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Part II

Venezuela: Trade Policy Issues in the 1990´s

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Venezuela's

I.- Introduction

This part of the report will describe and analyse agricultural trade policies in Venezuela with emphasis in the period 1999-2001. After this introduction chapter II presents a brief background about the changes in agricultural trade policy during the 1990´s. The third chapter will describe and analyse actual trade policy main issues, some estimations about nominal and real protection coefficients for rice, white corn, sorghum and milk will be presented. Finally a discussion about the implications of actual trade policy on equity, efficiency and sustainability is realised. This part of the report is complemented with two annex. Annex 1 describes Venezuela main commitments and actual situation in the World Trade Organisation. Annex 2 presents the Andean common agricultural and trade policy. Although Venezuela has signed and participates of other preferential trade agreements (For example with Chile, the G3 with Mexico and Colombia). The Venezuela commitments in both WTO and the Andean Community of Nations represent the main restrictions to design and implement public agricultural policies.

II.- Background[1]

Along the 1980's Venezuela intensified protectionist agricultural trade policies through the control of the exchange rate, prohibitions to import and quantitative restrictions administered by an import licenses regime. Licenses to import agrifood products were delivered to private actors under the condition to absorb national production. In addition to that, restrictions to export some agrifood products (mainly those subsidised to consumers) were implemented. In the following table it is shown that by 1989 around 38% and 49% of all agricultural and agroindustry products were under the import licences regime. Also 20% of agricultural and 30% of agroindustry of total traded items were prohibited to import. The average tariff for agricultural and agro-industrial products was 36% and 58%, respectively.

Table 1: Venezuela: Restrictions to import agrifood products

Years	Prohibited to import (%)			Import Licenses Regime (%)			Average Tariffs (%)		
	Econ.	Agric.	Agroind	Econ.	Agric.	Agroind.	Econ.	Agric.	Agroind.
1989	11	20	30	29	38	49	37	36	58
1990	5	5	25	5	32	25	19	22	35
1991	0	0	0	0	9	19	16	12	23
1995	0	0	0	0	0	0	11,8	14,9	17,1

Source: World Bank. Venezuela Structural and Macroeconomic Reforms. Abril - 1992 - Report No. 10404 - VE. – www.iadb.org/-Note: the information was taken as it is presented by the IADB, but in the practice after 1992 some quantitative restrictions to import were applied

By the middle of 1990, Venezuela launched a radical reform of its agricultural commercial policy, the called agricultural commercial reform (ACR). It was part of the

[1] A more detailed background about structural adjustment policies in the Venezuelan agriculture during the 1990's could be read in Nielson (1997) and Gutiérrez (1997).

stabilisation and structural adjustment program started in 1989 and negotiated with the IMF, the World Bank and the Inter American development Bank. The ACR was implemented with the aim to promote a more liberal trade regime, by reducing tariffs and eliminating no tariff restrictions to import. The unilateral liberalisation of agricultural trade aimed to improve productive efficiency and allocation of resources toward the production of agrifood goods with comparative advantages. Also, the ACR would contribute to avoid pressures on the food prices by eliminating quantitative restrictions to import, with welfare gains for consumers. Thus, it was thought that in the long term the society would obtain net gains in welfare as result of a more free trade regime.

At the beginning a price band scheme was implemented for some products considered sensitive (corn, wheat, rice, animal feeds, milk and sugar), in order to protect national production and to avoid the transmission of the international price instability within the economy. Restrictions on exports were also removed. The agricultural commercial reform advanced faster than the others, and it was considered, at least up to 1992, one of the most radical executed by any Latin American country. By 1992, all the quantitative restrictions to import had been eliminated and the average tariffs were lower than those before 1990. Agricultural and agroindustry average tariffs were lowered from 37 and 58 % in 1989, to 12 and 23 % respectively in 1991. By the end of 1992, all the quantitative restrictions to import had been removed. This was an important step toward the reduction of the power of "lobbyists" and "rent seekers". By 1995, after the adjustments in tariffs induced by the harmonisation required by the Andean Pact Agreement, average tariffs applied to agricultural and agroindustry goods reached only 14.9 % and 17.1 %. Some agricultural products considered as sensitive had been included in a price band scheme applied to the members of the Andean Pact, and the quantitative restrictions to import or to export had been eliminated[2].

The ACR was fostered by the association of Venezuela to the GATT in 1990. After that, in 1994, Venezuela signed the agreements and commitments of the Uruguay Round and became a member of the World Trade Organisation (WTO). The revival of the regionalism during the 1990's also contributed to foster agricultural trade liberalisation within the commercial blocks, mainly the Andean Pact (now Called Andean Community of Nations). In 1992 Venezuela and Colombia implemented a free trade zone and by 1993 the Andean group had begun the free trade zone. By 1995 the Andean group became a customs union, called Andean Community of Nations (ACN) with a free trade zone and a common external tariff. Other preferential trade agreements that Venezuela signed in the 1990's were: group of three (G3-Venezuela, Mexico and Colombia), free trade agreements with Chile, preferential trade agreements with Brazil, Paraguay, Uruguay, Argentina, Central America Countries, Caribbean Countries. Actually Venezuela as a member of the Andean community of Nations negotiates a free trade agreement with Mercosur, expected to sign by the end of 2002. For more details about the main commitments subscribed by Venezuela in WTO (Uruguay Round) and the Andean Community of Nations (CAN) see annex 1 and 2.

[2] The main products included in the price band scheme are : rice, white and yellow corn, sorghum, soybean, sugar, poultry, pork and milk.

The ACR advanced up to 1992. During the period of liberalisation (1990-1992) real prices received by agricultural producers fell. It was explained by the fall in international prices, for the tendency to appreciate the real exchange rate and the reduction of protectionism (Quiroz, 1999). Since that year political instability, macroeconomic volatility, the tendency to appreciate the real exchange rate, the weakness in the execution of restructuring sector programs and pressures exerted by powerful agricultural producers unions had influenced and avoided a further progress to liberalise agricultural trade. However, although some quantitative and administrative restrictions to import specific agricultural products had been introduced since 1992, it is important to recognise that Venezuela trade policy has not came back to generalised quantitative restrictions to import as it was the case before 1990.

According to Quiroz (1999) during the period 1992-1996 real agricultural prices received by producers had a rise mainly explained by the increase in real international prices and the introduction of some quantitative and administrative restrictions to import. The restrictions on imports also were exerted trough the control of the exchange rate. A government office was responsible for assigning devices to importers, and some products were under an import licences regime. By May 1996, Venezuela came back to market friendly policies and the control of the exchange rate was substituted by a flotation system within bands, and Central Bank intervention to guarantee the exchange rate would fluctuate between the limits of the band (ceiling and floor price). Thus, main protectionist policies were limited to: a) the application of the tariff-quote regime allowed by the Uruguay Round agreements; and b) the delays to delivery sanitary permissions to import agrifood products. By the end of 1998 only sorghum and yellow corn were under the tariff-quota regime (Reca, 1999), and some products like potato, chicken and pork meat had problems to get sanitary permissions to be imported.

In the following table it is shown how Nominal Protection Coefficients (NPC) were higher before the beginning of the ACR in 1990, then, during the liberalisation period (1990-1992) NPC fell, but after 1992, when some quantitative and administrative restrictions to import are adopted NPC rose again. The exception of that trend was sugar that had a NPC with clear tendency to decrease. Thus, it can be concluded that during the 1990's, despite the come back to protectionist policies, border protection for agricultural sensitive products was lower than that of the 1980's. The NPC of 1997 and 1998 are lower in effective terms if is taken into account the real appreciation of the exchange rate along 1997-1998. This was the situation before the arrival of President Chávez to the power.

Table 2: Venezuela: Nominal Protection Coefficients (NPC)

Years	rice	Sugar	Milk	White Corn	Sorghum
Average 1986-89	**1,62**	**1,53**	**2,24**	**1,78**	**1,71**
1990	1,14	0,90	1,53	1,19	1,35
1991	1,12	1,19	1,56	1,16	1,18
1992	0,99	1,20	1,35	1,22	1,19
Average1990-92	**1,08**	**1,09**	**1,48**	**1,19**	**1,24**
1993	0,99	1,18	1,60	1,21	1,27
1994	1,06	1,12	1,34	1,29	1,13
1995	1,31	0,98	1,35	1,43	1,38
1996	1,33	0,96	1,15	1,62	1,37
Average1993-96	**1,17**	**1,06**	**1,36**	**1,39**	**1,29**
1997	1,22	0,99	1,39	1,40	1,51
1998	1,46	1,03	1,90	1,35	1,19
Average 1997-98	**1,34**	**1,01**	**1,64**	**1,38**	**1,35**

Source: Barcelo Vila and García Alvarez-Coque et al. (1994); García Alvarez Coque et al (1997); Andean Community of Nations (2000)

III.- Trade Policy since 1999

As it was analysed in the first part of this report[3], President Chávez administration continued to apply a clear policy to appreciate the real exchange rate in order to avoid inflationary pressures. This macroeconomic policy meant an implicit tax on agricultural tradable goods with negative effects on their competitiveness. Since agricultural public policies were not efficient to support and execute a restructuring program to improve agricultural competitiveness, and there has been a trend to fall of real international agricultural commodities prices, producers unions claimed for more protection and government support for the agricultural sector. This call for increasing support and protection for national production has had positive answers by a government that needs to stimulate economic growth and believes that food security would improve if national production rises (the food security self sufficiency approach). Thus, while by the end of 1998 the tariff – quota regime allowed by the WTO was only applied to sorghum and yellow corn imports, since 1999 more product have been added. Thus, at the present Venezuela has implemented the tariff-quota regime in addition to sorghum and yellow corn for the following agricultural commodities: Oleaginous (soybean, soybean oil, palm oil, sunflower oil, coconut oil, soybean cake and other animal and vegetable fats); Powdered milk and other milk products and sugar. This regime is also applied to the Venezuela partners in the Andean Community of Nations, who have complained before the Secretary of the ACN because this policy violate the free trade commitments within the

[3] See Macroeconomics and the rural economy (by Alejandro Gutiérrez).

customs union. In the following pages will be described the main facts around price determination and trade policy for some important agricultural commodities[4].

Rice

- In 1997 was adopted a formula to determine the producer price:**Pdr =[(PB (1+CET+GI)*ER)*CF] where:**Pdr = domestic price of rice (per t.) PB= the base price of paddy rice USA; CET = the Andean Common External tariff; GI = internal expenditures; CF= conversion factor from paddy rice USA to Venezuelan Paddy rice (quality II); ER is the exchange rate.
- This formula is still used to orient the price received by producers. However internal market situation is taken into account. Thus if internal demand is low then producers prefer to receive a lower price.
- Actually does not exist government intervention to fix prices and the relationship between producers and the industry are good. These situation allows to agree between the actors the price to be paid to producers. However as it will be shown domestic prices are higher than border prices and nominal and real protection has increased since 1999, but production decreased at an annual average rate of 2.4% during 1995-96/1999-2000
- Rice has become during the 1990´s a leading agricultural export commodity, mainly to Colombia.

Sorghum

- In 1997 was agreed the application of a formula to define the producers price (per t.) **Pds= ((Pfyc (1+CET+IE) (1+F))*ER where: Pds= domestic price for sorghum; Pfyc= Floor price as fixed by the Andean System of prices band (once per year); CET = the Andean common external tariff; IE= internal expenditures; F= it is a factor to increase the price, recognised by the industry. This factor would low each year until its elimination; ER = exchange rate.**
- This product has powerful producers union that exert permanently pressures to get implementation of protectionist trade policies. At the present and since 1998, sorghum and yellow corn imports are under the tariff-quota regime. Thus the actual government has continued the policy to restrict yellow corn imports. Despite that policy production has only augmented at an annual average rate of 0.1% for the period 1995-96-1999-2000. During that period, real prices received by producers declined.
- Import licences are given by the government under the condition that sorghum and white corn surpluses be bought by the animal feed industry. In the case of White corn with producer price higher than that of sorghum the government subsidises the price difference.
- At the present, to get the import license to import yellow corn the importers have to show to the Ministry of Agriculture and Land a BOLPRIAVEN (the agricultural stock exchange) certification that the importer has bought national production of sorghum or White corn. This is considered a violation of WTO rules.

[4] This section is mainly based on Badillo (2002)

- Importers have complained about the obstacles and delays to get yellow corn import licenses. The USA Embassy at Venezuela has made formal complaints to the Venezuelan Government about the implemented trade policy. The USA government has also elevated denounces in the WTO.
- By 2001 Nominal (NPC) and real Protection coefficients (RPC) were lower than those by 1998. However, NPC were higher than the common external tariff fixed by the CAN (15%) and the WTO tariff quota regime (20%).
- By February 2002 it was created the Presidential agricultural commission which will decide about the new prices for sorghum and other agricultural commodities.

White Corn

- For white corn has been impossible to agree a producer price determination formula. This product, traditionally, has been one of government main concerns and interventions to determine prices between the industry and producers. White corn flour is the principal food that contributes to the Venezuelan calorie intake, and it is a main staple food for poor people. On the production side, more than 80% are considered small producers, but medium and big producers contribute with more than 50% of total white corn production. Thus, they are the most benefited with protectionist policy.
- Total consumption is satisfied with national production, and despite some controversies around the minimum price to be paid the industry union (VENMAIZ) has accepted this rule to avoid the inclusion of white corn in a tariff-quota regime.
- Actually prices will be defined by the presidential agriculture commission. In the previous years the industry (VENMAIZ) and producers (FEDEAGRO) agreed the minimum price to be paid for white corn.
- Domestic prices are higher than border prices and nominal and real protection coefficients have increased since 1998 (see tables 3, 4, 5 and 6). This increase in protection coefficients might be explained, mainly, by the fall of white corn real international prices during the last years. Real prices received by producers, as it was shown in the first part of this report fell during the period 1996-2000, also the rise of nominal prices in 2001 was lower than the inflation rate. However, protectionist policy accompanied of subsidised credit has stimulated a production rise in the last years and the existence of surpluses (see table 7). During the period 1995-96/1999-2000 white corn production increased at the annual average rate of 6.6%, This allowed to surpass the high production levels reached by the end of 1980's
- White corn surpluses have been eliminated by deviating them to produce animal feeds. Since white corn prices are higher than those of sorghum the government pays a subsidy , estimated by 2001 in 84 Bs./kg. (around US$ 12.8 millions by 2001).

Oil Palm

- Venezuela is highly dependent on oleaginous imports to produce vegetable oil. Also vegetable oil is a main staple food and by 2000 ranked fourth among the contributors to the daily calorie intake (Universidad de Los andes-Insituto Nacional de Nutrición-Hojas de Balance de Alimentos).

- National production of short cycle oleaginous like sunflower, peanut, and sesame has declined if compared to the levels produced during the 1980's and at the beginning of the 1990's. The agricultural commercial reform and preferential trade agreements created a more competitive environment allowing imports of soybean and sunflower oil and other fats from USA, Brazil, Paraguay and Argentina. Also, the Andean free trade zone allowed to import fats, soy and palm oil, mainly from Bolivia and Colombia.
- Since the 1980's palm oil has become the main national oleaginous due to its steady production growth. The country has natural soil and climate conditions to produce this oleaginous. During the period 1995-96/1999-2000 African palm production rose at the high annual average rate of 13.5%.
- To protect national oleaginous production, since 1999 and until 2001 oleaginous and oil imports have been included in the tariff-quota regime. In addition to that, import licenses are required to import oleaginous (soybean, soybean oil, palm oil, sunflower oil, coconut oil, soybean cake and other animal and vegetable fats). By 2002 African palm producers and the industry agreed to discard the tariff quota regime because the industry compromised to receive all the national production in order to have a fast access to import licenses.
- Price determination is agreed between crude oil producer's union (ACUPALMA) and the industry's union (ASOGRASAS). Traditionally there has not been major conflicts between primary, crude oil producers and the industry around the prices. Until 2001 the price was determined taking as the base the floor price for oil palm as fixed by the Andean price band system. This floor price plus the common external tariff was multiplied by the exchange rate. By 2002 crude oil palm price per t. will be determined according to the following formula:

Pdop= Prsoy (1+TT)+ US $ 30, where:

Pdop = domestic price of crude oil palm; Prsoy = average reference price of soy oil during the previous month as notified by the Andean Community of Nations; TT = total tariff (common external tariff + variable tariff) determined by the Andean price band system. US$ 30 is to compensate producer by the freight costs. The final price must be US$ 480 < Pdop < US$ 530

Milk

- Milk National production declined during the 1990's if compared with the 1980's. In the same way per capita consumption also has fallen. For the period 1995-96/1999-2000 milk production fell at the average rate of 0.8%. Less restrictions to import and the privatisation of the main processor industry have changed the market structure. New Zealand and Italy capitals (PARMALAT) have made important investments and control the main part of the milk and derived products.
- Venezuela (With Brazil, Mexico and Peru) is still one of the main whole (powdered) milk importers in Latin America.
- In 1997 was agreed a formula to determine the minimum price:

Pm = [(Pwm (1+CET+ IE))*SF]*CF*ER where:
Pm = Price of fresh milk; Pwm= Floor price of milk as notified by the Andean Community of Nations; CET = the Andean common external tariff; IE= internal expenditures; SF = seasonal factor (higher during the summer, lower during the rainfall season); ER = the exchange rate.

- That formula decreased the conflicts between the industry and milk producers and has oriented the price determination up to now.
- At the present powdered (whole) milk and derivatives (like cheese) are subject to the tariff-quota regime. Despite import licences to import must be given without any delays or obstacles (they must be automatic) there have been several complaints of the industry and some exporters countries like New Zealand due to the low transparency of the import licenses regime. New Zealand has elevated its complaints to the WTO.
- It will be shown in tables 3 and 4 that NPC and RPC have increased since 1999. However, although border protection has augmented real prices received by producers have declined during the period 1996-2000.

In summary:

a) in addition to the tariff-quota regime Venezuela has implemented an import license regime to allow agrifood imports included in the tariff-quota. But what is considered a violation is that those licenses are conditioned to the absorption of surpluses and buying national production of white corn, sorghum, African palm and sugar cane. This policy assures markets for national production, but this practice is considered a violation to the WTO rules. Private importers have also denounced the delays and administrative obstacles to get import licenses and sanitary permissions..

b) Sanitary permissions and technical norms have also been used to restrict imports mainly in the cases of potato, chicken, pork meat, beef and livestock, garlic, coffee, onions, eggs, mushrooms. Colombia, USA, Perú, Chile, and Argentina are the more affected countries. Andean countries have complained not only before the Secretary of the Andean Community of Nations, but in the WTO. Despite Venezuela has not been penalised by the WTO, actually New Zealand, USA, Argentina, Colombia and Chile have presented denounces in the WTO and requested further information about protectionist trade practices used by Venezuela. At the present Venezuela has the record of being the country with more sanctions within the Andean Community of Nations and has suffered some penalties.

Has protectionism increased during the Chavez's administration? The rise in the number of commodities under the tariff quota and import licenses regime and the intensification of administrative obstacles to import suggests a positive answer to that question. In addition to that, it is important to remind that in the firs part of this report it was shown how real prices received by producers for some commodities had decreased during the period 1996-2000. This fall in agricultural real prices for the analysed commodities was mainly explained by two factors: a) the decrease in real international prices of the analysed commodities , and b) the appreciation of the real exchange rate. This fall in real prices was achieved despite the rise in other factors, that included the

augmentation of the equivalent tariff derived from protectionist policies. Thus, the partial conclusion was that despite the change in trade policy toward more restrictions to import agricultural goods and the consequent rise of the equivalent tariff, the exchange rate policy and the fall in international prices were enough to overcome a more protectionist trade policy.

To complete the answer to the question, in the following tables are reported some estimations of nominal (NPC) and real protection coefficients (RPC) for four agricultural products (rice, white corn, sorghum and milk). These products contributed 21% to the value of agricultural production by 2000 and enough information is available to realise the estimations.

Since the applied methodology is a little different that what is used by the Andean Community of Nations (CAN), reported in table 2, the estimations with the methodology used in this report was also realised for the year 1998, to have an observation about the situation before the Chávez's administration[5].

Table 3: Venezuela: Nominal Protection Coefficients (NPC)

Rice

Year	NPC	Pd (US$/t.)	Pw (US$/t.)
1998	1,32	278,47	211,34
1999	1,41	248,39	176,64
2000	1,49	221,97	148,84
2001	1,77	227,35	128,41

Sorghum

Year	NPC	Pd (US$/t.)	Pw (US$/t.)
1998	1,86	237,86	127,89
1999	1,86	214,99	115,56
2000	1,79	198,84	111,35
2001	1,42	186,81	131,89

[5] The methodology to estimate the border (reference) price per t. for the commodities included in the estimation was as follows: a) rice = (annual average CIF reference price per t. .notified by the CAN +internal costs (7%)) multiplied by 0.56 to convert white rice into paddy rice (Reca, 1999) ; b) white corn = annual average CIF reference price notified by the CAN +internal costs (7%); c) sorghum = (annual average CIF reference price for yellow corn per t. notified by the CAN +internal costs (7%)) multiplied by 0.96 to convert yellow corn into sorghum; d) milk = (annual average CIF reference price per t. for whole powdered milk notified by the CAN +internal costs (7%) – transformation costs updated every year by the USA-CPI) divided by 8000 to convert whole powdered milk into fluid milk (litters) . To take into account the exchange rate appreciation effect were used the annual average nominal exchange rate reported by the Central Bank of Venezuela and the annual CPI variation for Venezuela (Caracas Metropolitan Area) and USA.

Continuation of table 3

White Corn

Year	NPC	Pd (US$/t.)	Pw (US$/t.)
1998	1,67	256,15	153,22
1999	1,87	251,37	134,18
2000	2,22	253,34	113,96
2001	1,88	242,16	128,61

Milk

Year	NPC	Pd (US$/lt.)	Pw(US$/lt.)
1998	1,83	0,349	0,191
1999	2,03	0,349	0,172
2000	2,03	0,334	0,165
2001	1,74	0,360	0,207

Source: Can (www.comunidadandina.org/)-own estimations.

Note: Pd = domestic price received by producers.

Pw = border (reference) price.

Table 4: Nominal Protection Coefficients (NPC) And Real Protection Coefficients (RPC*)

Rice		
Years	NPC	RPC
1998	1,32	1,01
1999	1,41	1,01
2000	1,49	1,1
2001	1,77	1,28
Average1999-2001	1,56	1,13
	White Corn	
Years	NPC	RPC
1998	1,67	1,28
1999	1,87	1,35
2000	2,22	1,63
2001	1,88	1,36
Average1999-2001	1,99	1,45
	Sorghum	
Years	NPC	RPC
1998	1,86	1,42
1999	1,86	1,34
2000	1,79	1,31
2001	1,42	1,02
Average1999-2001	1,69	1,22
	Milk	
Years	NPC	RPC
1998	1,83	1,40
1999	2,03	1,46
2000	2,03	1,49
2001	1,74	1,25
Average1999-2001	1,93	1,40

Sources: idem table 4.

Table 5: Price support derived from trade policies

RICE							Price support
	Production	Pd	Val. Of prod.	Pw	Support by t.	Price support	with exch.distort
Years	t.	US$/t.	US$	US$/t.	US$	US$	US$
1998	701168	278,47	195254253	211,3	67,13	47069408	**36008097**
1999	720193	248,39	178888739,3	176,6	71,75	51673848	**37153497**
2000	676775	221,97	150223746,8	148,8	73,13	49492556	**36327536**

WHITE CORN							Price support
	Production	Pd	Val. Of prod.	Pw	Support by t.	Price support	with exch.distort
Years	t.	US$/t.	US$	US$/t.	US$	US$	US$
1998	983121	256,15	251826444,2	153,2	102,93	101192645	**77412373**
1999	1149452	251,37	288937749,2	134,2	117,19	134704280	**96852377**
2000	1689551	253,34	428030850,3	114	139,38	235489618	**172849380**

SORGHUM							Price support
	Production	Pd	Val. Of prod.	Pw	Support by t.	Price support	with exch.distort
Years	t.	US$/t.	US$	US$/t.	US$	US$	US$
1998	448871	237,86	106768456,1	127,9	109,97	49362344	**37762193**
1999	363874	214,99	78229271,26	115,6	99,43	36179992	**26013414**
2000	581526	198,84	115630629,8	111,4	87,49	50877710	**37344239**

MILK							Price support
	Production)	Pd	Val. Of prod.	Pw	Support by t.	Price support	with exch.distort
Years	(000 lts)	US$/lt.	US$	US$/lt.	US$	US$	US$
1998	1440230	0,349	502640,27	0,191	0,158	227556340	**174080600**
1999	1311205	0,349	457610,545	0,177	0,172	225527260	**162154100**
2000	1372068	0,334	458270,712	0,171	0,163	223647084	**164156960**

Sources: Idem tables 3,4, 5 and own estimations

Table 6. Total price support for rice, white corn, sorghum and milk (US$)

	Total Support	Support with
Years	**US$**	**Exch. distort.(US$)**
1998	**425180736**	**325263263**
1999	448085379	322173388
2000	559506968	410678114
Average 1999-2000	**503796174**	**366425751**

Sources: Idem tables 3,4, 5 and own estimations

The main conclusions derived from the **NPC** and **RPC** (tables 4, 5 and 6) estimations are the following:

1. With the only exception of sorghum, average (1999-2001) Nominal protection Coefficients (NPC) with and discounting the exchange rate effect (RPC) are higher than those of 1998. It should reminded that by 1998 Sorghum and yellow corn (sorghum substitute) were the only commodities under the tariff-quota an import licenses regime. By 2001 the fall in sorghum NPC was due to the decrease in Pd and the rise in Pw (see table 3).
2. It is important to notice that average NPC estimated for the period 1999-2001 are larger than the external common tariff accorded by the Andean community of Nations (CAN). The respective tariff for rice, white corn, sorghum (yellow corn) and milk are 20%, 15%, 15% and 20%. In the same way, NPC estimated for the period 1999-2001 are higher than those accorded by Venezuela under the Uruguay Round agreements and the tariff quota regime. Thus, the respective maximum tariff allowed to charge for contingents are rice (40%), yellow corn (20%), white corn (40%) and whole milk (40%).
3. Due to the appreciation of the exchange rate effect during the analysed period NPC are larger than real protection coefficients (RPC). However, despite the exchange rate appreciation effect, real nominal protection is still positive and above that of 1998, with the exception of sorghum
4. On the average, for the period 1999-2001, rice, white corn, sorghum and milk national producers received a price 56%, 99%, 69% and 93% respectively, higher than that they have got under free trade conditions. These results suggest that quantitative restrictions to import have had a positive effect on nominal prices received by producers. However, it was shown in part I of this report that in real terms, prices received by producers of the analysed commodities during the period 1996-2001declined. Thus, it could be concluded that protectionist policies have avoided a further fall in real prices received by national producers.
5. Table 5 and 6 show that on the average by 1999-2000[6] the amounts of price support received by producers of the analysed commodities were higher than those of 1998, even in the case the exchange rate distortion (appreciation) is taken into account. Thus , without taking into account the exchange rate distortion on the average for 1999-2000 the total price support for the four analysed commodities amounted US$ 559.5 millions while for 1998 was US $ 325.3 millions. A rise of 72 %. This result suggests, at least in the case of the four analysed commodities that price support derived of trade policies, reflected in the difference between domestic (Pd) and border-reference prices (Pw) has meant a significant amount of monetary transference from consumers to producers.
6. If it is discounted the effect of the appreciation of the real exchange rate, average real protection coefficients (RPC) for the period 1999-2001, show that producers of rice, white corn, sorghum and milk received respectively a price 13%, 45%, 22% and 40% larger than that obtained under free trade conditions. Thus, in real terms, three (rice, white corn and milk) of four analysed commodities still have a protection coefficient

[6] The estimations for 2001 were not achieved because the 2001 information for agricultural production is actually under review and it is not available.

higher than that previous to the arrival of President Chávez. For the four analysed commodities real protection (after discounting the real exchange appreciation effect) meant an average transfer of US$ 410.7 millions by 1999-2000, while this amount was US $ 325.3 millions by 1998 (an increase of 26.3%).

7. For the four analysed commodities, NPC represented a support by 1998, with respect to the value of production, equivalent to: 24,1% (rice); 40,2% (white corn); 46,3% (sorghum) and 45,3% (milk). On the average for 1999-2000 the price support with respect to the value of production was: 30,9 (rice); 50,8% (white corn); 45,1% (sorghum) and 49,15 (milk).
8. Any case, the fact that domestic prices (Pd) are higher than border-reference prices (Pw) have some negative, static, impacts on the welfare of the society. Although producers could perceive higher incomes and produce more than in the situation of free trade (increase in the producer surplus), consumers (or demanders) are negatively affected since they will pay a price higher than that under free trade conditions. The magnitude of the impact (negative for consumers and positive for producers) will depend on respective demand and supply price elasticity. In addition to that, in the cases commodities are under the tariff-quota and import licenses regime, the legal tariff is perceived by the government[7], but the remaining difference between domestic and border price will be perceived by the importers. These will obtain pure rents by buying at international prices (Pw) and selling (or charging costs in the transformation process) at domestic prices (Pd). Thus, the protectionist policy distributes benefits and costs among different actors. Then while, producers, government and importers obtain benefits from that policy, consumers are damaged. In a situation, like the present, where poverty is high and augmenting, unemployment is rising and consumer subsidies programs are weak, protectionism to help agricultural products (white corn, rice, milk, oil and raw materials for animal feeds like yellow corn) that are important in the poor food (caloric) intake it is clearly a policy that promotes inequity, because poor consumers are more sensitive to prices and income changes.
9. Protectionist policies benefits producer since allows to get domestic prices higher than those under free trade conditions. However, a question that arises is who are the benefited producers. For example in the case of white corn there are a lot of small producers (80%) but according to Badillo (2002) the remaining 20% (medium and big producers) generates 50% of that production. In addition to that small producers frequently do no have the opportunity to sell production at official prices. All the analysed agricultural commodities have the particularity that most of the production is generated by medium and big producers. Then, price support and border protection policies benefit in a larger proportion to medium and big producers with capacity to

[7] For products under the Andean band system, when the reference price (Pw) of the imported product is under the floor price (of the band) a variable (additional) tariff above the common external tariff can be charged.

influence public policies (See Badillo, 2002). Thus from the equity point of view trade policy benefits basically medium and big producers promoting unequal income distribution in rural areas.

10. Since the view point of the efficiency to allocate resources society also losses. It is clear that nominal and real positive protection allows to produce more of the protected commodities. That is due to the artificial competitiveness created by the border protection, deviating resources from activities with real competitive and comparative advantages.
11. **Has been protectionist policies enough to stimulate production increase?** Production growth will depend upon the benefit rates for each commodity and the opportunity cost of money. Protectionist policies allows to producers to get a higher price than that obtained under free trade conditions. Despite that, the rate of benefits also is influenced by production costs and the access to credit. Of all the main protected commodities, the security of market derived from trade policy have had a positive effect in the cases of white corn, sorghum, oil palm and sugar cane (see table 7). It is an hypothesis that in the case of rice and milk, despite border protection and quantitative restrictions to import (case of milk), the fall in prices has negatively affected the rate of benefits, and finally the outcome has been the fall in production, despite the attempts of the government to assure markets for national production. In the case of milk where the production system of double purpose (milk-beef) generates the major part of milk production the price relationship has been favourable for beef, and this plus the fall in real prices received by milk producers could help to explain the decrease in milk production since beef and milk behave as substitutes products under the double purpose system (See Badillo, 2002).

Table 7: Venezuela: Production of main protected commodities

Product	1997-98	1999-2000	Var. %
Rice (t.)	746703	698484	**-6,5**
White Corn (t.)	1091170	1419501	**30,1**
Sorghum (t.)	434934	472700	**8,7**
Oil Palm (t)	327368	354459	**8,3**
Sugar Cane (t.)	7385265	8666316	**17,3**
Milk (000lts.)	1435651	1341637	**-6,5**

Source: Ministry of Agriculture and Land- Own estimations.

IV. Final discussion

In this chapter it will be tried to analyse the topics related to the impact of actual trade policy on equity, efficiency and the possibility of sustaining it trough the time.

Equity. The trade policy implemented since 1999 does not contribute to solve equity problems since hurts consumers, mostly poor consumers, who have to pay higher prices for final foods that use protected agricultural raw materials as inputs to produce

final processed foods. The protected agricultural products are used as inputs to produce industrial foods (corn flour; white rice, powdered milk and cheese, animal feeds to produce chicken beef, vegetable oil , sugar, etc.). Those processed foods are an important source of calories and proteins in the poor and urban consumers food intake. For example, according to the Venezuelan Food Balance Sheet (Universidad de Los Andes – Instituto Nacional de Nutrición (2002) by 2000 the 10 main foods that contributed to the average daily calorie intake were : corn flour, sugar, wheat (bread), vegetable oil, white rice, wheat (pastes) chicken-meat, sugar in beverages, whole milk and plantain. Of these ten main principal foods sugar, vegetable oil, chicken meat and whole milk are affected by the tariff-quota and import licenses regime. Chicken meat is affected by the use of sanitary restrictions to allow imports from the USA and indirectly trough the tariff-quota and import license regime to import yellow corn and soy bean (raw materials to produce animal feeds).

On the producers side, most of the protected production is generated by medium and big producers. Thus, this segment of producer are who benefited mostly of the trade policy that supports the domestic price by using restrictions to import. That means a transference of resources from consumers (mostly in poverty situation)[8] to this segment of producers. Then, protectionist policies allows higher prices for consumers producing a contrary effect to what is expected by the government on poor households food security.

Efficiency. From an static point of view, quantitative and administrative restrictions to import, like the implemented since 1999, impose efficiency losses on society since resources are allocated to produce agricultural goods at costs higher than it would have been paid under free trade conditions. According to the estimations showed in table 4, even in the case it is discounted the appreciation exchange rate effect, border protection is still high (> 1) for the analysed commodities. This kind of policy, if it is not combined with effective interventions to improve yields and productivity will cause in the long term a declination of production efficiency. Thus, production growth of the protected commodities could be being obtained not only hurting poor consumers, but productivity.

Another aspect to take into account is the efficiency losses of the Venezuelan society due to the procedures to get import licenses. Under a situation with high differences between domestic and border prices and ways not at all clears to get licenses and sanitary permissions to import, the society waste resources and time making "lobby" in order to get rents. Thus, the actual trade policy stimulates "rent seeking" activities that hurts transparency, right properties and increase transaction costs promoting inefficiency.

Sustainability. Actual trade policy will be very difficult to sustain in the future because of :

1. Venezuela trade partners in the Andean Community of Nations (Colombia) and outside (USA and New Zealand) are claiming in the WTO for more transparency and the need to observe the WTO rules and commitments. Thus, Venezuela will have, at

[8] Last data on poverty reported that while in 1999 59.2% of households were under poverty situation by 2002 that percentage will rose to 62%. (Universidad Católica Andrés Bello- Proyecto pobreza in El Nacional, issue of May 13, 2002, page E-1).

least, to reduce quantitative and administrative restrictions to import in order to avoid to be penalised by the WTO or by the CAN.

2. The need to reduce the fiscal deficit will impose austerity and a reduction in the price subsidies the government is paying. For example, actually white corn surpluses are sold to the animal feeds industry and the government pays the difference of price between that of sorghum and white corn , estimated by Badillo (2002) around 84 Bs./kg.. This policy meant by 2001 a government expenditure around US $ 12 millions. Then, under fiscal restrictions and a new adjustment program, it will be very difficult for the government to sustain this kind of subsidy that distort white corn production and the production costs of animal feeds. Animal feeds are the main input to produce chicken meat, the main source of animal proteins for consumers.
3. By the time this report is written (middle of May, 2002) the politic and macroeconomic situation is getting worse and the government is designing a new macroeconomic policy to negotiate a new adjustment program with multilateral organisations (IMF. World Bank and Inter American Development Bank). A new adjustment program agreed with multilateral institutions will impose conditions to come back to the adoption of market friendly policies in all the areas, in order to reduce distortions in prices and resources allocation. This will cause less government intervention in the determination of agricultural prices and, at least, a reduction of quantitative restrictions to import. Furthermore, as part of the adjustment program, Venezuela will have to correct the appreciation of the real exchange rate and this will have the effect of lowering the domestic price (in US dollars) of protected commodities and will reduce import demands as their prices increase due to the real depreciation of the exchange rate. These expected outcomes will contribute to decrease producers claims and pressures for more border protection.

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Annex 1: Venezuela: Main Commitments in WTO

- Venezuela Signed the final agreements reached in the Uruguay Round in 1994 (Marrakech Agreement) and became e member of the World Trade Organisation (WTO).
- **In the area of market access Venezuela main compromises are:**

1. To reduce tariffs and eliminate quantitative restrictions. Convert equivalent tariffs into ad-valorem tariffs with a reduction compromise toward 2005. Most of the items are in the range of 40-50%. The process of convert into tariffs (62 items) had a maximum level between 100-135%. For these 62 products Venezuela can administrate quantitative restrictions subject to a maximum tariff (Quota-tariff regime). Only after importing the quotas Venezuela could apply the consolidated tariff. (See table 1 in this annex). It is important to notice that for most of the products under this regime Venezuela declared high levels of contingents (quotas). This, in the practice, impede that Venezuela could rise tariffs above the levels fixed in the tariff-quota regime.
2. In the practice Venezuela has applied tariffs lower than those committed in the Uruguay Round. As it will be seen in Annex 2, The common external tariff for agricultural products not included in the Andean Band Price System are lower than those committed in WTO. In some cases when the reference price for imports is lower than the floor price fixed by the Andean band price system the Andean countries can charge a variable tariff and additionally the common external trade. Thus, in some cases it is possible that the total tariff charged to imports can be above the consolidated level for products under the tariff quota regime.
3. Consolidated tariffs can also be implemented if the CIF price of imports is lower than certain level defined by the period 1986-1988).
4. Tariff reductions of 24% (dead line year 2005).
5. Minimum access to imports fixed in 3% of internal consumption.
6. Venezuela will not use sanitary measures as restrictions to import agricultural goods.

- **For agricultural exports Venezuela main compromises are:**

1. To reduce export subsidies during the period 1995-2005. The volume of export subsidies should be reduced in 14% and the value of export subsidies must be reduced 24%.
2. Venezuela notified export subisidies for 72 products and this number can not be increased.
3. Some subsidies like marketing and transport costs are allowed.
4. Venezuela is committed to progress toward the agreed disciplines for financing exports.
5. It is important to notice that according to the Venezuela notifications to WTO subsidies to export were an annual average between 1995 and 1997 of only 26% of the value allowed by the Uruguay Round agreement.

Table 1: Venezuela Main Products Under the Tariff-Quota Regime.

Item	Tariff Number	Consolidated Tariff (%)	Quota-Contingent (t.)	Tariff (%)
Pork Meat	203	48	877	40
Other meats	206	90	3937	40
Poultry meats	207	135	3426	40
Whole Powdered Milk (26%)	402.21*	100	73822	40
Cheese	406*	98	2212	40
Wheat	1001.10.90.10	118	1271176	30
Barley	1003	114	779	15
Yellow Corn	1005.90.00.20	122	583459	20
White Corn	1005.90.00.90*	122	29826	40
Rice	1006	122	30197	40
Sorghum	1007	88	1114290	40
Soy Bean	1201	117	168963	40
Malta	1107	119	203526	20
Animal Fats	1502	68	77226	40
Soy Oil	1507	75	130040	40
Sunflwer Oil	1512	95	151612	40
Sugar (cane)	1701	105	132013	40
Soy Cake	2304	97	696880	40

Source: Venezuela agricultural Supply in WTO

- **For Internal supports Venezuela main commitments are:**

1. Global Measure to support the agricultural sector (Medida Global de Ayuda, MGA). This measure should be reduced with respect to the declared amount in 20% by 2005.
2. Agricultural supports considered distorting of market prices (for specific and not specific products) must be reduced from US $ 1,304.6 millions to US$ 1,130.7 by 2004.
3. According to the notifications to WTO (last notification by 1998) Venezuela has not used the amounts allowed to support the agricultural sector. Thus, between 1995 and 1998 Venezuela only used a 30% of the total helps to the sector allowed by WTO.
4. In the so called "green box" Venezuela has a wide margin to implement " not distorting" policies like : supports and subsides for research, technology transfer, education, infrastructure, direct payments to producers, food security programs, help for natural disasters, helps for structural adjustments, minimum support (price support until 10% of the total value of production), and others.

- Actually Venezuela has participated in the WTO meetings (Seattle, Doha-Qatar, Montevideo-Uruguay). Venezuela position in these meetings has been mainly guided by the objective of reducing developed countries agricultural subsidies. Venezuela has participated in block with the other members of the Andean Community of nations.

Main Conclusions

1. In general, since 1995Venezuela has observed the agreed commitments in the Agricultural Agreement of the Uruguay Round. Venezuela has not assigned enough public resources in the budget to support the agricultural sector in amounts allowed by the WTO.
2. However, in the last two years, several countries (USA, Colombia, New Zealand, Argentina, Canada and Chile) have expressed doubts and complaints for the implemented agricultural trade policy. Basically, main complaints and doubts about the transparency of the Venezuelan agricultural trade policy refers to: delays and obstacles to get sanitary permissions to import; conditioning of getting import licenses prior absorption of national production surpluses; delays and obstacles to get import licenses and definition of the period during which the import licenses regime will be implemented. It is noteworthy that countries that are Venezuela's trade partners in economic integration agreements, like Colombia, are complaining about Venezuela agricultural trade policy in WTO, instance of solving the trade controversies in the Andean Community of Nations.

Annex 2: Venezuela Main Commitments and issues in the Andean community of Nations (CAN)

Main Venezuela's commitments as part of the Andean Common Agricultural Policy are the following:

- Export subsidies for intrarregional trade are not allowed. However, each country has different support policies for agricultural exports with destiny to non members countries.
- Since 1992 Venezuela and Colombia implemented a free trade zone that included agricultural goods. After 1993 was implemented a free trade zone (Bolivia, Colombia, Ecuador y Venezuela (Perú was outside the Andean Pact by that time). Since 1995 the Andean Pact became an imperfect customs union with a common external tariff and a free trade zone.
- In 1995 the common external tariff (CET) was adopted by all the members of the Andean Group with the exception of Peru. Bolivia due to its condition of less developed country and with natural barriers was allowed to apply a tariff lower (5-10%) than the agreed for the rest of countries. The CET has four (4) levels 5, 10, 15, 20%. Actually, the Presidential meeting of Santa Cruz de la Sierra (Bolivia, march 2002) decided to review the CET to eliminate the level of 15% and to apply a cero tariff for agricultural inputs. For the agricultural goods the CET is showed in the following table:

Andean Community of Nations:
Common External tariff for Agrocultural Goods (%)

Section and Tariff	Bolivia	Colombia	Ecuador	Perú	Venezuela
Live animals and derived goods (I)					
Minimum Tariff	5	5	0	15	0
Maximum Tariff	10	20	20	25	20
Average Tariff	10	16,9	16,7	15,9	16,8
Standard Deviation	0,4	5,3	5	2,8	5,5
Vegetable Goods (II)					
Minimum Tariff	10	5	0	15	5
Maximum Tariff	10	20	20	25	20
Average Tariff	10	12,6	11,9	17,7	12,9
Standard Deviation	0	4,8	5,6	4,5	4,7
Animal and vegetable fats (III)					
Minimum Tariff	10	5	5	15	5
Maximum Tariff	10	20	20	15	20
Average Tariff	10	16,1	15,7	15	15,9
Standard Deviation	0	5	4,1	0	5,2
Proccessed foods and Tobacco (IV)					
Minimum Tariff	10	5	5	15	5
Maximum Tariff	10	10	20	25	20
Average Tariff	10	17,1	18	17,5	18,3
Standard Deviation	0	4,8	3,5	4,3	3,1

Source: www.iadb.org/

- For some agricultural goods considered "sensitive" and with price instability in international markets a price band system was implemented, the so called " Sistema Andino de Franjas de Precios (SAFP)" applied by Colombia, Venezuela and Ecuador. According to this system:

1. There are fourteen base (marker) goods (rubros marcadores) and around 148 items of the Andean (NANDINA) Tariff Structure incorporated. The base agricultural goods are: white rice, barley, white corn, wheat, yellow corn, , meat chicken in pieces, crude sugar, whole milk, soy bean, crude oil palm an crude oil soy
2. Each base (marker) good has an international reference market. For example for rice the international reference market is Bangkok 10% of broken grains. For powdered (whole milk, the reference international market is New Zealand.
3. The system annually determines a floor and ceiling price. Floor price is determined taking into account the last 60 month observations of average prices in the international (reference) market. The fifteen (15) observations higher and lower are considered outlays and taken out. Then an average (after updated each observation with the USA (CPI) inflation rate) is estimated. Thus the average price more or less the standard deviation defines the ceiling and floor prices of the band for a year.
4. The reference price for imports is an average of the last fifteen days. In the case the reference price is between the bands the CET is applied. If the reference price is lower than the floor price a variable tariff is applied to elevate the price to the floor price, and then the CET is applied. If the reference price is larger than the ceiling price, then a reduction in tariffs is applied to take the price into the band. Frequently the reference price is lower than the floor price and a variable levy is applied, this has been a source of criticisms to the SAFP, because this kind of variable tariffs are not allowed by WTO. However the Andean Community of Nations has notified to WTO this practice arguing that there is not any violation if the total tariff applied is still lower than that tariff consolidated in the Agricultural agreement of the Uruguay Round. (see Art. 15, 371 decision of the CAN).
5. All the countries applying the system must notify to the CAN any change in the application of the system.

- None country must use sanitary norms as a restriction to imports. WTO agreements are applied by the Andean countries.

In brief, sanitary norms, elimination of export subsidies for intra block trade, the SAFP and the CET are the main components of the Andean Common Agricultural Policy.

Venezuela: Actual Main Trade Controversies within the CAN

- Venezuela has been in the last three years the country with more sanctions within the CAN due to violations of the free trade zone norms and commitments.
- Peru has denounced and claimed for compensations due to the delays and negative of Venezuelan authorities to grant sanitary permissions to import garlic and onions from Peru. The CAN decided favourably to Peru and has authorised to this country to impose compensatory tariffs to Venezuelan agricultural exports to Peru.
- Most of the controversies are with Colombia, the main Venezuela trade partner and the main destiny of Venezuelan agricultural exports. The tendency to restrict agricultural imports from Colombia is mainly explained because while Colombia has had since 1998 a clear policy to depreciate the real exchange rate Venezuela has appreciated it. Thus the trade balance, usually favourable to Venezuela in the 1990´s has become negative since 2000.The most important Colombian claims to Venezuela are due to :

1. Venezuelan negatives and delays to give sanitary permissions to import from Colombia potato, mushrooms, eggs, fresh tomato and beef products.
2. Venezuela uses technical norms as argument to impede eggs imports from Colombia.
3. Venezuela does not want to observe the CAN decision to allow toasted coffee imports from Colombia.
4. Venezuela is applying incorrectly the Andean safeguard to avoid sugar imports from Colombia (Sugar an derivatives are the main agricultural exports from Colombia to Venezuela). Actually sugar imports from Colombia are under the import licenses regime. Colombia also claims the need to eliminate the total exception of tariff for sugar imported from Central America (mainly Guatemala). This is considered a violation of the Andean Common External Tariff.

- Venezuela has also realised some complaints to Colombia trade practices. Among them:

1. Venezuela demands a liberalisation of the rice trade since Colombia apply some restrictions to Venezuela exports.
2. Venezuela claims that liquor exports to Colombia do no receive the national treatment it is agreed. Venezuelan liquors have to pay higher internal taxes in Colombia (imposed by regional governments) due to its condition of foreign goods.
3. Venezuela claims that Colombian importers of Venezuelan goods confront administrative restrictions.

For Venezuela is important to recover transparency in the trade relations with its Andean partners, since this market (specially Colombia) represents the main destiny of non traditional and agricultural exports. Andean economic integration, basically with Colombia, has allowed static and dynamic gains with welfare net gains for both countries (Gutiérrez, 2001).