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VENEZUELAN AGRICULTURAL PRICE  
AND TRADE POLICIES

by

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## TABLE OF CONTENTS

	Page
Introduction . . . . .	1
Present Economic Situation . . . . .	2
Agricultural Price and Trade Policy; prior to 1950 . . . . .	5
Agricultural Price and Trade Policy; 1950-1966 . . . . .	11
Policy Goals of Venezuelan Agriculture . . . . .	11
Price Policy and Market Control. . . . .	14
Retail Price Control. . . . .	19
Venezuelan Foreign Trade Policy. . . . .	20
Bilateral Trade Agreements . . . . .	22
Exchange Controls . . . . .	22
The Present Tariffs System . . . . .	25
Some Comparisons Between Expectations and Achievements . . . . .	27
Macroeconomic Aspects . . . . .	27
The Agricultural Sector . . . . .	28
Rice Policy and its Consequences . . . . .	33
Dairy Industry Policy and its Consequences . . . . .	35
Expected Agricultural Price and Trade Policy . . . . .	38
Bibliography . . . . .	44
Common Units of Measurement in Venezuela . . . . .	45

## INTRODUCTION

The present report is a descriptive analysis of the agricultural price and trade policies followed by the Venezuelan Government in recent years; its basic objective is to provide a fuller understanding of present agricultural policy with the hope this will permit a clearer view of the type of policy to expect in the future. An attempt is made to show the influence of petroleum upon agriculture as the most important source of revenues which has largely contributed to the improvement of the agricultural sector.

This paper will first offer a brief synopsis of the present economic situation. It will then consider the agricultural price and trade policies in the period prior to 1950. In considerable more detail it will then focus on the price and trade policies of the past twenty years, showing also the consequences of these policies with special emphasis on two important domestic products: Rice and milk. Finally, this report will include certain observations about the policies that the Venezuelan Government is expected to follow in the years ahead.

## PRESENT ECONOMIC SITUATION

Venezuela's economic philosophy centers around the country's functioning as a mixed economy, with the fundamental objective of accelerating economic development by the coordinated action of the State and private enterprise.

The population of Venezuela has registered an important growth - from five million inhabitants in 1950 to more than 7.5 million in 1961 when the last National Census was taken. It is estimated that the population was approximately 9 million in 1966. The rate of population growth during the recent years has been about 3.5% annually, one of the highest rates in the world.

Venezuela's Gross Domestic Product (GDP) at the present time is estimated at approximately \$7.5 billion, ranking fourth in Latin America in the total value of goods and services produced. Due to its smaller population, however, Venezuela's average per capita income in 1966 was estimated at approximately \$860, the highest in Latin America. Despite the magnitude of the average per capita, the actual distribution remains disproportionate, with many rural inhabitants and unskilled migrants to the cities receiving considerably less than the arithmetic mean. One of the goals of Venezuela's development efforts is the

realization of a more equitable distribution of national income.

During the 1950-59 period, Venezuelan GDP grew at the impressive average annual rate of 8%. The pace dropped sharply to a 1% average annual increase during the 1959-61 recession period. However, the economy quickly recovered with an annual average growth of 6.6% for the 1962-64 span and an approximately 7% growth rate in 1966. The current National Plan projects an average growth in GDP of 7.2% per year through 1968.

Petroleum still plays a major role in the Venezuelan economy, accounting for approximately one-fifth of total GDP, two-thirds of total Government revenues, and 92% of the total value of exports. However, with the successive implementation of the Venezuela's development efforts, other economic sectors have considerably increased their relative shares of GDP. Manufacturing, mining, energy and fuels, commerce, construction, and agriculture, have all realized a relative increase. The vital agricultural sector accounts for only 6.4 percent of GDP, while the exportation of agricultural products (mainly coffee and cocoa) contributes approximately 1% of total foreign exchange earnings. Despite this relatively small contribution to GDP and export earnings, 1964 estimates show that approximately one-third of the total labor force is engaged in agricultural production.

The 1961 agricultural census enumerated about 320,000 farm units. Only a minority of these were listed as commercial farms; i.e., those which raise crops for sale through regular commercial channels. The remainder were units which produced primarily for their own consumption and operated close to the subsistence level. The current Government incentives to the agricultural sector are directed toward both types of farm holdings. Effort to assist the commercial farms concentrate on improving conditions through the provision of better agricultural services, the maintenance of favorable price levels, and the establishment of protective barriers against competing imports. Major incentives to the "campesino" sector emphasize the settlement of rural families on economically viable holdings, with modern cultivation techniques and requisite credits provided by governmental agencies. The 1965-1968 National Plan projects the distribution of farm land to 100,000 additional families during the period, thus affording such holdings to nearly 178,000 families by 1968.

AGRICULTURAL PRICE AND TRADE POLICY  
PRIOR TO 1950

In the years before 1920, the backward agricultural base of the economy was not transformed in any fundamental way by direct Government action. The presence of oil was the determinant factor to transform the Venezuelan economy and, consequently, Venezuelan agriculture. During the gradual decline of agricultural exports during the mid-twenties the growing oil industry took up the slack. Oil revenues enabled the Government to undertake a broad public works program and grant subsidies to agriculture. However, it is apparent that while oil was being developed, agriculture and livestock-raising declined. As a consequence, the country failed to develop the capacity to feed itself and had to import high-cost food.

By 1945, an economy which was almost exclusively agricultural in the mid-twenties had been transformed into one that was both industrial and agricultural. These drastic economic changes lead to profound changes in the Government's agricultural policy. To stimulate the growth of domestic agriculture the Government started to exercise an increasing measure of control over foreign trade. In 1936, the Government's primary attention was devoted to agriculture. Subsidies to exporters were established and



crop-expansion and livestock-improvement programs were launched. The objective of these subsidies was to compensate for the unfavorable conditions that the oil industry had created for agricultural exports. However, the system was highly defective, the benefits obtained did not pay for the large Government expenditures in implementing this policy. Subsidies maintained coffee and cacao exports but did not contribute to the improvement of these crops.

In 1941 this policy was replaced by the creation of a differential-exchange rate which stimulated production of high-quality products. The figures in Table No. 1 show the increase in high-quality production of coffee from 49 percent in 1940 to 82 percent in 1943 as a result of the creation of the differential-exchange rate.

TABLE NO. 1

PERCENT OF COFFEE SOLD BY QUALITY CATEGORIES IN  
VENEZUELA, SELECTED YEARS, 1933-1943

Years	High-quality (lavado) (%)	Low-quality (trillado) (%)	Total
1933	39	61	100
1935	39	61	100
1936	33	67	100
1940	49	51	100
1941	45	55	100
1942	64	36	100
1943	82	18	100

Source: Ministerio de Agricultura y Cria. Boletin Anual de Estadisticas Agropecuarias, 1950.

These protective measures were complemented with the basic legislation outlining the tariff policy effective in 1937 which was to continue almost unchanged through the 1940's and most of the 1950's. Table No.2 shows the level of tariffs imposed to agricultural products in 1937 in an effort to protect domestic agriculture.

TABLE NO.2  
IMPORT DUTIES ON SELECTED AGRICULTURAL COMMODITIES  
IN VENEZUELA, 1937

Commodity	Imports value (thousands of bolivars)	Duties	Ad-valorem (%)
Wheat flour	6,029	9,923	164.6
Rice	2,130	3,651	171.4
Fats	840	1,250	148.8
Fresh fruits	179	496	277.2
Potatoes	625	849	143.8
Cheese	777	858	110.4
Butter	1,109	1,305	117.7

Source: Banco Central de Venezuela. Informe Economico, 1945, p. 137.

At the time these protective measures were developed the nation was not able to provide the basic food requirements of the population. Despite the high level of protection, agricultural imports increased from 1940, largely contributing to rise in the cost of living. Table No. 3

shows that the increase in the price of imported products has predominantly influenced the raising trend of the General Price Index.

However, it was not until 1945 when tariffs on basic foodstuffs were reduced. Increased agricultural imports alleviated food shortages but were ruinous to domestic production. It became apparent that another policy was needed to stimulate production and thus be able to reduce imports without lessening the nutritional requirements of the population.

TABLE NO. 3

VENEZUELA: INDEXES OF WHOLESALE PRICES, 1939-44  
(1937 = 100)

Years	General Index	Domestic Products Index	Imported Products Index
1939	98	101	98
1940	100	101	106
1941	106	102	137
1942	126	104	160
1943	132	116	161
1944	142	124	170

Source: Banco Central de Venezuela. Informe Economico, 1945, p. 73.

Since the Second World War, the Government has felt compelled to exercise an increasing measure of control over agricultural foreign trade. High import duties were levied on items that competed with domestic producers, particularly on food (Table No.4). The imposition of duties on fresh, chilled, or frozen meat were unsuitably low and, on the other hand, duties on tobacco and sugar were excessively high as compared to the respective domestic wholesale prices. This situation has necessitated a complex system of exonerations, import quotas, and prohibitions. Flexible licensing requirements on domestically produced foodstuffs are used by the authorities to limit imports to that proportion of the national market that domestic producers are unable to supply. In many cases domestic price supports for several agricultural products were necessitated to stimulate domestic production and avoid possible food shortages resulting from the imposition of import restrictions and prohibitions.

TABLE NO.4

VENEZUELAN CUSTOM DUTIES FOR A NUMBER OF  
SELECTED COMMODITIES, 1958  
(in bolivars per kilogramo)

Commodity	International Price <sup>a</sup>	Venezuelan Duty <sup>b</sup>	Domestic Wholesale Price <sup>c</sup>
Coconut oil	1.23	4.00	2.00
Milk power	0.75	0.50	2.23
Sugar	0.21	16.00	0.90
Corn	0.19	1.20	0.36
Rice	0.40	0.23	0.98
Cotton lint	0.95	2.00	3.70
Fresh, chilled or frozen meat	1.80	0.001	3.13
Tobacco	5.00	24.00	6.00
Copra	0.86	0.80	0.90
Sesame	0.75	1.20	1.15

Source: a) Calculated from FAO Monthly Bulletin of Agricultural Statistics, January 1960, and FAO Yearbook of Production, 1958.  
b) Jaceta Oficial de Venezuela, Decree No.406, November 5, 1958.  
c) Ministerio de Agricultura y Cria, Boletin de Precios de Productos Agropecuarios, 1958.

AGRICULTURAL PRICE AND TRADE POLICY  
1950-1966

Policy Goals for Venezuelan Agriculture.

Until commercial production of petroleum was initiated in 1920, Venezuela was primarily an agricultural country which received the bulk of its foreign exchange income from the exportation of cattle, hides and skins, cocoa and coffee. This traditional economic base had the primary dynamic push from the current of foreign capital investment in oil exploitation, which occurred after the second decade of the present century. However, agriculture has not fully responded to the stimulus of internal demand for its products and the condition of low productivity has prevented, with a few exceptions, its contribution to the international markets.

Venezuela's agricultural situation is in fact a chronic limitation that keeps general economic development from proceeding at an even more rapid rate. Based on the extreme importance that the agricultural sector deserves, the goals of the nation's present agricultural efforts are (1) to increase production so as to meet the food needs of the rapidly-growing population and to incorporate a large mass of the rural people into the mainstream of Venezuela's economic and social life and (2) to increase the production

of agricultural commodities, others than coffee and cacao to permit their export to achieve economic diversification, create employment, and generate income, thus reducing the country's exaggerated dependence upon oil.

To achieve these goals the Government plays an important positive role enacting numerous programs which include import protection, support prices, subsidies, and production credits. A beginning has been made on an aggressive Agrarian Reform Law, enacted in 1960, that involves distribution of land, protection of property rights, and expanded programs for research, education, and extension. Another significant area includes the improvement of agricultural marketing and price and market control activities along with the trade policies needed to make them effective.

While the current Government incentives to the agricultural sector embrace the numerous programs mentioned before, this discussion is limited only to the specific aspects of price and trade. It should be emphasized that they constitute only a part of the means employed by Government to reach the basic goals.

Despite the dynamism which has characterized the Venezuelan economy through time, these basic goals have remained unchanged. The pattern of foreign trade tells a good deal about the factors leading to the conception of such goals. From the 16th to the 19th century cacao was the only significant export product. At the end of the 19th century and during the first quarter of the 20th century

coffee constituted the chief export. Since 1926 the first place has been occupied by oil exports, coffee was relegated to the second place and cacao to the third place up to 1955 when cacao was displaced by iron ore exports (see Table No.5)

TABLE NO.5

VENEZUELA: MAJOR EXPORTS, 1910-1960  
(in percentages of the total)

Years	Coffee and Cacao	Petroleum	Iron	Others	Total
1910	78	-	-	22	100
1920	92	2	-	6	100
1930	15	83	-	2	100
1940	4	94	-	2	100
1950	3	96	-	1	100
1960	2	90	6	2	100

Source: Direccion General de Estadistica, Anuario y Boletines Mensuales.

Three fundamental observations can be derived from this table: (1) Exports have been, and continue to be, of primary products; (2) only one product has accounted for more than 80 percent during the past 50 years; and (3) importance has shifted from agricultural products to mineral products. With the great dependence upon oil as an exchange earner and the increasing need for basic foodstuffs and agricultural raw materials, there is a strong desire to diversify and increase exports and replace imports with



domestic production. Both can be facilitated by achieving agricultural goals.

### Price Policy and Market Control

In addition to foreign exchange control, the Government is also engaged in price support operations for various agricultural commodities produced domestically. Agricultural trade generally is in private hands. However, the Government's Banco Agrícola y Pecuário (BAP) has a monopoly in the importation of corn, rice, and potatoes for seed and consumption. In times of scarce supply BAP also imports other food commodities. Government activities with respect to major products from 1958 are briefly summarized as follows:

Corn: BAP purchases at price set by the Ministry of Agriculture and BAP and conduct sales.

BAP operates dryers and silos.

BAP makes crop loans.

Imports prohibited, except for BAP imports to meet shortages.

Rice: BAP purchases paddy.

BAP operates dryers and mills.

BAP makes crop loans.

BAP imports to meet shortages.

Cotton: BAP purchases seed cotton.

Ministry of Fomento fixes price for lint cotton.

BAP operates one gin.

Imports subjected to Ministry of Fomento license.

Potatoes: BAP imports and distributes seed.

BAP imports to meet shortages.

BAP operates cold storage facilities.

Sisal: BAP purchases.

Prohibitive tariff.

Onions: BAP purchases.

BAP operates cold storage.

Imports licensed.

Coffee: BAP can purchase

BAP and Ministry of Agriculture development loans.

Differential exchange rate.

Imports prohibited.

Cacao: BAP can purchase.

BAP-MAC development loans.

Differential exchange rate.

Imports subject to prohibitive tariff.

Sugar: Price fixed by Mac and Ministry of Fomento.

Governmental sugar factories.

Prohibitive tariffs, Government imports to meet shortages.

Sesame: Prohibitive tariff.

Imports free of duty licensed.

Milk: Subsidy.

Duty exoneration on imports and compulsory purchase of domestic powdered milk.

The development of the price support program is apparently associated with particular emergencies during the outbreak of World War II. Coffee supports were started as a result of the wartime and post-war shortages. There seems to be no clear criteria to be used for support levels and methods of operations. There is no special financing for price support operations and hence BAP uses some of its general funds for this purpose although they were originally intended for credit purposes.<sup>1</sup> While there seems to be general agreement that support prices should cover the cost of production, it is not clear how such costs are determined, or what methods of production are assumed.

If domestic output of a commodity falls short of domestic demand and imports of that commodity are subject to tariffs or import controls, it is possible to maintain a given level of price for that commodity by adjusting the level of the tariff and/or the volume of imports. This is the simplest method of price supports and requires no investment in facilities and staff for domestic purchase and sale. In fact, the existing tariff walls and restrictions have been the principal support for all agricultural commodities. BAP nevertheless purchases a number of commodities, the reason for which varies with the crop and

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<sup>1</sup>Ministerio de Hacienda, Direccion General del Presupuesto, Organismos Autonomos, 1966, p.32.

circumstances. In the case of rice, for example, BAP controls most of the drying and milling facilities and hence farmers sell to BAP. The Bank's control of dryers and silos probably also plays an important role in its purchases of corn. Another factor of control is the accessibility to the market. Where BAP has purchasing points in isolated areas, farmers have little alternative but to sell to BAP, since private buyers would not be able to absorb the costs of transporting the grain to the central markets.

It seems clear that BAP has helped farmers in isolated areas. Furthermore, the Bank has largely contributed to reduce seasonal price movements and has favorably affected the price received by farmers for most agricultural commodities. Table No.6 reveals these assertions.

One of the major limiting factors of BAP's price and market control has been the inadequate storage facilities. In 1960, the country had Government-owned storage capacity equal to 153,803 metric tons for corn, beans, rice, etc. Of this storage space, only 39 percent was in mechanized elevators or tanks, 7 percent in metal tanks where produce is handled manually, and 54 percent in concrete warehouses and other space suitable for grain. The greater proportion of total storage available in 1960 consisted of outmoded installations.

Some progress was made in 1962 with the organization of "Almacenes de Depositos Agropecuarios, C.A." (ADAGRO) by BAP and the "Corporacion Venezolana de Fomento".

TABLE NO. 6

PRICES AT THE FARM LEVEL FOR A NUMBER OF  
SELECTED COMMODITIES VENEZUELA 1962-1966)  
(Bs/Kg)

Commodity	1962	1963	1964	1965	1966
Rice	0.61	0.60	0.61	0.60	0.58
Corn	0.28	0.32	0.39	0.38	0.35
Blackbeans	0.93	1.01	1.18	1.09	1.13
Potatoes	0.45	0.58	0.61	0.52	0.60
Sesame	1.09	1.19	1.12	1.10	1.06
Cotton	1.23	1.18	1.18	1.20	1.22
Sisal	0.83	0.83	0.84	1.02	0.94
Onions	0.58	0.59	0.34	0.47	0.46
Coffee	3.13	2.83	3.70	3.86	3.52
Cacao	2.92	2.76	2.82	2.63	2.67
Milk (Bs/liter)					
	0.93	0.94	0.94	1.15	1.08

Source: Ministerio de Agricultura y Cria, Anuario Estadístico Agropecuario, 1966.

ADAGRO provides refrigerated and cold storage space for fish and all types of agricultural produce.

Marketing rules for raw materials of agricultural origin are established by the "Comision Venezolana de Normas Industriales" (COVENIN) which was created in 1958 by both private and public activities under the auspices of the Ministry of Development.

### Retail Price Control

The system of retail price control is another feature of Government price policy. To prevent speculation and maintain retail prices at reasonable levels, the Venezuelan Government established a price control program in 1961.<sup>1</sup> Food items with established maximum prices include meat, ham, milk, cheese, eggs, sesame, oil, fats, rice, lima beans, blackbeans, corn, potatoes, plattains, sugar, salt, wheat flour, and coffee. Ceiling prices were to be those established in 1961 but since that time some prices have been adjusted upward.<sup>2</sup>

This control system is difficult to enforce in practice. Widespread evasion is common and prices of most of these commodities are frequently above the established maximum. However, for some products, such as sesame oil, the program has been more rigidly enforced and prices have been held at the Government ceiling. It is important to observe that the enormous progress of sesame oil production is largely due to the stabilization of the market achieved through agreements between producers and processors.

An interesting fact related to retail market control in 1964 is given by the Resolution of the Ministry of Fomento through which ". . . no type of retail store may

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<sup>1</sup>Gaceta Oficial de Venezuela No.26,569, June 3, 1961.

<sup>2</sup>Gaceta Oficial de Venezuela No.26,580, June 15,1964.

sell sugar, cereals, and salt in sophisticated packages if they do not offer the same commodity in bulk." This resolution is a consequence of the use of packaged goods as a speculative instrument; that is, raising the price of the product well above the cost of the package and not in accordance with its real value.

### Venezuelan Foreign Trade Policy.

Important considerations guiding Venezuela's foreign policy include encouraging agricultural exports, reducing imports, and maintaining low prices for basic foodstuffs. Implementing mechanisms which are used by the Government to achieve its important policy objectives include tariff duties, import licenses, import prohibitions, and export subsidies.

Tariffs, based on specific duties are comparatively low and have not been, in general, a major instrument in the regulation of agricultural imports. Purebred animals are admitted free; exceptions from the general rule of low tariffs are shown in Table No.7, p.

Quantitative restrictions in the form of licenses are required for the importation of most agricultural products, although some commodities such as live animals, some fresh fruits, and animal feedstuffs other than grain may be imported without a license. Restrictions have been applied by refusing to grant licenses for certain products,<sup>1</sup> such as

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<sup>1</sup>Banco Central de Venezuela, Informe Economico, 1963. pp. 137-141.

processed pork, butter, and cheese, and by establishing import quotas for other commodities.

Imports of dried milk, black beans, cheese, copra, hogs, and pork products are further restricted by tie-in sales requirements. Imports of these commodities may be exempt from normal duties when stipulated quantities of domestic commodities have been purchased in advance.<sup>2</sup> Exchange controls are used to encourage imports of dried milk and wheat grain, both of which are allowed entry under license at an exchange rate of 3.33 bolivars per U.S. dollar. Most other products are subject to the free rate, currently 4.5 bolivars per U.S. dollar.

Coffee and cacao make up more than 90 percent of all agricultural exports. In an effort to maintain their exportation, subsidies are paid on these commodities whenever world prices fall below a level set by the Government. Low-grade cacao exports receive most of the subsidy as the better cacao varieties and most of the coffee exports command good prices in the world market. The Ministry of Agriculture helps producers to establish export organizations.

At present, Government is highly interested in increasing production of tobacco, fruits and other tropical products, and certain seasonal crops, such as melons and

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<sup>2</sup>Decree No.255, March 18, 1961.



tomatoes, in an effort to develop export markets for these products.<sup>1</sup>

#### Bilateral Trade Agreements

Venezuela has most-favored-nation trade agreements with the United States, Canada, Great Britain, France, the Netherlands, Belgium, Italy, Spain, Bolivia and El Salvador. Under a reciprocal agreement, special tariff concessions have been granted on many U.S. agricultural products such as prepared milk, wheat flour, bacon, hams, chick peas, lentils, lima beans, dried peas, barley malt, and hops. Many of these items are subject to prior licensing created to the end of assuring the domestic market for local production and to promote production of some essential agricultural products:<sup>2</sup>

Reduced or bound duties on a limited list of agricultural imports were established by the U.S. Supplementary Trade Agreement of August 18, 1962. With the exceptions of the preferential rates of duty granted to those items included in the bilateral agreements, duties apply equally on imports from all nations.

#### Exchange Controls

Throughout the postwar period up until 1960, Venezuela's restrictions on international transactions were

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<sup>1</sup>Oficina Central de Coordinacion y Planificacion, El Plan de La Nacion, 1965-1968.

<sup>2</sup>Banco Central de Venezuela, Informe Economico, 1963, p.139.

characterized by a minimum of controls. Special exchange rates affected the local currency requirements of the petroleum companies and the proceeds derived from coffee and cacao exports, and Government purchases, but all other transactions were carried out on a free exchange market. Throughout the period, the bolivar displayed considerable stability in the free market standing at 3.35 bolivars to the U.S. dollar.

However, due to the balance-of-payments difficulties further exchange restrictions were imposed on November 8, 1960. The rate of Bs3.35 per U.S. dollar was designated as an "official rate" of exchange and only certain specified payments, including basic agricultural items, could be effected at this rate. Other payments not so designated were effected in the free market. Difficulties were encountered in the administration of the new system and as a result the exchange control system was revamped by Decree No.480 of March 17, 1961, which was subsequently modified by Decree No. 492 of April 6, 1961, and Decree No. 724 of April 2, 1962.

Decrees 1159 and 1160 of January 18, 1964, established a new uniform rate of exchange for imports of 4.50 bolivares equal to U.S. \$1 to replace the rates previously in effect. While the importer must pay the new rate of 4.5 bolivars to the dollar, the Central Bank will pay a subsidy of 1.15 bolivars per dollar's worth of imported merchandise on imports on a list of specified items which

includes whole or powdered milk, dietary or medicinal milks, unmilled wheat and spelt, dried beans, black beans, peas, fish meal and some non-agricultural products. This means that, in effect, importers who receive the subsidy actually have obtained dollars at the rate of 3.35 bolivares to the dollar.

This modification of the exchange system is the basis for the existing licensing and exchange control system of Venezuela. The net effect of these subsidies to exporters has been the maintenance of relatively low prices on basic commodities which would otherwise carry prohibitive prices for the bulk of the population. Unlike some other developing countries, inflation has not been a serious problem in Venezuela. A 1966 Pan American Union study shows the 1965 Venezuela (Caracas) cost-of-living index as 113, with 1955 used as the base year of 100.

This slight currency depreciation has not been a major force to stimulate exports. Under present Government plans, the drive for agricultural self-sufficiency and additional exports is to be continued with the current projection estimating a 15.3 percent increase in agricultural exports and a 7.6 percent drop in such imports by 1968.<sup>1</sup>

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<sup>1</sup>Oficina Central de Coordinacion y Planificacion, El Plan de la Nacion, 1965-1968.

### The Present Tariffs System

Venezuelan protective tariffs have been predominantly used as an instrument of fiscal policy, that is, they were originally designed for revenue purposes. Only during the past fifteen or twenty years they began to be used to protect domestic agriculture and industry. It cannot be assured that even today tariffs are adequate either from the fiscal or protective standpoints. Tariffs, based on specified duties are comparatively low and generally have not been a major instrument in the regulation of agricultural imports, as previously mentioned. In the past 20 years, tariff restrictions of quantitative nature have been increasingly used.

The present system of tariff protection seems to bear little relationship with the price of the item. The imposition of duties which are either excessively high or unsuitably low has necessitated a complex system of exonerations, import quotas and prohibitions (Table No.7). For example, the tariff on fresh meat is relatively low, but commercial meat imports have been prohibited, although BAP has sometimes temporarily imported to relieve specific shortages. On the other hand, duties on tobacco have been prohibitive, but special exonerations are often arranged so that local industry may be supplied with raw materials. In view of the poor data generally available on production and consumption, it is extremely difficult for Government to make

advance estimates of the levels of imports to be permitted. Consequently, industries utilizing agricultural raw materials and which are concerned with special exemptions must allow for the surpluses or deficits which would result if the Government guesses wrongly. Furthermore, a system of licensing makes discriminatory treatment among producers possible.

TABLE NO. 7

VENEZUELA: TARIFFS AND PRICES (F.O.B.) FOR A NUMBER OF SELECTED COMMODITIES, 1966

Commodity	Imports <sup>b</sup> (metric tons)	Imports (miles of Bs)	Duty <sup>a</sup> (Bs/Kg)	Price F.O.B. <sup>c</sup> per Kilogram
Fresh, chilled or frozen meat	55,067	276,436	0.001	5.02
Dried and evaporated milk	15,709	50,801	0.50	3.23
Wheat	541,867	165,261	0.02	0.30
Malt	45,315	26,735	0.16	0.59
Beans	32,797	27,750	0.30	0.84
Edible oils	12,389	18,649	4.0	1.50
Butter	2	10	2.20	5.00
Fruit pulp	26,122	30,055	2.0	1.15
Tobacco	85	903	20.0	10.62

Source: <sup>a</sup>Jaceta Oficial de Venezuela, Decree No. 406, November 5, 1958.

<sup>b</sup>Ministerio de Fomento, Memorios, 1966.

<sup>c</sup>Total imports value divided by total quantity imported.

Because of these reasons, the present system of protective tariffs should be revised and simplified to provide a more uniform level of protection based on current prices and expectations. Less reliance on import licensing would accomplish the same results and would widen the area for market adjustments to changing supply and demand conditions.

### Some Comparisons Between Expectations and Achievements

#### Macroeconomic Aspects

In the aggregate, the absolute values of GNP are slightly lower than those programmed for the period 1960-1966. It was expected a growth rate of 9.0 percent in 1964 and of 7.7 percent in 1965 while the results show growth rates of 6.0 and 8.0 percent respectively for the mentioned years. The product per capita shows a similar trend, shifting from 3,567 bolivars (\$794) in 1964 to 3,742 bolivars (\$831) in 1965, with interannual rates of growth of 2.7 percent and 4.9 percent respectively.

One of the fundamental objectives of the National Government for the same period was to relieve the problem of unemployment. In this respect, it was accorded to reach in 1964 and 1965 unemployment rates of 11.4 and 9.7 percent as compared with the existing rate of 14.0 percent. Statistical data show that the figures for those years were 12.7 percent and 10.5 percent, which were fairly above the expected figures.

### The Agricultural Sector

Agricultural production was expected to grow at an annual average rate of 8.4 during the 1960-1966 period. It rose at an average annual rate of 6-7 percent, as compared to 4-5 percent in the 1950's (see Table No.8). The current National projects that total agricultural production will average a 7.2 percent annual increase over the 1965-1968 period.

Despite expectations were not exactly matched with reality, the steady increase in agricultural production has enabled Venezuela to make substantial progress in its basic goals of realizing self-sufficiency in agricultural production (see Table No. 9). Imports of sugar, potatoes, eggs, rice, tobacco, and most dairy products have been replaced by rising local production. Rapidly increasing local demand of corn, wheat, oil seeds, and cotton, however, have outstripped the availability of local supplies, thus necessitating the continuation of imports (Table No. 10).

The growth in the production of commodities associated with animal husbandry has been considerable in recent years, with domestic supplies in many items now sufficient to meet local consumption demands.

Cattle raising has long been a major livestock activity in Venezuela. Due to extensive development programs begun in the mid-1950's, the number of cattle has almost doubled during the 1957-1966 period.

Similar progress has been made in expanding local pork production. The result has been that, while previously a large percentage of pork products were imported, the hog population has now reached sufficient size to supply the local market.

Poultry production has made striking progress, increasing four-fold since 1957, and presently meets the local domestic demand.

While the production of lamb has not risen during this period, it is not a major local food item.

Egg production is presently sufficient to meet local consumption, with imports limited to a small amount of fertilized eggs.

Despite the considerable increase in local milk production, increased local demand necessitated the importation of 504.3 million liters in 1966.



TABLE NO. 8

EXPECTED INTERANNUAL RATES OF  
GROWTH FOR THE VENEZUELAN AGRICULTURAL SECTOR  
DURING THE PERIOD 1960-1965

	<u>Planned</u>	<u>Reached</u>
<u>TOTAL</u>	<u>8.4</u>	<u>6.5</u>
a) Cereals	9.0	7.0
b) Leguminous plants	13.2	4.0
c) Roots and tubers	9.0	10.8
d) Textile fiber and oleagenous seeds	12.0	10.6
e) Fruits and pot herbs	7.3	6.6
f) Coffee, cacao and others	8.1	-1.0
Livestock	4.1	6.7
Dairy Products	5.7	6.5

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Source: Oficina Central de Coordinacion y Planificacion,  
El Plan de La Nacion, 1963-1965. Anuario  
Estadistico Agropecuario, 1966.

- a) Includes: rice, wheat and corn.
- b) Includes: Chick peas, blackbeans, kidney beans, and pigeon peas.
- c) Includes: Celery, sweet potatoes, yam, taro, cassaya, and potatoes.
- d) Includes: Sesame, cotton (raw), copra, peanuts (in shell) and sisal (fiber).
- e) Includes: bananas, plantains, other fruits, onions, tomatoes.
- f) Includes: Coffee, cacao, sugar cane, and tobacco (leaf).

TABLE NO. 9

VENEZUELA: AGRICULTURAL AND LIVESTOCK PRODUCTION  
INDEXES FOR A NUMBER OF SELECTED  
COMMODITIES; SELECTED YEARS 1959-1966  
(1957 = 100)

Commodity	1959	1960	1962	1964	1966
Rice	177	331	371	602	918
Cotton	120	209	240	227	294
Sisal	94	145	122	169	194
Sugarcane	90	109	118	117	137
Sesame	155	127	118	147	257
Corn	98	129	123	127	153
Cacao	84	89	75	101	106
Potatoes	87	126	70	105	128
Coffee	119	116	105	119	106
Onions	140	113	101	130	137
Blackbeans	97	112	70	54	54
Wheat	60	38	57	51	61
Milk	119	134	139	163	196
Eggs	191	220	318	264	530
Cattle	110	111	110	162	183
Pigs	101	114	113	124	135
Goats	100	100	101	101	101
Sheep	99	99	99	98	98
Poultry	177	188	333	422	423

Source: Ministerio de Agricultura y Cria and Banco  
Agricola y Pecuario, Boletines, 1957 and 1966.

TABLE NO. 10

VENEZUELAN AGRICULTURAL IMPORTS FOR A NUMBER  
OF SELECTED COMMODITIES, SELECTED YEARS 1950-1966  
(IN METRIC TONS)

Commodity	1950	1960	1963	1966
Wheat	1,161	308,903	356,952	543,755
Copra	21,724	46,530	38,760	49,446
Corn	17,659	253	218	21,382
Powdered Milk	30,087	45,750	39,795	15,709
Oats	12,105	16,316	16,194	14,227
Potatoes (seed)	42,482	16,260	9,767	12,997
Oil Seeds	5,513	662	9,780	12,389
Cotton	2,815	1,048	5,810	6,146
Barley	256	7,236	857	432
Specialty Cheese	3,558	8,926	5,629	282
Tobacco	141	1,228	268	85
Sugar	39,188	4,875	334	25
Cattle	-	3,028	6	6
Butter	3,844	8	9	2
Rice	28,540	38,534	1,661	-

Source: Ministerio de Agricultura y Cria; Anuario Estadístico Agropecuario, 1966.

Rice Policy and its consequences

Minimum prices are granted to producers and imports are limited, thus stimulating rice production which has rapidly increased under Government programs, reaching a high level in 1954, decreasing to a low point in 1957, then increasing steadily to an all-time high in 1965 and 1966.

(Table 11)

Rice imports have generally fluctuated conversely with production because they tend to compensate for shortages of domestic production. The high level of production since 1965 has completely eliminated imports. Such a growth in rice production has been largely due to the positive effect of Government policies. The present price support, which is substantially above recent average import costs, has made rice production extremely profitable. BAP continues to apply the support price to help the less favored producers. Retail prices have been decreasing since 1961.

To the extent that there exists large surpluses, they are being exported since 1965 on a subsidized basis in view of long-term prospects for exporting on a competitive basis. Rice production continues to be supported at minimum prices of Bs. 0.60 per kilogram (class A), Bs. 0.55 per kilogram (class B), and Bs. 0.50 per kilogram (class C).

TABLE NO. 11

VENEZUELA: PRODUCTION, IMPORTS, EXPORTS, MINIMUM PRICES,  
AND RETAIL PRICES OF RICE, 1955-66

Years	Production (M.T.)	Imports (M.T.)	Exports (M.T.)	Minimum Prices (Bs/Kg)	Retail Prices (Bs/Kg)
1955	62,000	10	-	-	1.23
1956	48,554	20	-	-	1.23
1957	29,759	3	-	-	1.27
1958	11,539	37,882	-	-	1.52
1959	28,473	36,600	-	-	1.97
1960	41,882	38,534	-	0.60	1.71
1961	58,450	14,359	-	0.60	1.90
1962	68,999	3,798	-	0.60	1.80
1963	73,699	1,661	-	0.60	1.80
1964	90,721	179	-	0.60	1.77
1965	199,000	-	20,000	0.60	1.77
1966	210,000	-	49,913	0.60	.75

Source: Ministerio de Agricultura y Cria, Anuario  
Estadistico Agropecuario, 1966.

Dairy Industry Policy and its Consequences

Milk production is reported to have increased from 226 million liters in 1952 to almost 674 million liters in 1966. With the high-income elasticity of demand for milk and prospects of continued high rates of population growth, imports have been required; 38,033 metric tons were imported in 1965 and sharply reduced to 15,709 metric tons in 1966. However, imports have fluctuated widely through time. This has been the basic reasoning for the present policy of protection and subsidies for the dairy industry. This policy has been fairly successful but the costs have been high. Subsidies for the dairy industry currently amount to Bs.40 million annually.

The Government has also helped the industry through low interest loans and subsidized services particularly in connection with disease control.

Including a subsidy of Bs.0.10-0.16 per liter, the farmer receives Bs.0.60 - 0.85 per liter for milk delivered to the processing plant. This price has been sufficiently high to permit a rapid increase in dairy production despite low yields and high feed costs.

In the case of fluid milk, the purchasers are the higher income groups and sufficient importance is placed on freshness and quality to provide a market at high prices. To the extent that incomes increase, low income families now using powdered milk can be expected to shift to fluid

milk and families now unable to consume any milk will begin using powdered milk. Hence, demand for milk can be expected to increase if current trends of economic growth and broader distribution of income continue.

Prospects for meeting the demand for powdered milk at reasonable prices are not good. Imported supplies are available at every low prices since foreign manufacturers pay prices substantially below fluid milk prices for milk to be processed. At present, the high cost Venezuelan product must be purchased by importers in order to import foreign powdered milk. The prices of the imported and domestic products are pooled and the consumer pays a much higher price than necessary if the total supply were imported.

The domestic price for powdered milk in Venezuela has been fixed sufficiently high (Bs. 3.06 per pound in 1966) to cover the high cost of the domestically-produced powdered milk and hence imposes a heavy burden on the low-income consumer who buys the powdered product (see Table No. 12).

It should be observed also that while fluid milk prices have been fairly stable during the sixties, prices for powdered milk have shown a marked trend upwards.

TABLE NO. 12

AVERAGE RETAIL PRICES FOR MILK IN  
VENEZUELA, 1958-1966

	<u>Fluid Milk</u> (Bs. per liter)	<u>Powdered Milk</u> (Bs. per pound)
1958	1.02	2.23
1959	1.03	2.01
1960	1.03	2.00
1961	1.03	2.03
1962	1.03	2.11
1963	1.04	2.28
1964	1.04	2.33
1965	1.03	2.58
1966	1.24	3.06

Source: Ministerio de Agricultura y Cria, Division General de Estadistica y Censos Nacionales, Boletines Anuales de Estadisticas Agropecuarias.



EXPECTED AGRICULTURAL PRICE AND TRADE POLICY  
IN VENEZUELA

Attempting to determine the nature of future economic policy is always hazardous but the complexities are even greater for Venezuela, with its tumultuous history, its many paradoxes and contradictions, and its economy based almost entirely on a single commodity. I do not attempt to make such a forecast. However, there are certain observations I wish to make.

The importance of the long-term prospects of petroleum and its influence on the Venezuelan balance of payments can not be neglected when attempting to predict the future price and trade policies regarding agriculture in Venezuela. This can be best demonstrated by making some assumptions about petroleum for the next years and examining the implications of such assumptions in terms of the contribution that would be required from the agricultural sector to achieve the Government goals.

In recent years Venezuela registered successive balance of payment surpluses. However, since 1963 the balance of payments situation progressively declined (see Table 13).

The successive reductions in the level of the surplus after 1963 have been occasioned by the subsequent

limited growth in export earnings; the growth of import demand; significant increases in petroleum industry service payments; and the decrease in net private capital inflows, especially in the petroleum sector.

The value of Venezuelan exports has increased at an average rate of approximately 3% annually in recent years, while imports grew 14% in 1964 and 8% in 1965. Neither petroleum nor any other major exports (iron ore, coffee, diamonds) have exhibited a pronounced increase in export sales. Also, the average price of petroleum and petroleum products has declined, thus, in part, offsetting the increase in the volume of exports. (In 1965, petroleum and petroleum products exports were 6 percent above the 1963 volume, but 2.5 percent lower in terms of value.)

In addition, service payments by the petroleum industry rose considerably in 1964 and 1965. The combination of these factors was reflected by the decreases in the current account surplus from the 1961-1963 annual average of \$400 million to approximately \$197 million in 1964 and \$35 million in 1965.

The private capital account surplus also declined from \$460 million in 1962 to approximately \$20 million in 1965. A major factor in this decline has been the continued decrease in the petroleum sector investment.

TABLE NO.13

VENEZUELA: BALANCE OF PAYMENTS, 1962-64  
(million of U.S. dollars)

Categories	1962	1963	1964
Goods and services			
Exports (FOB)	2,543.4	2,465.3	2,481
Imports (FOB)	1,178.5	1,047.1	1,214
Trade balance	1,364.9	1,418.2	1,267
Nonmonetary gold	- 6.4	- 19.2	- 5
Freight and insurance (net)	- 145.9	- 131.2	- 163
Investment and income (net)	- 631.6	- 608.1	- 653
Travel (net)	- 67.1	- 67.9	- 72
Other services (net)	- 63.3	- 50.9	- 84
Net goods and services	450.6	540.9	291
Transfer payments			
Private	- 81.6	- 80.5	- 81
Central Government	1.6	3.0	3
Net transfer payments	- 80.0	- 77.5	- 78
Capital and monetary gold			
Nonmonetary sectors			
Private long-term	- 401.9	- 156.8	- 41
Private short-term	- 49.4	- 84.9	38
Government	- 89.8	- 111.4	- 22
Monetary sectors			
Private	7.4	7.3	- 10
Central Institutions	- 4.2	- 162.7	- 85
Net errors and omissions	167.3	45.1	- 93

Source: International Monetary Fund, 1965.

It should also be noted that proven reserves of petroleum in 1965 were estimated at approximately 17.4 billion barrels in 1965, up from 17.2 billion barrels in 1964. At current rates of consumption, this is equivalent to about a 14 years supply. The current National Plan projects an 8.1 percent increase in proven reserves by 1968. Such an increase in reserves would leave over a 15 years supply after 1968, if the average annual 4.1 percent growth in production for the 1965-1968 projected in the National Plan is realized. The Government's petroleum policy emphasizes that petroleum is a non-replenishable asset and that current revenues must be utilized to create new sources of wealth, thus reducing the country's dependence on the petroleum industry.

One thing is clear: the uncertainty of the long-term oil outlook. If not for other reasons, Venezuela is going to place less reliance than in the past on the petroleum sector as the primary source of growth in the economy. While there would appear to be no great danger that the contribution of oil to the economy will go down drastically in the years immediately ahead, it would be imprudent for policy purposes to assume a continued rapid growth for an indefinite period. Accordingly, Government may be expected to continue reduction of dependence on the petroleum sector. The other commodity producing sectors,

particularly manufacturing and agriculture, have reached a stage in their development where they can now provide part of the stimulus to growth previously provided by the petroleum sector. The demand for agricultural products, which is usually considered to be less sensitive to income than that for industrial products, may grow at a faster rate than income alone would suggest because of the prospects for import substitution. On the supply side, support to the growth already under way can be expected in the commercial sector of agriculture. The existence of commercial agriculture and cattle raising shows that Government goals may be attained by sustaining and expanding the programs already under way.

Although the present system of protective tariffs has not been a major instrument to control agricultural imports and support prices have not been fully efficient, their contribution can be conceived in terms of useful complementary aid to the complex of programs enacted by the Government to reach its goals. It should be recognized that Venezuela has certain natural disadvantages in the production of some commodities, wheat and barley are examples, and advantages in others. Imports of wheat, oats, copra, and barley accounted with more than 60 percent of total agricultural imports in 1966. This reveals the fact that a policy of self-sufficiency at any cost should not be expected because the Government is highly

interested in improving the nutritional welfare of the population. There is however plenty of scope for expanding production of those commodities for which the country has no natural disadvantages.

In view of these possibilities, it seems highly probable that future price and trade policies will be similar to those existing in the present. Present protective devices and high price supports are likely to be continued for those commodities feasible to be produced domestically.

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## COMMON UNITS OF MEASUREMENT IN VENEZUELA

### Measures of Land Area:

1 Hectare = 2.47109 Acres

1 Square Kilometer = 0.3861 square miles

1 Square Kilometer = 100 Hectars

### Measures of Yield:

100 Kilograms per hectare = 1.4869 bushels per acre

1 Liter = 0.26418 gallons

1 Hectoliter = 100 liters

### Measures of Weight:

1 Kilogram = 2.20462 pounds

1 Metric ton = 1,000 kilograms or 21.739 Spanish quintals

1 Spanish quintal = 0.046 metric tons

### Measures of Distance:

1 Meter = 3.28 feet or 100 cm.

1 Kilometer = 0.621 miles or 1,000 meters