rio Summit process aims at consolidate and strengthen relations between members of both groups. As mentioned in Point 1, the European Commission is focusing on three priorities: promotion and protection of human rights, the promotion of the information society and the reduction of social differences. In addition, the Commission is committed to strengthening the political, economic, educational and scientific relations between the EU and the Latin American countries.

A number of regional (Latin America) and subregional (CAN) programmes have been developed in response to these challenges. With respect to economic relations as well as the promotion of the information society, Venezuela will benefit in particular from participation in the AL-Invest and @lis programmes. Furthermore other horizontal programmes (ALFA, URB-AL, Synergy, etc) which cover Latin America could have an impact on Venezuela. However, experience has shown that Venezuela benefits less from these programmes. A special effort might be needed to improve Venezuela's access to these programmes. The Eurocentre in Caracas will be encourage both European and Venezuelan entrepreneurs to take advantage of AL-Invest opportunities, with a view to establishing contacts which can promote trade and investment. Of particular importance will be Venezuela's continued participation in the special GSP “drugs” regime. Some training measures are foreseen to enable Venezuela exporters to make better use of the preferences offered. Finally, Venezuela will benefit from a number of actions developed on a CAN-wide level. In addition to complementary action on disaster prevention, these address in particular civil society involvement in the regional integration process, statistics and TRTA to follow-up on the joint study on EU-CAN trade related, as well as air safety.

5.3 Coherence

The primary objective of the Venezuelan policy agenda is to create a productive model, which generates self-sustainable growth with a more diversified productive sector. These aim to reduce poverty, which in the recent past has been worsening in the areas affected by the flood disaster (point 2).

The EC's response strategy emphasises support to sectors or areas that were affected by the floods. Reconstruction and prevention of the consequences of floods constitutes the most urgent need and is an incomplete task. Furthermore co-operation is also contributing to the objective of economic diversification by choosing a sector included in the corresponding government plan. The programme is therefore considered coherent with the government's policy (chapters 1 and 2)

The EU policies relevant for Venezuela are those related to emergency aid, trade, energy, environment, drugs, conflict prevention and technology and phytosanitary measures and this strategy is broadly coherent with these policies.

Emergency aid intervened successfully when it was needed, as demonstrated by the ECHO programme immediately after the floods.

As regards Trade policy, the integration of developing countries into the world trading system is a priority for the EU. The Generalised System of Preferences plays an important role in the bilateral trade relationship. Since 1995, Venezuela has also benefited from the special “drugs GSP”. Due to the most favoured nation clause and the GSP, around 80% of Venezuelan export products are exempt from customs duties, which encourages diversification of the economy. In the remaining 20% energy is included, a sector which does not need any protection. In the IV WTO Conference (Doha Development Agenda), the European Community committed itself to supporting developing countries with Technical Assistance to enhance their capacity to participate in the negotiations and to implement the results. Such assistance will in particular focus on the areas of Market Access for non-agricultural Products, Trade and Investment, Trade and Competition Policy, Transparency in Government Procurement, Trade Facilitation and Trade and the Environment.

In *energy*, the fact that oil is the main product of Venezuelan exports, both in general and for the EU, has marked the bilateral relationship. An Agreement in the form of an exchange of letters was signed in 1996 and renewed in 1998²³. The main elements of this energy co-operation include high level annual meetings; discussion of specific subjects such as the Dialogue between producers and consumers; a regulatory framework for energy and energy technology; and working groups to implement co-operation areas. Given the importance of oil-price fluctuations, the energy dialogue remains relevant.

With respect to *drugs*, a dialogue between the EU and the Andean community started in 1995 and has led to agreements on fundamental principles, such as shared responsibility and to the signing of Agreements on Precursors between the Commission and each Andean State. They allow the European Commission and the Andean countries to prevent the use of precursor products in the production of drugs. To co-operate in this fight the EU established the aforementioned GSP.

Concerning *environment*, the Community includes in its Environment Action Programme a number of priorities for action: climate change and the depletion of natural resources and the loss of bio-diversity are among the biggest threats to sustainable development; also in forest related issues. According to Regulation 2493/2000, the Community will support developing countries in their efforts to integrate the environmental dimension into their development process. To this end, the 2001 Council Conclusions Strategic Environment Assessment and Environmental Impact Assessment in the Community programmes should be used²⁴. This aspect is included in the projects suggested in this strategy.

In *Science and Technology*, co-operation addresses the three interrelated goals of the Union’s policy, namely, mutual economic benefit, poverty alleviation and environmental sustainability. Europe’s strategy in relation to *knowledge and learning* welcomes

²³ Last letters were signed in June 1998

²⁴ Council conclusions of 31st of May 2001 “to achieve mainstreaming, Strategic Environment Assessment (SEA) should be used systematically particularly during the preparation of structural and sector programs and for major new infrastructures. Equally Environmental Impact Assessment (EIA) should be used systematically at the project level. Partner countries’ capacity to undertake such assessments and to act on their results should be supported”.

enhanced S&T Co-operation²⁵. In Latin America (LA) this desire is reinforced by the following factors: 1) a need to reinforce European cultural presence in LA, to stimulate orientation of LA elite towards the EU; 2) the Union's interest in attracting the best of LA's scientific resources to participate in its own research activities; and 3) the growing mobilisation of Europe's intelligentsia towards research on the specific problems posed by environmentally sustainable and socially equitable economic development in LA and world-wide. It is an area for potential co-operation with Venezuela given their level of development in this respect; to be considered in the 6th RTD Framework Programme 2003- 2006. Venezuela has benefited from the Framework Programme, within the 4th (1994-98) had 16 projects with an EC contribution of €6.8 million and within the 5th (1998-2002) so far it has 4 projects, with a contribution of €5.4 million. This policy helps to build up research in Venezuela

Sanitary and phytosanitary standards can pose difficulties for Venezuela's food exports. These standards ensure a high level of protection of health and safety of consumers and have to be met by all producers. Venezuela thus has to make special efforts to bring its standards up to the European level. This strategy includes technical assistance in this regard in its fish sector programme.

Conflict prevention is one of the indirect objectives in the Community co-operation policy, as is the fight against terrorism. The European Community states in its Communication on conflict prevention (April 2001) its intention to use trade relations and co-operation policy to attack root causes of conflict. The Commission will seek to include specific conflict prevention measures in its co-operation programmes.

5.4 Complementarity within EU

Given the limited aid from Member States, an examination of complementary presents obvious limitations. Nevertheless, within the reconstruction effort both in the emergency phase and in reconstruction, Member states and Community actions are complementary. Member States' actions concentrate on different aspects to those of the Community (see annex 3). In the past, the EC and Member States have identified similar priority areas but without overlapping efforts. The Delegation in Caracas organises regular meetings for exchange of information about this matter. The Commission working document and incorporated programme has been presented and co-ordinated.

5.5 Complementarity with other donors

In the past and in the near future, some of the intervention sectors of the EC and other donors have been the same, although they operate in a broader number of sectors. The Commission has been in contact with some financial institutions and organisations about the emergency aid after the floods and later for an exchange of information.

The EC strategy is complementary to that applied by other donors. The Interamerican Development Bank (IDB) in its working programme for the next three years²⁶ has four lines of intervention: social, economic (emphasis on agriculture), institutional and science & technology. The World Bank allocates a large percentage of its resources to transport, health, education, and urban development. The Corporación Andina de Fomento focuses

²⁵ COM (2001) 346, 25.6.2001 *International Dimension of the European Research Area*

²⁶ BID, Country document, January 2001

on infrastructure. Although it also has a project for natural disaster prevention, it aims to encourage and support prevention policies and include them in development policies.

6. WORK PROGRAMME

The indicative work programme is dependent on the availability of the annual budgetary resources. The final selection of projects and corresponding amounts will be made according to the results of identification and detailed preparation work managed by the Commission.

Financial instruments

The indicative budget for the Venezuelan National Indicative Program for the period 2000-2006 for technical and financial (B7-310) and economic (B7-311) co-operation, stands at €38.5 million²⁷. €10 million have already been allocated to the above-mentioned project for reconstruction in the state of Vargas. It is planned to use the remaining indicative budgetary envelope of €28.5 million as described below. “As no further funds are available under B7-313, B7-310 funds will be used for additional urgent reconstruction and rehabilitation work”.

The EC strategy, which concentrates on floods, disaster prevention and fish sector has a justifiable comparative advantage when it comes to transmitting knowledge and technical assistance for the different needs of these specific areas.

a) Support for natural disaster prevention policy

The *general objectives* are to contribute, in certain areas with higher potential risk, to the creation of infrastructure to reduce the vulnerability of the population in cases of floods or other natural disasters and to prepare citizens and institutions to react to these events.

The *actions* will focus on areas adjacent to Vargas, the area struck by the floods of 1999, which face similar risks of natural disaster, and which were also affected by the floods, although to a lesser extent. The natural risk management capacities of the states of Falcon, Miranda and Yaracuy will be improved e.g. by producing a detailed risk map, the implementation of early warning systems, the production of land use plans, support for the application of the necessary legislation, as well as the construction of flood-control and other risk-prevention structures. The integration of environmental considerations into the specific activities will be a basic concern in the development of the project. They will also concentrate on institutional capacity building for the Venezuelan authorities. It is envisaged that they will involve substantial transfers of European risk management know-how.

This programme includes citizen equality aspects relating to natural disasters, because the most underprivileged suffer much more from the consequence of disasters both in terms

²⁷ The Memorandum of Understanding (MoU) signed in October between the Venezuelan government and the European Commission is based on this indicative figure.

of human life and economic consequences. It will be implemented in close collaboration with the Venezuelan authorities and overseen by local authorities.

This project will complement EC Latin America and Andean Community regional projects for catastrophes. While the regional EC projects focus on the regional dimension with actions which involve the central governments and cover all types of natural catastrophes, this project's focus will be local actions to reduce the consequences of flooding, concentrating activities on those regions with a particular risk of flooding.

Conditionality: national and local governments should not just commit budgetary and human resources to the project as such, but should also help maintain of the results of the project such as infrastructure, early warning system, respect the environmental conditions created and should continue to educate the population on these matters to guarantee the durability of the project.

The *indicators* which will be considered in implementing the project are: availability of risk maps; availability of early warning systems in the regions; construction of infrastructure for flood prevention; number of people benefiting from awareness campaigns ; and concrete activities to preserve the environment.

European Community *financing* would be 70% of the total remaining budget envelope.

b) Support for the fish sector

Venezuela, with its 3,726 km of coastline, has abundant fish resources in its sea-water, lakes and rivers and has a well-developed fish fleet and fish industry. Nevertheless most of its fish can not be exported to the EU due to sanitary and standardisation issues

The *general objective* would be to improve the socio-economic conditions of the population in the area by increasing the quality and variety of fish production and increase the standard of the sanitary vigilance system, thus increasing the marketability of the productions and contributing to the diversification of the economy. It will also contribute to the Government's plans and the economy's need to diversify production. Special attention should be given to environmental and gender issues.

Actions would include research on the availability of fish species in the area and their development situation, as well as the education of the population in this respect. Areas with greater possibility for sector development and with greater levels of poverty should be prioritised. Efforts will also be made to raise the population's awareness of the importance of controlling fish resources and environmental consequences. Activities in standardisation would lead to an improvement in the hygiene system.

Conditionality: This project should benefit both traditional and industrial fishing; and the government should show a strong commitment to raising sanitary and technical standards. Government contribution with financial and human resources should be complemented by an agreement to respect the environmental conditions created by the project.

The indicators would be the number of fishermen or workers benefiting from the courses, improved sanitary and technical standards; increased income of fishermen benefiting from project, higher catches of fish.

European Community *financing* would be 30 % of the remaining budget.

ANNEX 1

COMPARATIVE INDICATORS

VENEZUELA AND OTHER COUNTRIES					
(data from "human development report 2001" for year 1999 unless otherwise stated)					
	Venezuela	Argentina	Brazil	Colombia	Bolivia
GNP/cap. Rank for 1999 (World Bank 2001)	77	55	70	99	132
HDI Rank ¹	61	34	69	62	104
GDI Rank ²	57	33	64	56	94
INCOME POVERTY DATA					
% pop below US\$1/day	18.7	N/a	9.0	11	29.4
% pop below national poverty line	31.3	17.6	22.0	17.7	63*
ECONOMIC DATA					
Annual Rate of Growth (% GDP/ capita) 1990-99	-0,5	3,6	1,5	1.4	1.8
Debt Servicing (% GDP)	5.5	9.1	9.0	7.6	5.9

¹ Human Development Index

² Gender Development Index

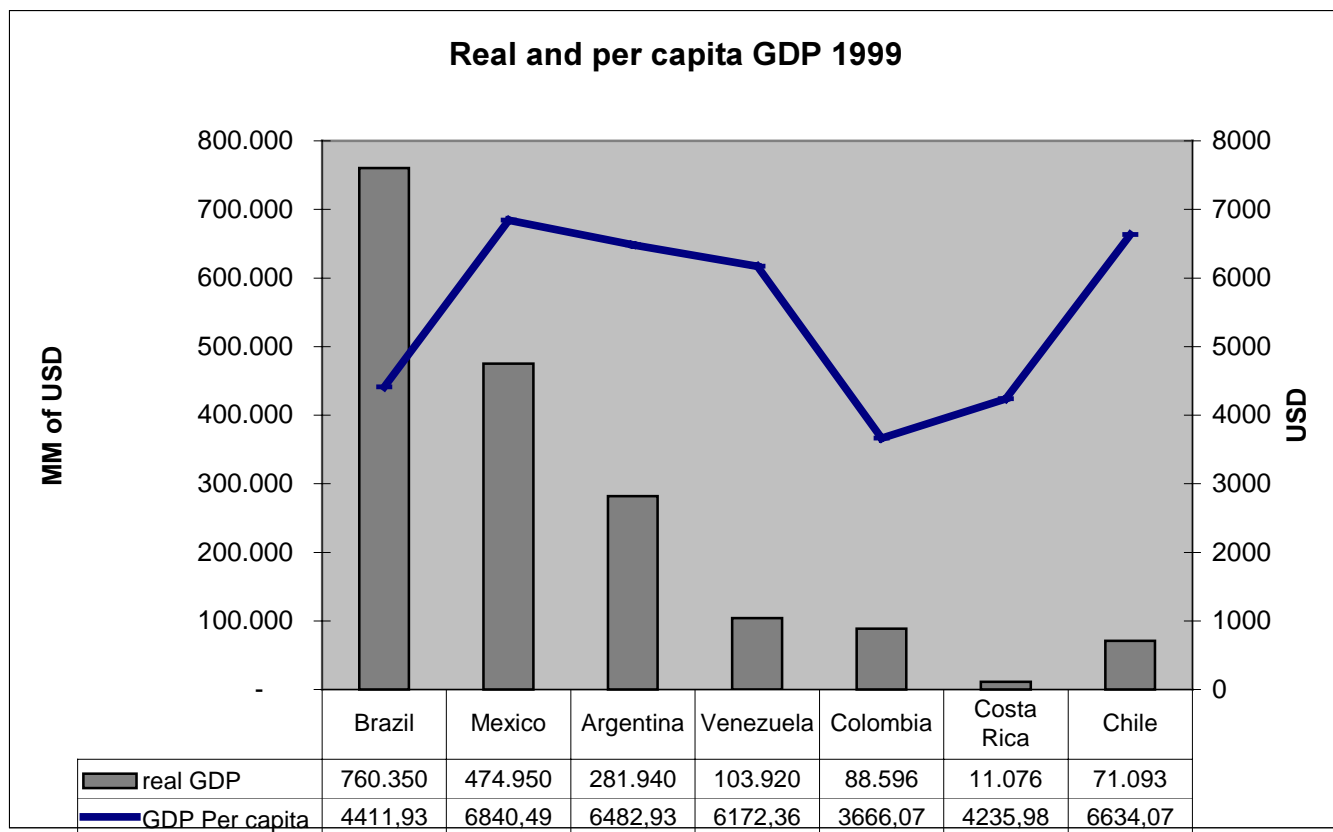
EDUCATION DATA					
	Venezuela	Argentina	Brazil	Colombia	Bolivia
Public Investment in primary education (% GNP) 1995-97	5.2	3.5	5.1	4.1	4.9
% adult pop (15+) literate	92,3	96,7	84,9	91.5	85
% male literate	92,9	96,8	84,8	91.5	91.7
% female literate	91,8	96,7	84,9	91.5	78.6
HEALTH DATA					
Public Investment in Health (% GDP) 1998	2.6	4.9	2.9	5.2	4.1
Public Investment in Health (US\$/capita)	248	1291	453	553	150
MMR ³ /100,000 live births (1980-99)	60	38	160	80	390
IMR ⁴ (- 1 year)/ 1000 live births	20	19	34	26	64
Under 5 mortality rate/1000 live births	23	22	40	31	83
POLITICAL DATA					
Public investment in military (% GDP)	1.4	1.5	1.3	2.5	1.8

³ Mother mortality rate

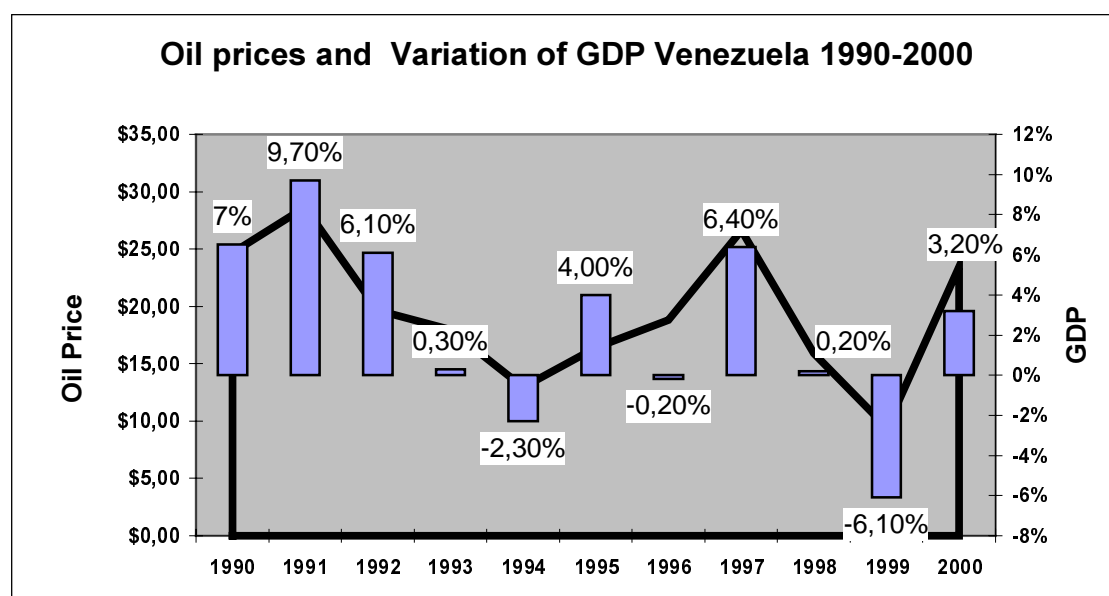
⁴ Infant mortality rate

ANNEX 2 A

MACROECONOMIC INDICATORS



Source: WebPages World Bank

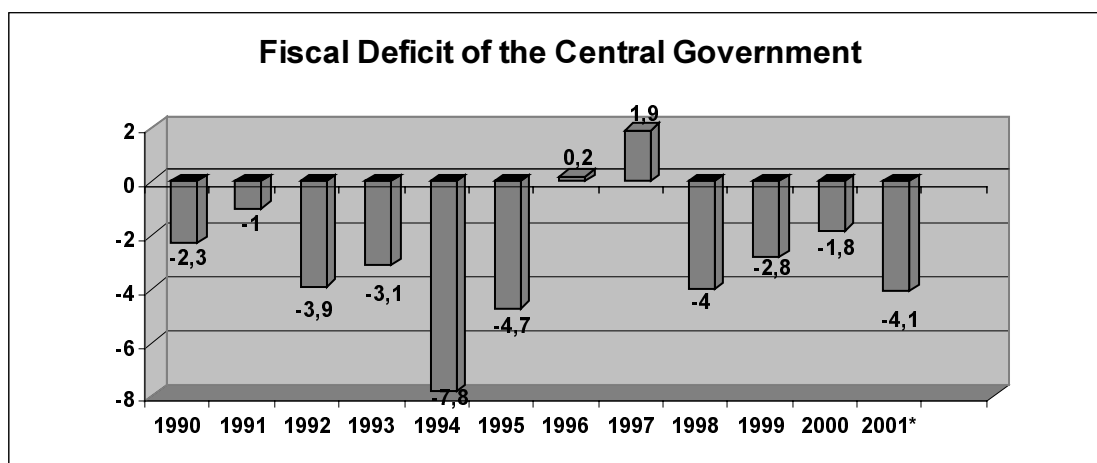


Source: Central Bank of Venezuela, OPEC

Composition of the GDP			
Year	2000	1999	1998
<i>OIL ACTIVITIES</i>	<i>27%</i>	<i>27%</i>	<i>28%</i>
<i>NON OIL ACTIVITIES</i>	<i>62%</i>	<i>63%</i>	<i>62%</i>
Manufacturing	14%	14%	15%
Water and electricity	2%	2%	2%
Construction	5%	5%	6%
Services	33%	33%	33%
General Government service production	8%	8%	7%
<i>Others</i>	<i>10%</i>	<i>10%</i>	<i>10%</i>
<i>TOTAL</i>	<i>100%</i>	<i>100%</i>	<i>100%</i>

Source: Venezuelan Central Bank

Main sources of Income for public finances		
	Year 2001	Year 2002 forecasts
1. Oil and ore incomes	<i>26,2 %</i>	<i>28,9 %</i>
Oil (royalties, PDVSA profits, etc)	26,1	28,8
Steel and other minerals	0,10	0,10
2. National incomes	<i>38,90 %</i>	<i>38,90 %</i>
VAT	19	18,5
Income tax (individuals and companies)	7,1	8,9
Customs and excise duties	7,8	7,8
Others	5,0	3,7
3. Extra revenues	<i>35,9%</i>	<i>32,2%</i>
Financial activities (including deficit financing)	22,6	27,6
External aid	1,7	4,1
FIEM (oil "cushion" fund)	8,3	0
Others	3,3	0,5



Source: Budget Law for years 2001 and 2002.

* The figure for 2001 has been modified according to posterior estimations

VENEZUELA : TRADE WITH MAIN PARTNERS IN 2000 (Mio euro)

IMPORTS

EXPORTS

IMPORTS+EXPORTS

Rank.	Partners	Mio euro	% World	Rank.	Partners	Mio euro	% World	Rank.	Partners	Mio euro	% World
	World	17.434	100,0		World	36.920	100,0		World	54.354	100,0
1	USA	6.269	36,0	1	USA	18.763	50,8	1	USA	25.032	46,1
2	EUR15	2.834	16,3	2	NL ANTILLES	4.613	12,5	2	NL ANTILLES	4.959	9,1
3	COLOMBIA	1.180	6,8	3	EUR15	1.698	4,6	3	EUR15	4.532	8,3
4	BRAZIL	786	4,5	4	BRAZIL	1.335	3,6	4	BRAZIL	2.122	3,9
5	MEXICO	646	3,7	5	COLOMBIA	940	2,5	5	COLOMBIA	2.121	3,9
6	JAPAN	502	2,9	6	PERU	602	1,6	6	MEXICO	1.010	1,9
7	NL ANTILLES	346	2,0	7	CANADA	434	1,2	7	CANADA	767	1,4
8	CANADA	333	1,9	8	MEXICO	363	1,0	8	JAPAN	761	1,4
9	ARGENTINA	274	1,6	9	COSTA RICA	345	0,9	9	PERU	742	1,4
10	CHILE	269	1,5	10	JAPAN	259	0,7	10	CHILE	465	0,9
11	HONG KONG	195	1,1	11	GUATEMALA	255	0,7	11	ECUADOR	373	0,7
12	PERU	140	0,8	12	ECUADOR	252	0,7	12	COSTA RICA	369	0,7
13	ECUADOR	121	0,7	13	CHILE	196	0,5	13	ARGENTINA	303	0,6
14	SWITZERLAND	95	0,5	14	NICARAGUA	170	0,5	14	GUATEMALA	271	0,5
15	URUGUAY	73	0,4	15	EL SALVADOR	72	0,2	15	HONG KONG	202	0,4
16	INDONESIA	28	0,2	16	HONDURAS	40	0,1	16	NICARAGUA	170	0,3
17	COSTA RICA	24	0,1	17	SWITZERLAND	30	0,1	17	SWITZERLAND	126	0,2
18	NORWAY	21	0,1	18	ARGENTINA	28	0,1	18	URUGUAY	74	0,1
19	GUATEMALA	16	0,1	19	NORWAY	22	0,1	19	EL SALVADOR	73	0,1
20	PARAGUAY	11	0,1	20	HONG KONG	7	0,0	20	NORWAY	42	0,1

IMPORTS

EXPORTS

IMPORTS+EXPORTS

	Partners	Mio euro	% World		Partners	Mio euro	% World		Partners	Mio euro	% World
	World	17.434	100,0		World	36.920	100,0		World	54.354	100,0
(a)	NAFTA	7.249	41,6	(a)	NAFTA	19.560	53,0	(a)	NAFTA	26.809	49,3
(b)	AMLAT	3.543	20,3	(b)	AMLAT	4.606	12,5	(b)	AMLAT	8.148	15,0
(c)	Candidats	3	0,0	(c)	Candidats	0	0,0	(c)	Candidats	3	0,0
(d)	CIS	0	0,0	(d)	CIS	0	0,0	(d)	CIS	0	0,0
(e)	MED	0	0,0	(e)	MED	0	0,0	(e)	MED	0	0,0
(f)	ASEAN	30	0,2	(f)	ASEAN	0	0,0	(f)	ASEAN	30	0,1

- (a) USA, Canada, Mexico.
 (b) 20 latin American, Countries.
 (c) Poland, Hungary, Romania, Bulgaria, Slovenia, Estonia, Lithuania, Latvia, Czech Rep., Slovakia, Cyprus, Malta, Turkey.
 (d) Moldova, Belarus, Ukraine, Russia, Georgia, Armenia, Azerbaidjan, Kazakhstan, Turkmenistan, Ouzbekistan, Tadjikistan.
 (e) Malta, Jordan, Turkey, Morocco, Algeria, Tunisia, Egypt, Cyprus, Lebanon, Syria, Israel, Gaza and Jericho.
 (f) Thailand, Indonesia, Malaysia, Brunei, Singapore, Philippines, Laos, Cambodia, Myanmar, Vietnam.

VENEZUELA

Annex 2.B



VENEZUELA TRADE WITH THE WORLD (Mio ecu/euro)

	1980	1990	2000		1980	1990	2000
Imports	8.032	5.247	17.434	Exports	13.834	14.170	36.920
world* share	0,8	0,3	0,3	world* share	1,4	0,8	0,7
Trade balance	5.802	8.922	19.486				

EU TRADE WITH VENEZUELA (Mio ecu/euro)

Rank	IMPORTS	1980	1990	2000	Rank	EXPORTS	1980	1990	2000
48		507	629	2.735	42		1.992	1.330	3.219
Share of EU Total		0,2	0,1	0,3	Share of EU Total		0,9	0,3	0,3
Trade balance		1.485	701	484					

MAIN PRODUCTS IN 2000 (Mio euro and %)

EU Imports			VENEZUELA share			EU Exports			Balance	
Products	Value	by prod.				Products	Value	by prod.		
Agricultural products	152	0,19				Agricultural products	411	0,7		259
Energy	1.663	1,37				Energy	43	0,2		-1.619,4
Machinery	45	0,02				Machinery	1.208	0,4		1.163
Transport. Material	53	0,05				Transport. Material	193	0,1		140
Chemical products	163	0,23				Chemical products	452	0,4		289
Textiles and clothings	0,4	0,00				Textiles and clothings	93	0,2		92

EU FOREIGN DIRECT INVESTMENT WITH VENEZUELA (Mio ecu/euro)

	1997	1998	1999		1997	1998	1999
Inflows	30	78	226	Outflows	2.033	-1.648	-655
Share of EU Total	0,1	0,1	0,2	Share of EU Total	1,9	-0,7	-0,2
Inward Stocks	474	575	801	Outward Stocks	2.880	1.970	1.315
Share of EU total	0,1	0,1	0,1	Share of EU total	0,4	0,2	0,1

World*: Intra-EU excluded

Sources: EUROSTAT (COMEXT, CRONOS) IMF (DOTS)

WEFA (WMM)

Annex 2 B. TRADE.xls

Brussels, October 2001
DG TRADE A2/CG/SG/WB

ANNEX 2 C

Evolución de los Indicadores del sector Pesca y Acuicultura Período 1995-1999

Indicador	1995	1996	1997	1998	1999	Variación %
Producción TM						
Artesanal marítima	332.691	322.257	289.772	335.013	291.690	0.20
Artesanal fluvial	59.983	56.982	40.931	46.387	39.567	-8.20
Industrial de arrastre	30.280	20.985	26.586	25.430	23.613	-5.60
Industrial atunera	72.234	80.582	88.026	88.259	81.025	6.90
Industrial pargo-mero	4.768	4.446	4.537	4.652	4.167	-0.80
Acuicultura	5.693	7.368	8.534	9.740	11.758	19.6
Total	505.747	492.620	471.749	515.917	463.000	2.60
Cultivos (Ha.)						
Acuicultura	1.350	1500	1.800	2.100	2.500	15.85
Total	1.350	1500	1.800	2.100	2.500	15.85
Número de empleos Directos						
Pesca artesanal	41.211	36.406	45.570	43.681	45.635	1.9
Pesca industrial	6.306	6.881	4.496	5.800	6.577	-2.8
Industria transformación	12.000	10.502	8.950	6.360	4.840	-10
Acuicultura	2.609	3.070	3.612	4.250	5.000	17.6
Actividades conexas	4.751	4.329	5.006	4.950	5.221	1.3
Total empleos directos	64.501	59.023	65.131	50.011	64.662	-0.5
Total empleos indirectos	322.505	295.065	325.655	250.055	323.310	-0.5
Inversiones en activos						
Nro. De embarcaciones	15.944	13.860	15.393	16.367	16.100	0.9
Nro. De plantas	218	191	163	118	88	-9.7
Capacidad de frío	ND	ND	ND	ND	ND	
Nro. De transportes	1.406	2.846	1.272	415	2.654	-33.5
Balanza comercial						
Exportaciones (MM US\$)	55.998	75.084	48.262	50.500	-	-1.7
Importaciones (MM US\$)	19.835	9.026	13.564	27.855	-	12
Población (miles de hab.)	21.844	21.975	22.107	22.136	22.269	0.4
Producción per cápita (Kg/pers)	23.5	22.42	21.34	23.31	20.79	
Consumo per cápita (Kg/pers)	14	14	14	14	14	
Consumo calórico	42	42	42	42	42	

Source : Ministry of Production and Trade, Venezuela

ANNEX 2 D

EVALUATION OF THE 1999 FLOODS DAMAGE CLASSIFIED BY SECTOR

SECTOR	DIRECT DAMAGE (*)	INDIRECT DAMAGE (*)	TOTAL (*)
TOTAL	1 961	1 264	3 225
SOCIAL SECTORS	749	198	947
Housing	500	74	574
Health	29	32	61
Water and sanitation	166	77	243
Education	54	15	69
INFRASTRUCTURE	452	491	943
Communications	320	462	782
Energy	132	29	161
PRODUCTIVE SECTORS	659	262	921
Agriculture, fisheries	102	42	144
Manufactures	21	32	53
Tourism	194	103	297
Trade and services	342	85	427
ENVIRONMENT	21	48	69
OTHER	80	265	345

(*) USD million

Source: CEPAL

ANNEX 3 A SOCIAL INDICATORS

<i>People</i>	<i>1995</i>	<i>1998</i>	<i>1999</i>
Population, total	21,8 million	23,2 million	23,7 million
Population density (people per sq km)	24,8	26,3	26,9
Population growth annual %	2,2	2,0	2,0
Life expectancy at birth, total (years)	72,4	..	73,2
Fertility rate, total (births per woman)	3,1	..	2,9
Mortality rate, infant (per 1000 live births)	22,5	..	20,2
Mortality rate, under 5 (per 1000 live births)	23,0
Malnutrition prevalence (% of children under 5)	4,7	8,1	..
Urban population (% of total)	85,5	86,3	86,6
Population density, rural, people per sq km)	117,3	120,3	..
Illiteracy rate, adult male (% of males 15+)	8,2	7,4	7,1
Illiteracy rate, adult female (% of females 15+)	9,8	8,6	8,2
School enrolment, primary (% net)	82,1
School enrolment, secondary (% net)	19,2

Source: World Bank WebPages

Percentage of poor homes by the method of the line of Poverty

<i>Domain</i>	<i>Extreme poverty</i>	<i>Occasional poverty</i>	<i>Medium Class</i>	<i>Upper Class</i>	<i>Total</i>
AMC	6,37	15,15	59,74	18,74	100
Main cities	13,24	23,69	54,26	8,82	100
Medium cities	18,71	28,92	48,68	3,68	100
Population < 25.000	30,09	32,59	34,06	3,26	100
Total	18,69	26,31	47,52	7,49	100

Source: UNPD report on Human Development 2001

ANNEX 3 B
REGIONAL POVERTY IN VENEZUELA

Rank	Federal Entity	% Of poverty UBN*	% Extreme poverty
1	Apure	62.70	37.09
2	Delta Amacuro	55.70	35.42
3	Amazonas	52.29	26.16
4	Portuguesa	50.22	25.15
5	Sucre	49.79	23.54
6	Guárico	47.60	23.04
7	Trujillo	47.10	21.13
8	Barinas	46.69	22.48
9	Zulia	46.38	20.58
10	Anzoátegui	45.29	20.56
11	Falcón	44.48	17.91
12	Lara	43.30	21.04
13	Monagas	42.27	17.11
14	Cojedes	41.56	17.62
15	Yaracuy	41.44	16.24
16	Bolívar	38.66	16.28
17	Carabobo	36.45	15.13
18	Mérida	36.40	13.54
19	Táchira	34.37	11.66
20	Nueva Esparta	32.48	9.47
21	Aragua	31.51	11.66
22	Miranda	28.76	11.62
23	Distrito Federal	25.30	7.58

* Unsatisfied basic necessities

Source : Central Office of Statistic and Information (OCEI), Venezuela

ANNEX 3 C

LIFE CONDITIONS IN VENEZUELA

Facts characterising human development in Venezuela:

- The Human Development Index (HDI) for Venezuela fell significantly between 1990 and 1998; going from a high to medium levels of development; income was the main variable to cause this fluctuation in development levels, but education also had an impact.
- Over the same period, the number of regions with a high HDI dropped from 9 to 2.
- 1 million out of Venezuela's five million households does not have enough income for food. If we look at the number of households in which basic needs are not met, the figure increases to 1.3 million.
- Two-thirds of children up to the age 5 live in poor households.
- At least one child in 2 out of every 10 "poor" households has not received the vaccinations required.
- 27 % homes are not connects to sewer-systems.
- 13 % of children aged between 4 and 15 do not go to school, in 89% of these cases, due to poverty.
- 69 % of children between the ages of 4 and 15 who attend school leave before completing their education.
- 44 % of young people are excluded from the academic system.
- 70 % of new jobs created between 1990 and 1998 were created within the black market.

Source: Human Development Report for 2000 of the PNUD

ANNEX 4

VENEZUELA'S ENERGY SECTOR

1. *The oil Sector*

Venezuela has one of the largest oil reserves of the Western Hemisphere with 77 billion barrels and a production of around 2.5 million barrels per day (bl/d). Venezuela exports 2.6 million bl/d of oil, with 1.5 million going to the United States, representing 58% of net Venezuelan exports, and supplies 14% of the United States' total petroleum imports. Its major crude oil customers are the United States, Canada, Germany and Spain. The Venezuelan oil exports to Europe (1.178 M Euros) represent 1.13% of the total European Union energy imports. European companies have also participated in joint ventures in extra-heavy crude in the Orinoco Belt, which include four projects and a total investment of USD 8,400 million. These projects aim to convert extra heavy oil into synthetic light ones. Two of the four main projects of heavy oil conversion involve European participation: Exxon Mobil and Veba's (Germany) Cerro Negro, TotalFinaElf (France) and Statoil's (Norway).

Venezuela also participates in nine refineries in Europe: four in Germany (Gelsenkirchen, Neustadt, Karlsruhe and Schwedt) with an installed capacity of 957,000 barrels per day, two in Sweden (Nynäshamn, Gothernburg) with an installed capacity of 33,000 barrels per day, two in the United Kingdom (Dundee and Eastham) 36,000 barrels per day and one in Belgium (Antwerp) with a capacity of 14,000 barrels per day. Venezuela is a supplier of "orimulsion" (boiler fuel, similar to #6) for Italy and Denmark.

The contract with Energi E2 of Denmark entails the supply of 1.3 million tons/year to the electric plant of Asnaes. In the Italian case, the contract with ENEL stipulates the supply of 3 million tons per year for the plants of Brindisi, Fiume Santo and San Filippo.

Three different modalities are possible for foreign investment in the oil sector:

- a) Operative Agreements: in which the investor contributes financial resources, infrastructure, know-how and technology.
- b) Risk exploration: the investor assumes the exploratory risks of the assigned fields. When successful, PDVSA has the option of 35 % share.
- c) Strategic Associations: conceived for the development of the Orinoco belt, includes a 34% income tax and a flexible scheme for the payment of the regalia.

Although Venezuela was a founding member of the OPEC, the country never had a strong position inside the cartel. Chavez has given priority to strengthening the role of the country and has maintained personal strong links with the governments of OPEC countries, as well as major oil suppliers (including controversial ones, such as Libya and Iraq). The new Venezuelan president of OPEC, Ali Rodriguez (in charge since January 2001) can claim some success as he managed to get the members to respect the announced cutbacks in

production. The oil prices were stabilised inside the band stipulated by OPEC of USD 22 to 28 per barrel, but have since fallen below USD 20 a barrel.

In a Regional framework, the San Jose Pact and its enlargement through the Caracas Energy Pact, guarantees the supply of oil from Venezuela to Central America, the Dominican Republic and Cuba, under special conditions of bellow-market prices and long payment periods. This is Venezuela's major instrument of political influence in the Caribbean basin, as the beneficiary countries often depend 100% on Venezuelan oil supplies.

2. The Gas Sector

Venezuela has the biggest proven reserves of natural gas in Latin America, and indeed the world, with 146.8 trillion cubic feet (tcf). Most of the gas produced is used for power generation, with almost 60% being consumed by the oil industry. Domestic demand is low due to the highly developed hydro-electric power capacity of the country, but the government's policy aims to increase the production and consumption of gas.

Since 1999 the gas sector has been opened to foreign investment in exploration and production, distribution, transmission and gasification, with the restriction that no single company should control the complete production process in one region. However, some of the companies that won oil exploration blocks like Burlington, TotalFinaElf and BP, have already returned them due to the disappointing exploration results. In the second round, eleven blocks were auctioned with three not being awarded. Among the companies that participated and won blocks during this round were the Spanish consortium Repsol YPF and the French TotalFinaElf.. The entire national production is used by the internal market and PDVSA estimates that internal demand will grow at a 2% annual rate. Venezuela is also interested in connecting its gas distribution network, i.e. 3,000 miles of pipeline, to Colombia and Brazil.

The different forms of participation in the private sector include: joint ventures and strategic agreements for the exploration and exploitation of non-associated gas; agreements for the construction and operation of installations, either through leasing or transferring assets; association agreements and companies with capital mixed in different degrees and the investment in the transformation of the plants or the transport infrastructure for gas distribution. All this is included in the new Law of Gas Hydrocarbon of 1999 that allows private holdings in the business chain of the gas sector.

3. The electricity sector

The generating capacity of Venezuela is of about 21.5 giga-watts (GW). Venezuelans are the highest per capita users of electricity in Latin America, and Venezuela has one of the highest levels of electrification in the region, over 90%. During 1999 Venezuela generated 81.2 billion kilowatt-hours of electricity, 68% of which was hydroelectric power and the rest was oil and gas fired. The Raul Leoni dam over the Caroní River is the world's second largest hydroelectric dam. Venezuela generates a massive excess capacity, and has turned into the

most important energy supplier for wide areas of Brazil and Colombia, making these two countries heavily dependent on their energy imports from Venezuela. During the month of August, President Chavez inaugurated a 480-km electric line to sell electricity to the north of Brazil. Venezuela supplies electricity to the north of Brazil, specifically to the city of Boa Vista, capital of the Roraima state. The sub-station of Santa Elena de Uairén, in the south-east of the Bolivar State, provides 40 megawatts of electricity for export, and this quantity could be increased to 200 megawatts by the year 2020. In the case of Colombia, Venezuela has three lines that sell energy, one in Cuestecistas (Zulia State), one in Peonías (Táchira State) and the third one in Puerto Careño (Amazonas State). Sales of energy to Colombia oscillate around 0.5 gig watts-hour.

4. Energy Dialogue

Venezuela and the European Union had established a dialogue on energy since the early nineties. The *IV International Energy Conference* held during 1995 in Puerto La Cruz, the Conference: *Latin American – European Union Partners on Energy* of 1996, the three *High Level Energy Meetings* held on June 1996, November 1997 and June 1998, and the *Programme for the Efficient Use of Energy in Venezuela*, are some of the results of the dialogue between Europe and Venezuela. Furthermore, a Seminar on investment opportunities in Venezuela's gas and petrochemical industries was held in Brussels in 2000. As one of the most important oil suppliers in the world, Venezuela is interested in the establishment of common actions with Europe in the energy field. Venezuela is also interested in the European knowledge on energy issues including energy policy, energy technology and policies on the clean and rational use of energy.

Within the framework of energy co-operation between Europe and Latin America, the European Union launched the Alure program. Venezuela has participated in the Project: "Rational Use of Energy in buildings by improving air-conditioning". The Project has a total cost of 750,000 Euros, and the European Commission's contribution accounts for 400,000 Euros. The purpose of the project is the design, testing, demonstration and implementation of a promotional programme for efficient air-conditioning in average income residential areas of Maracaibo.

ANNEX 5 A : COOPERACIÓN BILATERAL DE LA UNIÓN EUROPEA A VENEZUELA 1992-2000 (millones de Euro)

	1992	1993	1994	1995	1996	1997	1998	1999	2000	Grand Total
Financial and technical co-operation		5,275,000	5,300,000	9,500,000	8,340,000	14,700,000	10,000,000	5,000,000		58,115,000
Economic co-operation	400,000		285,500	1,225,927	154,202	230,000				2,295,629
ECIP	929,281	375,468	181,681	593,295	281,359		79,687	100,951		2,541,722
Regional integration										
Energy										
Formation	130,000									130,000
Economic and industrial co-operation agreements			177,100							177,100
SYNERGY/Energetic co-operation				422,150	99,128		173,975			695,253
Clean technology (Thermie, Inco)										
Co-operation with third countries and IO				20,000	354,000					374,000
Science and technology	15,873	120,720					*		*	136,593
Refugees & displaced population										
Rehabilitation & reconstruction in LA										
Food aid										
Transport, distribution and stocking (Aid)										
ECHO : emergency aid		150,000							7,150,000	7,300,000
ECHO : humanitarian help to refugees										
ECHO : humanitarian/prevention						200,000	200,000		525,000	925,000
Democratisation and human rights		86,527	740,000	185,000	555,000	165,000				1,731,527
NGO's	450,000	338,945	1,385,341	709,077	933,790	449,980	1,301,578	1,561,690	1,005,263	8,135,664
Awareness and training in development										
Women role in development										
Fight against children's discrimination										
Environment	870,405	759,189			776,790		643,692			3,050,076
Tropical Forest		6,395,997		80,300	750,045					7,226,342
Fight against drugs		533,008	649,000					1,960,500		3,142,508
Fight against AIDS					543,000					543,000
Aid to demographic programs										
Decentralised co-operation										
Support for and supervision of electoral process										
GRAND TOTAL	2,795,559	13,914,134	8,839,342	12,735,749	12,787,314	15,744,980	12,398,932	8,623,141	8,680,263	96,519,414

Source : European Commission

* Since 1994, for Science and Technology, the EC supports region-to-region co-operation instead of bilateral. Latin America has received €12,2 million since them and Venezuela has benefited so far with 20 projects (point 5.3 of the text).

ANNEX 5 B

COOPERACION DE LOS ESTADOS MIEMBROS CON VENEZUELA AÑO 2000				
DONANTE	SECTOR	FINANCIACIÓN AÑO 2000 EN €	EMERGENCIA	PRESTAMOS BLANDOS
ALEMANIA	- modernización del Estado – formación – reforma penal – apoyo indígena – microproyectos	2.176.729	1.960.000	
AUSTRIA			120.353	
BÉLGICA			3.367	
DINAMARCA			113.091	
ESPAÑA	- modernización institucional – modernización sectores productivos – prog. Apoyo a empresas – prog. Araucaria – becas – acción cultural – jóvenes cooperantes – derivada de las Cumbres – subvención CELA	3.937.654	14.030.000	1000.000.000 ¹
FINLANDIA	- microproyectos – niños de la calle – género – ombudsman	34.000	673.433	
FRANCIA	- admin. Pública – media ambiente – desarrollo rural – reconstrucción y riesgos mayores – coop. Educativa y lingüística – coop. Científica y universitaria – cultura, artes, visuales y escénicas – coop. Audiovisual	914.634	1.342.000	N/d
GRAN BRETAÑA²	- buen gobierno – derechos humanos – lucha contra las drogas y la corrupción – medio ambiente	302.400	152.000	
GRECIA			47.500	
ITALIA	- proyectos de reconstrucción – alimentos y medicinas		4.844.190 1.545.000	7.800.000
PAÍSES BAJOS	- microproyectos	28.130	499.158	
PORTUGAL			760.000	
SUECIA	- descontaminación aguas		382.000 1.140.000	
IRLANDA			509.520	

Fuentes : Embajadas Estados Miembros, Ministerio Planificación y Desarrollo y Ministerio Relaciones Exteriores, Venezuela

¹ No ejecutado

² Año 2001

ANNEX 5 C

COOPERATION MATRIX FOR MULTILATERAL ORGANISATIONS			
DONANTE	SECTOR	AÑO DE FINANCIACIÓN	CANTIDADES COMPROMETIDOS (en US \$)
BANCO MUNDIAL	<ul style="list-style-type: none"> - Health, Nutrition & Population – Education – Public Sector Management - Urban Development – Environment – Water Supply & Sanitation – Agriculture – Transportation 		178.3 million 152.4 million 62.7 million 100.7 million 83 million 39 million 94 million 250 million
BID	<ul style="list-style-type: none"> - Desarrollo Sector Agrícola – Infraestructura y desarrollo físico – Modernización y Reforma del Estado – Apoyo al Sector Social I 		374.500 790.000 94.892 507.000
PNUD	<ul style="list-style-type: none"> - Género – Planificación – Goberna-bilidad – Medio ambiente 	2000	€ 5.344.660 ¹ € 2.997.320 ²
CAF	<ul style="list-style-type: none"> - Infrastructure – Sanitation Basin Valencia Lake – SMEs financing – Electric energy – Telecommuni-cation – Technical Assistance 	1996-2000	TOTAL US \$ 12.390,9

¹ PNUD con otros donantes

² PNUD solo

ANNEX 6

