

I. VENEZUELA AND THE CHANGING NATURE OF ITS PETROLEUM INDUSTRY

Venezuela, which is predominately an oil economy, has undergone enormous changes since 1989, many of which are having a profound impact on the way business is conducted. Like many other countries, Venezuela has undergone a major transformation as a result of the general liberalization of its economy. After many years of nationalistic and paternalistic government which was characterized by restrictive trade practices, domestic subsidies and closed foreign investment policies, Venezuela is undergoing a dramatic series of economic changes that is also creating some political and social instability in the short run.

Since 1989, the government has taken the following major steps to open up the economy.

- * Joined GATT and implemented a reduction of import tariffs so that now the import taxes range from 5% to 20%.
- * Begun to privatize more than 300 state owned companies in all major sectors.
- * All sectors of the economy, with the exception of petroleum are 100% open to foreign ownership and no longer require prior approval by state regulators. In addition, foreign investors can now enjoy the same benefits and advantages as local investors.
- * Income tax reforms were passed in 1991 with significant positive implications for business.

Petroleum Industry

The importance of oil to Venezuela cannot be understated. In 1991, the industry accounted for 22 % of GDP, 69% of total government revenues, and 81% of total export earnings. Net oil export revenues were \$14.11 billion in 1991, down from 14.351(*) billion earned in 1990.

Venezuela is among the top five oil producing countries in the world with an average daily production of almost 2.5 million barrels per day. Petroleum resources in Venezuela are enormous, with proven reserves of more than 63 billion barrels (more than twice those of the U.S.) and the largest reserves of extra-heavy crude oil in the world. About 30% of Venezuela's proven oil reserves are made up of condensates and light and medium gravity crudes (higher than 22% API) which are processed in

(*) All Figures are in US\$