

# THE VISIBLE HAND OF THE MARKET

## ECONOMIC WARFARE IN VENEZUELA

2003 2004 2005 2006 2007 2008 2009 2010 2011 2012 2013 2014 2015

**PASQUALINA CURCIO CURCIO**

With a foreword by Luis Britto García

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## PUBLISHER'S NOTE

This book is the result of the revision and adaptation of some works published by the author - Chapter One, “Planned Shortage”, is based on a writing, “shortage and inflation”, dated December 20, 2015 and published on the website of the *Instituto de Estudios Avanzados* (IDEA, Spanish acronym for Institute of Advanced Studies). Chapter II, entitled “Induced Inflation”, stems from the work “Manipulation of the exchange rate and induced inflation”, written on April 4, 2016. Chapter III, “Supply Boycott”, is based on an article published on April 21, 2016. Chapter IV, “Covert Trade Embargo”, is based on the paper “Lack of Foreign Exchange or Covert Trade Embargo”, dated May 19, 2016. All these materials were published on the website *15 y Último* (a website specialized in economic analysis and Op’ed columns). Unlike the others, Chapter V, “International Financial Blockade”, remained unpublished until the issue of this book.

After the Final Remarks -the final chapter- the book offers 61 charts displayed at the end of the book for the convenience of the reader. They contain substantial information provided by the author.



“This book by Pasqualina Curcio, *The Visible Hand of the Market - Economic Warfare in Venezuela*, is available at the International Book Fair, which is a token of how culture, knowledge and reading blossom. I recommend this book”.

“I commission the Admiral-in-chief and Ernesto Villegas to have one hundred thousand copies of this book printed, for free distribution to all the CLAPs (Supply and Production Local Committees) for the Christmas season. I request the whole team to produce a set of educational videos about each chapter so that each CLAP can have it.”

“Our people has given a great demonstration of conscience, and here we are: smiling, standing, and ready to continue the battle for our country. We either do it or we do it, because only the revolution can save the people, only the people save the people and I would add that only the revolution saves the homeland.”

*Nicolás Maduro Moros*

PRESIDENT OF THE BOLIVARIAN REPUBLIC OF VENEZUELA

RADIO SHOW N° 3, *La Hora de la Salsa*.



“Now, the most serious challenge that we have to face enthusiastically is the further design of a new hegemony to counteract the neoliberal model that wages an economic warfare against the Bolivarian Revolution. That is the question, comrades, and, in this connection, I want to welcome all the effort made by Pasqualina Curcio. Here you are her book, *the Visible Hand of the Market, the Economic Warfare in Venezuela*. She is adding a new chapter to it: the Financial Warfare (...).

“I ask for support, I ask for the help of Venezuelan intellectuals, thinkers, artists, I ask for the help of the Latin American and Caribbean intellectuals so that they come to support Venezuela in the formulation of the economic response that allows us to give it a thrashing, a beating, a definitive defeat to this economic warfare. Undoubtedly, that would be the greatest victory of the Bolivarian Venezuela, which would broaden the horizons to stabilize this beautiful project that has taken up the banners of Bolivar bequeathed by Commander Chavez. ”

*Nicolás Maduro Moros*

PRESIDENT OF THE BOLIVARIAN REPUBLIC OF VENEZUELA

TV SHOW N° 72, *En Contacto con Maduro (In Touch with Maduro)*





*To Bárbara, Isabella and Sofia, my daughters*



## FOREWORD

### THE ECONOMIC WARFARE AND THE VISIBLE HAND OF THE MARKET

By *Luis Britto Garcia*

#### 1

Clausewitz stated that war is the continuation of politics by other means. We can add that politics is the continuation of the economy by other means. Every war begins as an economic conflict and ends up with financial consequences.

#### 2

There is no need to read the whole World History, recalling a few events suffice – Two World Wars were fought to prevent that the most developed industrial power in Europe may dominate the world through alliances ensuring the human and natural resources of Asia and Africa. The Cold War was a half-century long economic confrontation that ended up breaking the Soviet economy. Ever since 1959, another conflict has unfolded against Cuba: The Blockade. Another one shattered the distribution of goods in Chile and was used as a pretext for an endless neoliberal dictatorship. A blockade precipitated the electoral defeat of the Sandinistas. It is not by chance that the main wars of the last decades have been fought in countries with energy resources or strategic access to such resources.

#### 3

I wonder what was then the lockout called by *Fedecámaras* (Private Business Chamber) and the sabotage perpetrated by the “meritocracy” of Pdvs, which meant for Venezuela a loss

amounting over and above 15 billion dollars and sharp decline in the gross domestic product (GDP)? Was it a coincidence, I wonder, the plunge of fossil fuel prices, caused by the simultaneous entry into the market of Iraq's oil handled by the US, the flood of cheap oil from Saudi allies to the United States and the leap taken by the latter to become the world's top producer of hydrocarbons thanks to disproportionate investments in both highly pollutant shale oil production and conventional oil as well? Or is it an offense to break the non-aligned countries participating in the OPEC, to buy out their oil companies for peanuts and then repay themselves with the world monopoly of hydrocarbons?

#### 4

The art of war, according to SunTzu, is based on deception. The Devil's best strategy is to pretend he does not exist. The best way to win a war is to pretend that there is none. Private media companies, most of them spokespersons in the payroll of corporations, have undertaken a campaign to hide the war we all endure. In order to expose their alibis, we use the data compiled by Pasqualina Curcio Curcio in her overwhelming work: *The Visible Hand of the Market*.

#### 5

Big corporations and their spokespersons lie when they affirm that socialist measures hinder production. Pasqualina Curcio demonstrates that the total GDP has increased 43% from 1999 thru 2015, and that the agricultural GDP increased by 27% from 1999 thru 2014. She also notes that even though the total GDP for year 2015 - when shortage levels amounted to 30% - was 34% higher than in 2004, a year with shortage levels of barely 7%, the

agricultural component of the GDP in 2014 was inexplicably 14% higher than 2004.

## 6

Corporations and their tabloid mentality media deceive when they claim that rights granted to workers have led to lockouts and massive lay-off. However, the unemployment rate shrunk 62.5% between 1999 and 2015, recording 6%, its lowest level ever.

## 7

Corporations and their sycophants lie when they affirm that imports have declined. Yet, the truth is that imports grew 129% from 1999 to 2014; in fact, imports in 2014 were 91% higher than in 2004, when they amounted to 16 billion dollars, while in 2014, they amounted to 31 billion dollars.

## 8

Corporation and their media cheat as they argue that government's delay in granting them preferential dollars hinders the import of food staples. The reality is that in 2014 import of food staples soared to US \$ 7.7 billion, that is 259% higher than in 2004, when it recorded US\$ 2.1 billion. In 2004, 608 million dollars were spent in imported drugs; in 2014 such imports hiked to 2.4 billion dollars, that is, 309%.

## 9

Corporations and their tabloid mentality media insist that the reason for shortage is that the government fails to allocate the coveted preferential dollars. Pasqualina Curcio demonstrates that since the exchange controls were implemented in 2003, the private

sector has received US\$ 338.341 billion for the importation of goods and services (Central Bank of Venezuela, several years). She also points out that in 2004, when there was no shortage; they were allocated US\$ 15.750 billion, whereas in 2013, when commodities were scarce, the allocation of dollars doubled to US\$ 30.859 billion. The allocation of foreign exchange. In 2007 and 2008 hit US\$ 40 billion, respectively.

## 10

Therefore, there is neither decline in production nor lockout of companies or unemployment or failure to allocate preferential dollars. The problem is much simpler: The big importers and producers of basic goods constitute an oligopoly that creates a jam of hoarders and middlemen gridlocking the access of consumers and users to goods subsidized by the state. A foreign invasion or an armed conflict becomes unnecessary – An army of unpunished speculators gradually destroy the socialist project. It is the enemy vanguard that we need to attack and neutralize if we want to survive.

## 11

SunTzu also said: “If you know the enemy and know yourself, you need not fear the result of a hundred battles. If you know yourself but not the enemy, for every victory gained you will also suffer a defeat. If you know neither the enemy nor yourself, you will succumb in every battle.” Hence, let us know the enemy, let us know ourselves, and we shall always win.

*I trust that this pamphlet will help the reader to understand  
the fundamental economic question,  
that of the economic essence of imperialism,  
for unless this is studied, it will be impossible  
to understand and appraise modern war and modern politics.*

V. I. LENIN

Imperialism, the high stage of capitalism





## INTRODUCTION

Adam Smith, recognized by many as the father of Economics, wrote in 1776 that the economic system has its own order governed by the principle of “the invisible hand”. This Principle states that each individual in pursuing his own selfish good is led by an invisible hand that acts over the markets, thus ensuring the achievement of the good of all society <sup>(1)</sup>.

The classical and neoclassical economic theories, based mainly on Smith’s work, state that markets, per se, and due to this invisible hand, achieve economic efficiency. The followers of this school of economic thought consider that the intervention of the State in the economy, for example, through price regulation, production or distribution of goods and services, would lead to distortions and inefficiencies in the economy.

Such theories, like any theory that seeks to explain the complex reality, are based on a big assumption: The existence of a perfect competition in the markets. For a perfect competition to exist, at least the following requirements must be necessarily fulfilled: (1) no producer can represent a portion of the market large enough so as to influence prices in any manner (that is, no monopolies and oligopolies should exist); 2) no barriers should exist hindering access to the market, anyone who wants to venture into a particular business can do it without hindrance; and 3) there should be a perfect availability of full information: all economic agents (consumers and producers) have exactly the

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1 Adam Smith, *Una investigación sobre la naturaleza y causas de la riqueza de las naciones*. Mexico, Fondo de Cultura Económica, 1958. The principle of “the invisible hand” was written by Adam Smith in his work *La teoría de los sentimientos morales* (1759), Mexico, Fund of Economic Culture, 1979, later retaken in 1776 in the worked already mentioned at the beginning of this note.

same information about the goods and services they are buying and selling.

However, these conditions are rarely met in the real life. Consumers have less information than producers. Goods and services production and marketing increasingly depend on a few companies due to the concentration of ownership of the factors of production and the accumulation of large capitals in a few hands, especially goods and services such as food, medicines, transport, even banks, insurance companies and the communications industry<sup>(2)</sup>.

Markets are not perfect. The assumptions that uphold them do not occur in reality; therefore, “the invisible hand” does not ensure the efficiency of the markets, let alone the social well-being. Laying the solutions in the hands of the markets is not the answer either for efficiency or, let alone, for the equal distribution of wealth. Markets fail, and such failures justify the intervention of the State in the economy <sup>(3)</sup>.

There is not actually one single hand controlling the market that is “invisible”. There are, indeed, “visible hands” whose power has allowed them influence individual markets and entire economies, pursuing their own economic and political convenience with the selfishness and natural rapacity that is natural to them<sup>(4)</sup>.

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2 Oxfam. “Una economía al servicio del 1%. Acabar con los privilegios y la concentración del poder para frenar la desigualdad extrema”, [webpage], [https://www.oxfam.org/sites/www.oxfam.org/files/file\\_attachments/bp210-economy-one-percent-tax-havens-180116-es\\_0.pdf](https://www.oxfam.org/sites/www.oxfam.org/files/file_attachments/bp210-economy-one-percent-tax-havens-180116-es_0.pdf). [Consultation date: March 10, 2016].

3 To elaborate on this topic, the reader may consult the economics books, *Fundamentos de economía o Introducción a la economía*, including Samuelson and Nordhaus, 1986; Fischer, Dornbusch and Schmalensee, 1998.

4 The label of selfishness and natural rapacity was taken from the fragment in which Adam Smith refers to “the invisible hand” of markets.

Imperialism, monopolies and large corporations are the visible hand of the markets. They have great power. Those who concentrate the ownership of capital, production and distribution of goods – especially those goods essential for life – have the power to manipulate markets, their prices and their quantities. They can squeak economies out and affect the people through social and political destabilization. They have the power to overthrow democratic governments. They are the strategists of the unconventional warfare.

Venezuela has been subject of strong aggressions since mid-2012. The people has been submitted to an economic warfare. It is an unconventional warfare, without firearms but with powerful massive weapons that effectively distort the economy, thus adversely and indiscriminately affecting all households.

The warfare that Venezuelans are enduring at present is yet another historical example of the power of large capitals. In pursuing their political interest to seize power, wealth, and with the particular intention to impede the realization of models alternative to capitalism and conceal the achievements of such models, large capitals visibly manipulate economic variables, generate social unrest, and undermine popular support to leftist governments. Further, they make people believe that such distortions result from the failure of progressive models.

Purchasing food staples, especially those that are historically and culturally part of the Venezuelan daily diet, involves standing since early and for many hours in long queues. Hygiene products are not available on the shelves where they used to be purchased either. Finding daily-treatment drugs for chronic diseases or even painkillers, antibiotics or fever pills, among others, is an excruciating and most times unsuccessful expedition throughout

the city to check with countless drug-stores. Should the medicine not be available at all, people tend to turn to the black market where they can be found at extremely high prices.

Chileans were forced to stand in such kind of queues during the 1970-1973 socialist government of Salvador Allende; Nicaraguans also stood in lines in the late 1990s during the Government of the Sandinista National Liberation Front. Queues for such purposes were also conspicuous in the Soviet Union in the late 1980s. All such queues magically disappeared once the progressive governments were overthrown.

This imperialist strategy, applied in Chile in 1973 to covertly create the conditions leading to the coup d'état and murder of Salvador Allende, was described as a covert trade embargo by documents declassified thirty years later. It helped overthrow the first democratically elected socialist president in Latin America, superseded by the bloodiest military dictatorship in the history of the continent.

Chileans were forced to stand in long queues to buy staple goods even though Chile's 1970-1973 GDP was above the level recorded since the 1960s. According to ECLAC figures in 1973, in spite of the general and transportation strike the total GDP amounted to 287,750 constant pesos, higher than 277,393 pesos as recorded in 1969. Large companies planned the hoarding of products. Days after of the coup d'état shelves were packed all of a sudden.

The instruction issued by the U.S. President at that time was very clear: To make the Chilean economy scream to finally overthrow Allende.

Issuing such an instruction and actually making an economy scream is a token of the power of imperialism over markets

and governments. It rejects the false assumption that markets operation is perfect and that there is an invisible hand attaining great balances inuring to the benefit of everybody. Indeed, what determines the course of the markets, and therefore, the destiny of nations and peoples at large are powerful visible hands.

The same imperial strategy was deployed to create artificial shortage of food staples and other goods in the Soviet Union since the mid 80s.

According to Valentina Rushnikova,

“One of the main instructions to exacerbate tension in society was the artificial creation of problems related to the supply of consumer goods, primarily food products.... in 1987 the food industry production volume had grown 130%, compared against 1980 indicators. In that same period, the population growth was 6.7% while the average wage in the economy grew on average by 19%. Consequently, the production of food in our country was way ahead of population growth and purchasing power.

All companies in the food industry worked at full capacity, they were ensured with supplies of agricultural inputs and raw materials necessary for their operation and labor force. This means that the development of food industry in no way could have been the cause of scarcity of products in grocery stores.

One single conclusion may be drawn: The shortage was generated in a conscious, artificial manner, but not at the stage of production, but in the realm of distribution. The aim was to create social tension in the country.”<sup>(5)</sup>

In Venezuela, every household has been subject of unconventional warfare aggressions on daily basis, thus affecting

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5 Valentina Rushnikova / Pravda, “La escasez en la USSR se creó de un modo artificial” Josafat S. Comín; Russian traslation, *La Radio del Sur* [web page], <<https://laradiodelsur.com.ve/2011/11/19/la-escasez-en-la-urss-se-creo-de-un-modo-artificial/>>. Original article <[https://kprf.ru/rus\\_soc/99032.html](https://kprf.ru/rus_soc/99032.html)>.

day-to-day life, which speaks for their effectiveness. Women who historically and culturally have had the responsibility of feeding and looking after the other family members, have been the most affected, especially low-income women.

In addition to such aggressions, people in Venezuela have endured episodes of disproportionate and induced increase of prices, of galloping inflation, with repercussions on the purchasing power, especially the working class – over 80% of the country's employed population.

The opposition, particularly the spokespersons of political parties and the bourgeois class elites, with the complicity of large corporations, attribute this situation of scarcity and inflation to the failure of the economic, social and political model enshrined in the Constitution of the Republic, which was passed by a majority in a people's referendum process in 1999.

Such spokespersons argue that the Bolivarian model, characterized by excessive intervention in the markets by the State, the fixing of maximum prices for essential goods, control over the allocation of foreign exchange, and control over the labor market, among other features, have greatly discouraged the private investment. The private sector has closed factories and businesses, for allegedly either not being able to afford the costs of production, or not having the usually high profit levels guaranteed. This has brought about high levels of scarcity in the economy, endless queues to access the goods and escalating prices.

The following pages intend to show what actually happens in Venezuela. The true story. The story that the oppressed people cannot generally tell. We intend to provide evidence of the causes for the situation the Venezuelan people endure. We deem it necessary to leave testimonies and demonstrate -contrasting with

economic theories, data, historical records, statistical calculations, and econometric analysis- that the situation suffered by people in Venezuela at present does not result from the failure of the social, economic and political model that has been democratically and peacefully established with a majority vote since 1999.

State policies are not causing the alleged closure of factories: The lack of foreign exchange has not hindered the supply of raw materials to the companies, and the current shortage of products cannot be attributed to the regulation of prices. Neither, the current monetary policy causes inflation.

The shortages and inflation that affect Venezuelans since mid-2012 do not correspond to the behavior of the real variables of the economy.

The current economic situation Venezuelans are going through result from political actions undertaken by those who want to seize power of a country that has the largest world oil reserve, the second largest gas reserve, and the largest freshwater reserve, gold and coltan in the world. They intend to impede the success of a system other than capitalism.

They are unconventional warfare weapons that, deviously yet massively have hurt the Venezuelan people. The distortion of the economy and the concomitant social unrest, has been a means to achieve political objectives that seek to undermine people's support to the national government, influence the elections and even generate social chaos that eventually overthrow the Government.

They have the support of the large media corporations to make the whole world believe that the Bolivarian model is responsible for the atrocity to which people have been subjected.

These aggressions are not recent; they date back to 1999 when President Chavez took office. Several strategies have been implemented: a coup in April 2002, calls for general strikes; sabotage of the country's main industry, *Petróleos de Venezuela*, and a nation-wide strike called by the business chamber and the mainstream workers union confederation in late 2002. All these actions failed in their attempts to overthrow the president; however, they caused large economic and, above all, social losses to the Venezuelan people.

The aggressions have been steady. Since 2006, the attacks have been covert, but not less harmful. The strategy was changed, thus becoming increasingly intensive since mid-2012 as Hugo Chavez announced his illness.

Among the weapons that have been used against the Venezuelan people are worth mentioning: 1) planned shortage of essentials goods; 2) induced inflation; 3) boycott in the supply of basic goods; 4) covered trade embargo and 5) the international financial blockade.

Those holding the weapons hide their faces. Their tactics go along with media maneuvers aimed at concealing their authorship and convey that the national Government and the failed economic, social and political model are allegedly accountable for the situation. In turn, they hide behind the discourse of the political spokespersons of the opposition, who seem not to have a homeland and a flag, as they act accessorially after such regrettable behavior. They are entrenched in blackmail, manipulation and pretend to be victims. In other cases, they just remain silent.

This unconventional warfare is waged by large transnational corporations with the complicity of national food, medicines



and hygiene products monopolies. The imperialism is the main strategist.

These large transnational corporations are the visible hand of the market, the ones commanding and operating the economic warfare. They own the weapons to boycott the supply of essential goods, to impose trade embargoes, manipulate and induce inflation, and publish rigged country risk ratings. They own the hegemonic mainstream media, whose participation is of paramount importance since they cover up the warfare actions, distract and mislead the people.

As an introduction and just to mention some indicators to show that the current situation in Venezuela is a consequence of the intentional distortion of the economy, we found that the level of production, measured by total GDP, increased 43% from 1999 thru 2015; whereas, the participation of agriculture in the GDP increased by 27% between 1999 and 2014.

The total GDP in 2015, when there was a level of shortage higher than 30%, was 34% higher than in 2004 when there was a scarcity level of 7%, historically the lowest. The participation of agriculture in GDP in 2014 was 14% higher than in 2004.

The unemployment rate fell sharply 62.5% between 1999 and 2015 to 6%, its lowest historical levels. Such behaviour contradicts the supposed closure of private companies that should have resulted in massive layoffs of its workers.

Shortages are not due to falling imports either. Imports have soared by 129% from 1999 to 2014. Imports during 2014 were 91% higher than in 2004. In 2004, imports totalled 16 billion dollars, while in 2014, they were 31 billion dollars.

Food imports in 2014 totalled US\$ 7.7 billion, whereas in 2004 they were US\$ 2.1 billion, 259% higher. In 2014, US\$2.4

billion in drugs were imported, and in 2004 this amount was US\$608 million, an amazing increase of 309%.

The long queues cannot be attributed to the government's failure to allocate foreign exchange to the private imports sector. Private companies in Venezuela, since the exchange control was established in 2003, have received US\$338.341 billion for imports of goods and services<sup>(6)</sup>.

In 2004, a year with a negligible level of shortages, the Government allocated 15.75 billion dollars. Conversely, in 2013, when the main essential items began to become scarce, the amount allocated doubled to US\$30.89 billion. Even in 2007 and 2008 approximately US\$40 billion were allocated. The State delivered such huge amounts to private companies at a preferential exchange rate of 6.30 VEF/US\$, currently at 10.00 VEF/US\$. This policy was adopted, among other reasons, to enable companies to guarantee the supply of goods at controlled prices fixed by the State.

In 2011, when the shortage level reached 13%, the Government allocated US\$4,454.33 million to the food sector; in 2012, when shortage and queuing episodes became apparent, the allocation of foreign exchange totalled US\$4,843.84 million, in 2013 the figure recorded was US\$4,624.10 million and US\$4,133.20 million in 2014.

The state delivered such amounts of foreign exchange to the most renowned private corporations in those sectors – the large international and local processed-food monopolies.

Inflation in Venezuela is not being caused by a successive increase in the aggregate demand with respect to declines in the aggregate supply (as proposed by the economic theory). As shown

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6 Data taken from Central Bank of Venezuela (BCV)

in the preceding paragraphs, there has not been a significant decline in production levels that may explain a fall in supply and the consequent pressure on prices to rise.

Inflation in recent years cannot be understood through the monetarist theory either, because international reserves do not correspond to the amount of money circulating in the economy. Hence, disproportionate variations in domestic prices and inflation are not connected with the two variables mentioned above.

As to its financial condition, Venezuela has promptly honoured all foreign public debt commitments. Since 2013 thru November 2016, Venezuela has paid US\$63.566 billion in debt service. However, the country risk catapulted during that period to one of its highest historic level: 113%. Country risk does not correspond to the financial conditions in Venezuela.

We expect that this work may contribute to understand in a timely manner what happens in Venezuela by showing in detail the mechanisms employed by these large corporations which act jointly with the large local capitals and the local opposition political groups to economically, socially and politically destabilize the countries seeking to move forward with a model of social justice and equality.

This book is based on works I have written since mid-2015. Each chapter deals with one weapon that imperialism has used in the economic warfare waged against Venezuela. They describe the economic situation and analyze in detail the distortion mechanisms of the economy and aggression against the people in Venezuela. At the end of the book I present a set of considerations aiming to warn future situations and systematize proposals to keep countering the serious attacks against the people.

We are aware that the book leaves out many other weapons that are being used against the people, which help understand what is happening in our country, not only in the economic sphere, but also in the psychological and communicational realms –weapons employed in the national security field, for instance.

So far, we have focused on four of the weapons of the economic warfare: 1) planned shortages; 2) induced inflation; 3) boycott in the supply of basic goods; 4) covert trade embargo; and 5) international financial blockade, not to mention the impact of oil prices on the world market.

Salvador Allende warned in his speech addressed to the UN member states in 1972, as he denounced the attacks against his people, that these actions constituted a new stage of the battle between imperialism and the weak Third World countries.

Readers should learn that what is happening in Venezuela transcends in terms of space and time the history of the peoples struggling for justice as a determinant to freedom.

## I. PLANNED SHORTAGES<sup>(7)</sup>

Shortage, along with inflation, is one of the two main hardships that Venezuelans have been facing from the economic and social point of view since mid-2012. Both phenomena have repercussions not only on aspects related to the economy of households but also on the standards of living of the population.

Shortage has been particularly apparent in the case of essential items, such as food staples, medicines, toiletries and household products. But it became extensive to raw materials and inputs necessary for local production, including agriculture, and machinery spare parts for the manufacturing sector. Even those goods essential to invigorate and mobilize the economy, such as the transport of goods and people, has been hard to find – car spare parts, accumulators, among others.

Goods necessary for health care, with a great possibility of negatively impacting the standards of living of the population, have also been unavailable, particularly medicines for outpatient and hospital use, as well as surgical equipment used in health care facilities.

Interestingly, shortage is rather more frequent in the case of goods than in the case of services. This issue is analysed later so as to understand both part of this phenomenon and draw a clear distinction between economic crisis and economic warfare.

Inflation is analysed in detail in the next chapter. So far, it is worth advancing its wicked effects on the social and economic situation of households, particularly those depending on a salary for labour is the factor of production they own. Households whose income derives from the profits of the capital are in a better position

7 Based on the paper “Desabastecimiento e Inflación” completed on 20 December 2015 and available in the web page of the Institute of Advanced Studies (IDEA in Spanish)

to adjust their income to the levels of inflation. In Venezuela, as in all countries, most households live on a salary.

Inflation deteriorates the purchasing power of workers, thus forcing them to reschedule their spending structure and prioritize the satisfaction of their basic necessities – food, transport and medicines. In other words, and in terms of the economy as a whole, inflationary processes of this type in the medium and long term will adversely affect the sectors of the economy, as a result of a decrease in the demand for other items due to the shrinking purchasing power of the working class. Failure to get a grip on the inflationary phenomenon, serious economic situations might arise in the medium term.

So far I have said nothing new. Venezuelans have experienced this. Further the Government has denounced, nationally and internationally, such destabilization plans, labelling them as “economic warfare” and has announced and taken measures to counter them accordingly.

This work is intended to demonstrate with data, official figures and economic analysis, that shortage and inflation result from destabilization and manipulation plans carried out by some sectors, so they are not the result of macroeconomic imbalances caused by a failed model, as argued by opposition sectors.

Before starting such analysis, it is important to bear in mind the arguments that sectors opposed to the Government have positioned through mass and social media in connection with the economic situation of the country.

Firstly, they repeatedly talk of crisis when referring to an economic situation attributable to a failed model that has negatively impacted the macroeconomic indicators. Their rationale can be summarized as follows:

“We, Venezuelans, are facing one of the worst economic crises we have ever experienced; we do not have food to eat because there is no food available; we are subject of a great shortage of goods and services. The shortage is due to the fact that the Government has not delivered the foreign exchange to the business sector to import both raw materials and end goods which are not produced in the country. Unable to import these goods, production drops and with an ever growing demand, shortage is generated, thus pushing prices up. All this occurs because of a failed model that prevents the Government from responding to the serious economic crisis we are enduring.”

In short, the opposition sectors argue that the Government has not delivered the dollars necessary to supply Venezuelans with affordable goods, thus causing shortage and inflation.

#### **EMERGING CONCERNS LEADING TO THIS RESEARCH**

Given these arguments, we ask the following: how much has the delivery of foreign exchange to the business sector declined since the establishment of the new social, economic and political model in Venezuela, if the allocation of foreign exchange has actually ever decreased? What is the relation between this alleged decrease in foreign exchange delivery and the level of imports, both in monetary terms and in physical units? How much has the consumption of Venezuelans increased in recent years with respect to the supposed decrease in production and imports? How much has the unemployment rate increased in the last seventeen years as a result of the decline in production, should the unemployment rate have actually ever increased?<sup>(8)</sup> Why some items become more

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8 These questions are intended to answer the economic theory as far as the study of the behaviour of a particular economy is concerned. The main variables showing the behaviour and trends of the economy, subject in the study of macroeconomics, are production, employment and prices. Such variables indicate the economic situation.

scarce and why some food items are more difficult to find than others? Why are there wheat flour and butter in bakery stores and not on supermarket shelves?

With respect to inflation, we wonder: What is the relationship, if any, between inflation and shortage? To what extent the growth of aggregate demand (composed among other variables by household consumption) explains the variation in prices? Is there any other factor associated with the rise of prices, besides aggregate demand, that would explain this phenomenon in Venezuela?<sup>(9)</sup>

To what extent the exchange rate in the so-called “parallel market” is affecting the price index of the real economy?<sup>(10)</sup>. What is the relationship, if any, between the exchange rate in the so-called “parallel market” and the level of international reserves?<sup>(11)</sup>.

As mentioned above, this chapter focuses on the analysis of planned shortages in Venezuela. Inflation is discussed in the succeeding chapter.

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9 According to the economic theory, inflation in a given economy is explained or determined by aggregate demand, that is to say, as the aggregate demand increases, the price index increases in the short term. This thesis supports the Keynesian school. On the other hand, the monetarist school explains the price levels for the behaviour of monetary liquidity, i.e. an increase in monetary liquidity will imply price increases. In any case, and for the purpose of this study, increases in monetary liquidity means increases in aggregate demand and these into prices. What we highlight is the fact that according to economic theory, either aggregate demand or monetary liquidity affects prices.

10 We ask this question in order to measure whether the exchange rate of the so-called “parallel currency market” is being the reference for fixing the prices in the real economy, beyond the behaviour of aggregate demand and liquidity.

11 The theory also states that the levels of the exchange rate of a given currency are based on and supported by the levels of its international reserves and, therefore, its behaviour over time. To the extent that international reserves decline, this would imply an increase in the exchange rate, i.e., currency depreciation.



## **SHORTAGE, PRODUCTION, IMPORTS, DELIVERY OF FOREIGN EXCHANGE AND CONSUMPTION**

### **Shortage**

According to economic theory, shortage in markets originates either due to an expansion of demand, which is not answered by an increase in supply, or a contraction of supply given a demand.

In other words, if consumers demand more goods than they used to and there is no response from suppliers, there will be a shortage in the market (where more goods are demanded than those supplied).

The first manifestation of shortages, according to economic theory, are the queues (the first person to arrive buys the good); another manifestation is the displacement to a parallel market with higher prices (especially if they are goods whose prices are controlled); a third manifestation of shortages is the increase in prices in such markets (people are willing to pay more for the scarce good).

At this point, it is worth asking why consumers demand more quantities of a given good. Consumer theory clearly establishes the factors involved: either because consumer income increased<sup>(12)</sup>, tastes have changed, or expectations have changed.

This last factor, of a mainly psychological nature, has largely explained the consumer behaviour in Venezuela in recent months. News and public opinion campaigns that seek to influence expectations have led to the expansion of demand for some

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12 Provided it is a normal good, normal goods are those for which demand increases when the consumer's income increases. Inferior goods are those for which demand decreases when consumer income rises.

goods <sup>(13)</sup>. This demand will continue expanding as long as the “expectations” variable remains influenced by opinion campaigns.

If an expansion of demand in the market occurs and there is no response from the supplying agent or producers, or worse, the supply of the good in question shrinks, a greater shortage will be generated and, therefore, a greater pressure on the prices of these goods.

But why does supply shrink? Theoretically, it is due to a decrease in levels of production, or in the Venezuelan case, because the levels of imports of goods decreased, or because, even if goods are still produced or imported, they are not available in the markets, which is known as hoarding.

Shortage in Venezuela did not take place in recent months only, but rather is a phenomenon that we have seen with some intensity during the last years. Figures of the Central Bank of Venezuela (BCV in Spanish) and the National Statistics Institute (INE in Spanish) indicate that shortages reached an average of 13.1% between 2003 and 2013<sup>(14)</sup>.

A careful analysis of Chart 1<sup>(15)</sup> shows that since 2003 we have been facing episodes of significant shortages, the first one taking place during 2003, when the level of shortage amounted to above 25% due to a general strike and to the oil industry sabotage to which the Venezuelan economy and people were submitted.

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13 News such as diapers will not be available because the government has not granted dollars to importing companies, results in buyers of diapers demanding more diapers to stock for some time due to an effect of expectations. The same happens with long life milk, flour, toiletries and all basic non-perishable necessities that may be preserved over long periods of time.

14 Latest figures included by BCV and INE in the report titled “índice nacional de precios al consumidor en los meses de noviembre y diciembre 2013” available at the web site <<http://www.bcv.org.ve/upload/comunicados/aviso301213.pdf>>.

15 From the above mentioned report.

Subsequently, levels of shortages were seen between 2004 and 2005, shortages showed a decreasing trend, with a stable yearly average of around 7%.

As from 2006 the trend of this indicator has evidently undergone a change, developing a positive slope to record 26% in 2007. From 2008 to 2010, this indicator fell sharply to an average 13% and from 2011 onwards the trend resumes the upward behaviour reaching in 2013 levels of over 20%<sup>(16)</sup>. The Chart also shows the relationship between shortages during peak periods and the political conditions at that time, especially during 2007 when the constitutional reform referendum was carried out, as well as other electoral events.

Clearly, shortages show an upward trend during the 2003-2013 period. Chart 2 shows the annual average of shortages and the trend for the 2003-2013 period.

As mentioned above, theoretically, it is expected that an increase in shortages is associated, on the one hand, with the decrease in production and/or imports as a consequence of the decrease in the delivery of foreign exchange by the Government to the private sector and, on the other hand, to an increase in consumption by both households and Government.

The behaviour of each of these variables in 2003-2013 is shown below including comparisons with the shortage rates.

### **Production**

Chart 3 shows the 2003-2013 GDP measured in constant 1997 prices and expressed in billions of bolivars. The GDP trend is rising on average during the period under study. There is evidence of sustained growth from 2003 thru 2008, and then the trend changes during 2009 and 2010 and subsequently regains

16 The official figures we handled are until 2013.

its upward movement. We cannot see in the chart a sharp decline of the GDP that may explain the shortage rates that have been reached in the economy.

The same chart shows the trend of the shortage rate. No empirical relationship between both variables exist so as to support the allegations argued by some sectors opposing Government, that is, that the shortage rates are caused by the decline of domestic production.

On the contrary, we observe that 2006 and 2007 show an increase of the shortage rate although the level of national production increased. A similar situation occurs as from 2011. In contrast, between 2008 and 2011, there is a declining trend in the shortage rate despite the fall in domestic production.

In short, *the decrease of domestic production does not explain the shortage rates in the economy.*

The GDP behaviour and its upward trend during this period can be consistently observed as well in the behaviour of the unemployment rate for the years under study. Chart 4 shows the unemployment rate from 2003 thru 2014, recording a downward trend over this period. This rate is compared in the chart against the shortage rates. No logical relationship between the two of them can be found. High shortage rates should be expected to obey to high unemployment rates. However, the opposite is evident in the chart.

Since most of the food products subject to shortages belong to the market basket, we decided to compare the shortage rate against the agricultural production, as measured by the agricultural component of the GDP (at constant 1997 prices in billions of VEF). The results of the analysis are similar to the study conducted with the GDP. There is no empirical relationship

between the shortage rates and the agricultural component of the GDP. On the contrary, the agricultural component of the GDP shows an upward or at most a stable trend (see Chart 5).

The growth periods of the shortage rate do not correspond to abrupt declines in agricultural production, especially in the 2006-2007 and 2011-2013 periods.

### **Imports**

In this section, we compare the shortage rates against the 2003-2013 level of imports, and like the case of production levels, there are no empirical elements to affirm that shortage in Venezuela is caused by a reduction in imports of goods. On the contrary, Chart 6 shows, firstly, that there is an average upward trend of total imports of goods for the period 2003-2013, expressed in billions of dollars, recording 388.9%.

Total imports hiked 408.8% in 2003-2008. However, the shortage rate grew during those years. Between 2006 and 2007, the shortage rate grew 25% even though imports grew 39%.

We also observe that the decrease recorded in the total levels of imports in 2008 and 2009 has not resulted in an increase of the shortage rate, which contrarily, shows a decline as well. Likewise, from 2010 imports increased once again and the shortage rates begins to grow in 2011.

In other words, there is no correspondence between the behaviour of the shortage rate and the total level of imports. Therefore, the allegations by sectors of the opposition whereby shortages in Venezuela are caused by a decrease in imports as a result of the failure by the Government to deliver foreign exchange to the private sector has no empirical support.

Just like in the case of the analysis of production we compare imports of food<sup>(17)</sup> against the shortage rate. There is no relationship between the behaviour of both variables that allows us to affirm that the shortage of food, mainly, is caused by a decrease in food imports. On the contrary, according to official data issued by the National Statistics Institute, food imports, measured in dollars, increased by 571.7% between 2003 and 2013, as shown in Chart 7.

This chart also shows an almost similar behaviour of the trends in both variables, the increases in food imports correspond to increases in the shortage rates<sup>(18)</sup>. Which, from the conceptual and theoretical point of view, are unexpected results. Therefore, we can say that the shortage of food is not caused by a decrease in the import of food products. Quite the opposite, food imports have increased.

### **Foreign exchange allocated to the private sector**

Basically, Venezuela produces and exports a single product: Oil. The oil industry is owned and run by the State. This commodity, on the other hand, is a product that has marked the current economic era and is quoted and traded in US dollars. This means that the Venezuelan State receives all the proceeds of the Venezuelan oil trade. So, for an average increase of imports

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17 Corresponds to Sections I: Live animals and products from the animal kingdom; II: Vegetable products; III: Animal or vegetable fats and oils; Products of their unfolding; Processed fats; Waxes of animal or vegetable origin and IV: Products of the food industry; drinks; Liquor and vinegar; Tobacco and manufactured tobacco substitutes, from the classification for imports. This information was taken from the website of the National Statistics Institute.

18 In fact, the Pearson correlation coefficient, measured between the scarcity index and food imports for the period 2003-2013 is 0.624 with a significance of 0.05. This means, firstly, that the relationship is direct and positive, when imports increase, scarcity increases, and also at relatively high levels, i.e. a 62.4% increase in food imports corresponds to an increase of 62.4% of shortage.

by 388.9% between 2003 and 2013, it is necessary that the State allocates foreign exchange to the private sector.

In this connection, from 2003 through 2013 the Venezuelan State has allocated US\$304.7 billion to the private sector -US\$5,695 million were allocated in 2003 and US\$30,859 million in 2013. This represents an increase of 442% during the -period under study, as shown in Chart 8<sup>(19)</sup>.

Between 2003 and 2008 the allocation of foreign exchange to the private sector increased by 727%. Then, In the 2009-2010 period, the amount of foreign exchange allocated decreased and regained the upward trend in 2011.

It is important to emphasize for the purposes of this analysis that the annual amount of foreign exchange allocated to the private sector during this period has never been lower than those allocated in 2004; even taking into account the decrease in 2009 and 2010. On the contrary, such levels always surpassed those in 2004. We make this specific comparison with 2004 because this year the lowest shortage rates were recorded.

In other words, shortage rates are not determined either by the non-allocation of foreign exchange to the private sector, as argued by opposition sectors.

The analysis performed so far can be summarized as follows:

1. The production levels of the economy during 2003-2013, measured by total GDP and agricultural portion of the GDP, have recorded an average increase of 75%, and 25% respectively.

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19 There is a direct and positive relation between the foreign exchange delivered to the private sector and total imports. The Pearson correlation coefficient between the two variables for the period 2003-2013 is 0.752, significant at 0.01.

2. Total and food imports, measured in dollars have recorded an average increase of 388.9% and 571.7% from 2003 to 2013 respectively.
3. The foreign exchange allocated to the private sector by the State recorded an average increase of 442% during 2003-2013.
4. The shortage rates increased by 38% between 2003 and 2013.

The preceding analysis has given rise to the following question: If the foreign exchange has been allocated to the private sector to satisfy the import of goods required in the economy, if imports (measured in US dollars) have increased and if production has increased, what is the reason for shortages? Posed in a different way, what is the explanation for shortages of some items in Venezuela?

Theoretically, as indicated at the outset, shortages can be explained by a decrease in production and/or imports, or an increase in final consumption, both of households and Government. That is, to justify shortages in empirical terms one would expect consumption to increase in a higher proportion than the increase of production and imports actually recorded.

In this connection, the following section discusses the behaviour of consumption as compared against the increase in production and imports during the period under study.

### **Consumption**

Chart 9 shows the trend of total consumption from 2003 through 2013. Total consumption is composed of intermediate consumption and final consumption which, in turn, includes



the final consumption of households, Government and private non-profit institutions.

Indeed, total consumption shows an upwards trend that can be observed throughout that period. However, the average growth rate of consumption during those years is lower than the average growth rate of total production and imports which is also shown in the chart<sup>(20)</sup>. In this sense and with this first observation, we can say that the shortages that are also shown in the chart are not explained by the fact that consumption has been much higher than what has been produced and imported.

A second look at the chart shows that, contrary to what was theoretically expected, during 2006-2007, as mentioned above, when the shortage rates grew, production and imports were proportionally higher than consumption. The same occurred from 2011 onwards. On the other hand, in periods where the shortage rate decreased, production and imports decreased at a higher proportion than consumption, particularly between 2008 and 2010.

This chart suggests that there is no correspondence whatsoever between the shortage rate and consumption, production and import levels. Therefore, the levels of shortage recorded are being explained by other factors.

If the data suggest that the goods were produced and that increasing monetary resources were used for importation, the emerging question would be why they are not available on the shelves of local markets.

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20 While the slope of the consumption trend is 5.07, that of the trend that shows the sum of what is produced plus imports is 5.99. That is, what it has been produced and imported, measured in Bolívars, on average, has been higher than what it has been consumed over that period.

In analysing in detail the total imports of goods in 1998-2013, we observe that, since 2003, the increase in imports expressed in dollars is proportionally higher than the increase in imports expressed in gross kilograms (see Chart 10).

The variation in total imports of goods and services expressed in dollars was 388.9% when comparing 2003 and 2013, as we mentioned in the preceding paragraphs. However, in comparing total imports of goods and services, now expressed in kilograms, we found that the variation between 2003 and 2013 was 57.6%. In other words, we have imported less goods and services with more dollars allocated. Or, put in other words, the average cost of import per kilogram in 2013 was 210% higher than in 2003: The average cost per kilogram of imported goods was 0.83 USD/kg in 2003, whereas in 2013 such cost was 2.34 USD/kg. (See Chart 11)

In the case of food imports, something similar occurred: The 2003-2013 variation in imports, expressed in dollars, was proportionally higher, 575.7%, than the increase in imports in gross kilograms for the same period, 151.5% (see Chart 12).

The average cost per kilogram of imported food jumped by 167%, from USD 0.36/kg in 2003 to USD 0.97/kg in 2013. Chart 13 shows the behaviour of the average cost of food from 1998 to 2013.

From this analysis a conclusion can be drawn - among the factors associated to shortages lies the fact that imports of goods and services, measured in kilograms, do not have increased enough to meet the demand, but not because the foreign exchange necessary was not delivered to the private sector because as demonstrated above , the necessary amounts have actually

been delivered. In fact with a higher amount of foreign exchange delivered private companies have imported less amounts of goods.

The fact that the increase in dollar-denominated imports is proportionally much higher than that of imports expressed in kilograms, thus recording an increase in the average cost per kilogram imported, coupled with the increase in the foreign exchange allocations to the private sector on the one hand, and the increase of shortage rates on the other hand, matches the upwards behaviour of the private sector currency and deposits abroad.

Chart 14 shows the trend of the variable “foreign exchange and deposits by the private sector abroad” from 1997 through 2013. Noticeably, they have increased approximately 232.8% between 2003 and 2013 <sup>(21)</sup>.

Additionally, to the fact that a portion of the foreign exchange delivered to the private sector is kept in deposits abroad, thus failing to comply with the purpose of such allocations, that is, the import of goods and services, the government has repeatedly denounced the hoarding of goods by private suppliers of food, medicines and personal care products, as well as parts and car spare parts.

Hoarding is a mechanism that prevents goods from reaching the shelves of domestic markets, thus adding a factor to the explanation of shortages. It is important to draw attention to the characteristics of the goods that have been subject of hoarding. These are, first of all, prime necessities, food, medicines, personal

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21 By correlating “foreign currencies and deposits by the private sector” with “average cost of imported goods” variables for the period 1997 to 2013, we obtained a Pearson coefficient equal to 0.712, significant to 0.01. That is, an increase in the average cost of imported goods with 71.2% corresponding to an increase in the deposits of the private sector abroad. A similar statistical analysis of average cost of imported foods yielded a Pearson coefficient equal to 0.747, significant to 0.01.

and household hygiene goods, car spare parts, spare parts for machinery and seeds. That is to say, they are goods very much needed in the households or in the manufacturing of goods or the performance of services.

Secondly, as far as food is concerned, those listed as the twenty food products mostly consumed by Venezuelans, especially those nonperishable, but especially those produced and distributed by monopolistic or oligopolistic corporations, for example corn and wheat flour, sugar, coffee, oil, but not those produced and distributed by many farmers, for example, fruits and vegetables. This led us to hypothesize that the cost of agreements between production and distribution companies to control the supply is less when it comes to one or a few companies than when there are many producers and distributors.

Thirdly, shortage is observed at retail level, in retail sales. However, the shortage of these goods for industrial or commercial use has not been so significant, for example, bakery stores have had access to wheat flour but it remains being absent in supermarkets.

Further, the Government has denounced smuggling, mainly to Colombia, to the extent that the border check-points with that country have been closed as a measure to stop the massive exit of Venezuelan products to this neighbouring country. Shortages are also connected with such smuggling.

Three factors, namely: 1) the relative decrease of imports with respect to the foreign exchange delivered to the private sector; 2) hoarding by oligopolistic companies that dominate the markets of some goods; and 3) smuggling, in that order, are determinants explaining the level of shortages in the country.

Although they seem to be factors based on economic interests seeking to maximize profits, and even worse in the case

of the Venezuelan economy, to seize oil revenues, they imply a predominantly political interest, a statement that we dare to make when we observe that the episodes of shortages coincided with moments of political tension, greater polarization and in the context of electoral events.

Such political interest, as repeatedly denounced by the government, seeks to generate economic, social and political destabilization, to promoting the narrative that the model established in 1999 has failed, and at the same time allows the destabilizing sectors to obtain economic profit, unlike in 2002, when the call for a general strike with similar political objectives involved large economic losses, not only for the nation, but also for these sectors.

As a conclusion of this first section we must point out: 1) shortage in Venezuela is not explained by declines in production or in imports resulting from a failed model that has not allocated foreign exchange to the private sector; 2) on the contrary, the amount of foreign exchange delivered to the private sector has increased, as well as production; 3) the reasons for shortages in Venezuela are, in this order: a) the decrease in imports despite having delivered the necessary foreign exchange to the private sector, b) the selective hoarding of goods to meet prime necessities, and c) smuggling.

The main recommendation that emerges from this analysis is the urgent need to establish greater controls on the delivery of foreign exchange to the private sector and to revise the criteria for the allocation of dollars, especially when we are faced with a drop in oil prices and, therefore, a decline in national income.

In this regard, it is important to note that codes for the allocation of foreign exchange, as well as the “non-production

certificate” criteria, should be revised; foreign exchange should be allocated based on the main requirements of Venezuelans, rather than a non-production certificate.

In addition, it is necessary to strictly supervise the goods that are actually imported and distributed with the foreign exchange delivered for such purposes.

The recommendations should always be aimed at structural measures, at strengthening national production with production models that promote socially owned enterprises as well as institutionalizing processes to prevent a few large companies from seizing the oil revenues through the allocation of foreign exchange.

## II. INDUCED INFLATION<sup>(22)</sup>

A second problem the people in Venezuelan are faced with is the steady upward trend of inflation recorded in recent years.

Macroeconomic theory states that the variation of prices directly depends on the behaviour of the aggregate demand. An increase in the demand for goods and services in the economy in the short term will result in an increase of prices.

Monetarists argue that inflation is explained by variations in monetary liquidity. An increase in monetary liquidity would imply an expansion of demand and, in turn, an increase of prices, particularly in the short term, because the aggregate supply cannot respond immediately to the increase in demand.

Venezuela is faced with a phenomenon that does not fit to what we have briefly mentioned in the preceding two paragraphs. The price levels in the economy are not determined by aggregate demand and monetary liquidity but by the exchange rate “fixed” in the black (parallel) market <sup>(23)</sup>.

This exchange rate acts as a reference for suppliers of goods and services in the economy to fix prices, including those that do not have market power and do not constitute monopolies or oligopolies. That is, even those suppliers whose goods and services are subject to market competition adjust their prices based on and with reference to the black (parallel) market exchange rate<sup>(24)</sup>.

22 Based on the work “Manipulación del tipo de cambio e inflación inducida” made on April 4th 2016.

23 It has become part of the interaction of economic agents in Venezuela to consult the price of currency in the “black (parallel) market”. Firstly, it is important to recognize that the existence of such a market is a consequence of the regulation of the exchange rate. However, an important point to consider is what is the true magnitude of this market, whether it is as large as it is attempted to be shown, what influence it might be exerting on the prices of the economy, as well as the true value of that parallel exchange rate.

24 It is assumed that in markets with perfect competition, the adjustment mechanism are prices which are not fixed a priori by bidders, but are the result of the forces of demand and supply. However, and this is the main hypothesis of this study, we observe in the

This chapter focuses on the study of the manipulation of the exchange rate in the illegal parallel market as the main strategy of the economic warfare. It is divided into three sections. The first section demonstrates why the exchange rate published daily on web pages does not meet economic criteria. Likewise, the estimates of the actual exchange rate are shown on the basis of the economic variables, and according to the monetarist theory, including comparisons with the exchange rates that have been manipulated.

The second section shows the impact of the manipulation of the parallel exchange rate on the real economy, that is, on price and production levels. For these purposes the expected level of inflation was estimated, had the value of the currency not been manipulated, and it was compared against actual inflation.

Finally, the third section provides details about the mechanism used to manipulate the exchange rate in the black (parallel) market and influence on price levels. Supply shock through cost inflation is the mechanism that we have identified as an economic warfare strategy to affect the purchasing power of Venezuelan households.

### **1. Manipulation of the parallel exchange rate**

The manipulation of the exchange rate has been the main and most effective strategy of the economic warfare against the Venezuelan people. Its effects not only on the foreign exchange market, but also on price levels of the economy (inflation), the loss of the purchasing power of Venezuelans, the distortion of markets and recently even on production, cannot be described but as atrocious. Compared with situations where such manipulations

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Venezuelan economy how prices are adjusted according to the variations of the value of the currency in the black (parallel) market.



would have not occurred, the magnitude of such effects are exorbitant.

The currency values that are published daily in web pages and disseminated in social networks do not respond to any economic criteria, do not correspond to the economic reality, nor to the behavior of associated variables, but they respond instead to a political intention seeking destabilization through the distortion of the markets and of the economy in general.

Below we describe the behavior of the exchange rate in Venezuela from 1983 to 2016. Subsequently, we evaluate the real exchange rate as from 2012 by means of a bivariate linear regression and correlation statistical models, based on the structural and historical behavior of our economy and the monetarist economic theory. Given the analysis of trends, as from 2012 the economic warfare against Venezuelans intensified. Lastly, we compare our assessments against the exchange rate published in websites.

Chart 15 shows the exchange rate behavior in parallel markets from 1983 to February 2016<sup>(25)</sup>. A relatively constant behavior is observed until 2012. As from that year, we identify a disproportionate change in the slope of the trend corresponding to the data series.

It is important to emphasize that since 1983 there have been various policies on exchange matters, with both flexible and fixed exchange rates<sup>(26)</sup>. In other words, this Chart shows the exchange rates in the parallel markets existing regardless of the exchange rate scheme adopted at the time. When the scheme was controlled

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25 Corresponding to the currency values in parallel exchange markets, regardless of the exchange rate policy adopted each year. That is, in cases where the scheme was based on exchange control, the value fixed by the parallel markets was selected; it was not necessarily the same as the official one.

26 Between 1983 and 1989 exchange control was established; from 1989 until 1994 a flexible exchange rate was established; as of 1994, the exchange rate is controlled.

with a fixed exchange rate, the parallel market exchange rate is taken. In the few cases where the scheme was flexible, the official exchange rate coincided with that of the parallel market.

If we analyze the data since 1999, when Hugo Chavez's administration commenced, we find that the exchange rate in the parallel market recorded a constant trend from 1999 to 2011, more accurately, until July 2012. As from August 2012<sup>(27)</sup> there was a change in the trend function of the data series, which became exponential<sup>(28)</sup> (see Chart 16). As from August 2012, and all of a sudden, the exchange rate of the parallel market begins to show an atypical behavior, which does not match to the level historically recorded since 1999 or even since 1983.

The average annual variation of the parallel exchange rate between 1999 and 2011 was 26%; whereas, from 2012 through 2015, the annual average increase in the parallel exchange rate was 223%, recording its highest variation in 2015 with respect to 2014 (475%), followed by the level recorded in 2013, when the parallel exchange rate increase was 224%, when compared against the charts published in 2012. In 2014, the variation compared to 2013 was 161%; and in 2012 compared to 2011, it was 31%.

It is curious that, although a very different behavior was observed in the four years mentioned, the years 2013 and 2015 witnessed the greatest increases in the parallel exchange rate. It is also important to remember that these were both electoral years:

27 It is necessary to mention that the modality of daily publication of the exchange rate in web sites and social networks – which is, by the way, illegal-, dates back from 2007, with the so-called Lechuga Verde (Green lettuce), which was taken down, but reappears as of May 2010, *Dollar Today*.

28 Entre Between 1999 and 2011, the trend line that best fits is a straight line, with  $R^2 = 0.9719$ , whose function is  $y = 0.0002x - 5.368$ , so that the slope tends to zero showing a relatively constant behavior. So that the slope tends to zero showing a relatively constant behavior. From 2012, the function that best fits the behavior of the data series is an exponential, with  $R^2 = 0.9695$  and the function  $y = 2E-63e0,0036x$ , on the other hand, the line between 2012 and 2016 showed a  $R^2 = 0.6813$   $R^2 = 0,6813$ .

In 2013, the municipal elections were held; and 2015 was the year of election of the members of the National Assembly. In this regard, other studies identify a strong relationship between a typical behavior of economic variables and moments of political tension or electoral events since 2003<sup>(29)</sup>.

The variation in the trend of the parallel exchange rate, evidenced from August 2012, is not normal. The fact that the parallel exchange rate suddenly moves from a linear to an exponential trend can only be explained by similar changes in the theoretically related variables.

According to monetarist economic theory, the two variables that explain the exchange rate or currency value are the levels of international reserves and those of monetary liquidity<sup>(30)</sup>. Therefore, to explain this disproportionate and sudden parallel exchange rate change since mid-2012, similar and accelerated changes in the two related variables should also be observed. Below, we explain what has happened and show the behavior of these two variables, but first we dwell on the theoretical logic behind the relationship between monetary liquidity, international reserves and exchange rate.

Theoretically, the higher the levels of international reserves, the higher the value of the currency because large reserves equal greater support for the legal tender. The amount of international reserves is reflected on the level of foreign exchange supply in the foreign exchange market. If this level of supply decreases, in line with the decline in international reserves, and given a demand for

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29 Pasqualina Curcio, "Desabastecimiento e inflación en Venezuela", Idea [website], 2015, <[http://www.idea.gob.ve/admin/img\\_noticias/desabastecimientovenezuela.pdf](http://www.idea.gob.ve/admin/img_noticias/desabastecimientovenezuela.pdf)>. [Consultation date: March 10th 2016].

30 Rudiger Dornbush y Stanley Fischer, *Macroeconomía*, 5a ed., Madrid, McGraw-Hill, 1991. See also: Paul Samuelson y William Nordhaus, *Economía*, 18a ed., Madrid, McGraw Hill. 1986.

foreign exchange, the foreign exchange market will be adjusted by price, and will push up the price of the currency or exchange rate. In summary, if international reserves decline, the foreign exchange supply decreases and, given a demand (by the law of supply and demand), the exchange rate is expected to increase <sup>(31)</sup>. In this case, the exponential increases in the exchange rate as from August 2012 should be associated with an accelerated decrease in international reserves.

The relationship between monetary liquidity and the exchange rate shows the component of demand in the foreign exchange market. Bolivars are needed to demand and buy foreign exchange (dollars, for example). The number of bolivars available in the economy is what is called monetary liquidity, which includes coins, banknotes and bank deposits held by the public. Higher levels of monetary liquidity indicate that the public will have more bolivars earmarked, among other things and proportionally <sup>(32)</sup>, to the supply and purchase of foreign exchange <sup>(33)</sup>.

An increase in the demand for foreign exchange is associated with an increase in monetary liquidity, or put differently, in the amount of money in the hands of the public. Therefore, if monetary liquidity increases, the demand for foreign exchange is expected to increase proportionally because there is supply of

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31 Ibidem.

32 It is necessary to emphasize the proportional aspect of the increase in the demand for foreign exchange when the number of Bolivars in the hands of the public increases, because here there is an important aspect that must be clarified in order to avoid confusion. Not all the money that circulates in the economy and that is in the hands of the public is allocated to the demand of currencies. Economic agents also use this money to purchase goods and services from the real economy, that is, to buy food and medicine, to pay basic services like electricity, water, gas, transport, to purchase inputs for production, among others. Therefore, only a share of the monetary liquidity and its increase is allocated to the demand of foreign exchange.

33 R. Dornbush y S. Fischer, *Macroeconomía*, op.cit. See also: P. Samuelson. y W. Nordhaus, *Economía*, op.cit

foreign exchange, the market is then adjusted by increasing the price of the foreign exchange, or in this case, the exchange rate. Since 2012, an exponential increase of the exchange rate has been observed; thus, based on the economic theory, an exponential increase in monetary liquidity should also be expected.

Chart 17 compares the annual variations of the parallel exchange rate, international reserves, and monetary liquidity in Venezuela from 1983 through 2015. The first thing to note is a disproportionate variation of the parallel exchange rate from 2012, compared against its historical variations.

Secondly, unlike its historical behavior, changes in the parallel exchange rate since 2012 do not correspond to changes in international reserves and monetary liquidity. The charts portraying the latter are always positive and show a yearly increase. Thirdly, it is evident that the increase in monetary liquidity after 2012 has not been disproportionate, nor there is a drastic reduction in international reserves that could explain the high, accelerated and constant increases in the parallel exchange rate published in websites.

Before such historical changes in monetary liquidity and international reserves, the parallel exchange rate did not exceed 100% until after 2012. For example, in 2006, monetary liquidity recorded a high variation (104%), higher than those recorded since 2012 and, nevertheless, the increase in the parallel exchange rate that year was relatively low (6%).

Given the historical variations of the three variables, we would expect that the variations in the parallel exchange rate as from 2012 do not exceed 100%. However, they reached levels close to 500% (475% between 2015 and 2014 to be precise). Variations of over 400% could only be explained by similar increases in

monetary liquidity or sharp declines in international reserves, which has not been the case.

In conclusion, the variations of the parallel exchange rate published in websites since 2012 do not correspond to the historical behavior of the ratio between international reserves and monetary liquidity. This leads us to uphold our theory that the levels of this type of parallel exchange rate do not respond to economic factors but rather to political ones in the framework of this manipulation of the economic warfare against the people in Venezuela<sup>(34)</sup>.

The behavior of the parallel and illegal exchange rate shows a pattern. It highlights the fact that the inter-monthly variations are positive and increase during the months preceding electoral processes or in times of political conflict for Venezuelans. These variations reach their highest levels during the months when elections were held or in times of greatest unrest. Immediately after the political event or after the elections, the variations recorded showed a reduction while remaining positive, and in some cases they even turned negative (see Chart 18).

Since mid-2012, this pattern is more pronounced. From that year on, the variations were, most of times, positive, but also very high. The illegal parallel exchange rate increased by 10,940% between August 2012 and June 2015, from 9.42 VEB/US\$ to 1,040 VEB/US\$. The highest variations were recorded in October

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34 Given the importance of the Venezuelan economy to the oil sector and foreign exchange earnings in this area, the relationship between the price of a oil barrel and the parallel exchange rate (although the international reserves variable implies the measurement of the aforementioned income have been calculated. No relationship was found between the price of a oil barrel and the parallel exchange rate. The Pearson correlation coefficient for the period 1999-2015 is -0.226 between both variables. This indicates a weak correlation, close to zero. In other words, despite the fact that the price of oil declines since 2012, these decreases are not associated with increases in the exchange rate in the parallel market.

2012 (coinciding with the presidential elections of Hugo Chavez), in December of the same year (when elections for governors in the twenty-four states of the country were held), in April 2013 (when new presidential elections took place after the death of President Hugo Chavez), and in December 2013 (during the municipal elections). As from late 2013, the increase of the parallel dollar has been sustained and disproportionate until January 2016.

Curiously, after the elections of representatives to the National Assembly on December 6, 2015, the variation of the parallel exchange rate started to slow down in spite of the significant decrease in oil prices, which is the main source of foreign exchange income in Venezuela. In the context of falling oil prices, one would expect, on the contrary, an increase in the parallel exchange rate, but that situation did not occur. Instead, a behavior similar to the historical pattern was evidenced, that is, a significant increase immediately before and during elections, and a slowed down variation after the elections. One might believe that these variations of the parallel and illegal exchange rate respond to expectations of higher exchange rates in times of elections. However, if this were the case, how come that this phenomenon did not happen during the recall referendum of August 2004, or in the regional elections of October 2004, or in the municipal elections of August 2005. During 2003-2005 the fixed exchange rate policy was already in force; however, the variations of the parallel dollar that occurred in those years coincide exclusively with devaluations.

In order to assess the magnitude of the manipulation of the parallel exchange rate and measure its effects on the real economy, we have estimated the value of the exchange rate. We have developed a bivariate linear regression statistical model which,

based on the monetarist economic theory, allows us to estimate the exchange rate, considering the historical and simultaneous behavior (since 1983) of the three variables (international reserves, monetary liquidity and exchange rates)<sup>(35)</sup>. In other words, the theoretical model involves, given the characteristics of our economy, the average dependence ratio of the exchange rate on the other two variables<sup>(36)</sup>.

Chart 19 shows the results of the real exchange rate estimations<sup>(37)</sup> and the comparison against those published in websites. Based on calculations, the estimate of the current exchange rate (considering the latest figures on monetary liquidity and international reserves published by the Central

35 The methodologies that allow calculating the real value of the currency in diverse and attend to the theoretical approach that is used. Purchasing power parity, structural patterns of the exchange rate, exchange rate changes according to price changes are some of the methodologies used. This study is based on the monetarist approach, which relates the exchange rate to the levels of monetary liquidity and international reserves. This approach is applied to make use of the same that is used by the sectors that oppose the government, and thus demonstrate that not even using it, the exchange rate reaches the levels that have been and are being published in web portals.

36 An econometric model has been built because it is considered that the simple calculation of the implicit exchange rate that results from dividing the monetary liquidity by the international reserves is wrong. This is based on the assumption that all monetary liquidity is used to acquire foreign exchange, when it is obvious that this does not happen in reality, since some of the monetary liquidity is used in other markets of the economy. With this statistical model the error is avoided since it measures the variations of both independent variables with respect to the exchange rate, incorporating the proportion of monetary liquidity that on average and each year has been destined to the acquisition of foreign currency. In addition, it must be said that if monetary liquidity is incorporated as an independent variable, in order to use exactly the same variables as the opposition sectors, that the monetary base is considered to be a better indicator insofar as it excludes the multiplier effect of monetary liquidity and reflects the issuance of money by the Central Bank. Finally, the period used for the construction of the model is 1983-2011, the years from 2012 were not incorporated due to the inflection point recorded in the trend of the exchange rate, which would introduce an error in the model. Needless to say, a sample of twenty-nine years allowed us to construct a model with a good goodness of fit, reflecting empirically the historical relationship of the three variables to our economy.

37 Calculations were based on the model  $TCP = (2,906E-005) RI + (1,942E-008) M2 - 0.151$ , with TCP being the parallel exchange rate, RI international reserves and M2 monetary liquidity. The corrected R2 is 96.2% with  $F = 351.18$ . All the coefficients of the independent variables record values greater than 2 in "t". Tolerance levels show that there is no collinearity between the variables.



Bank of Venezuela in March 2016) is 83.64 VEB/US\$. That is, based on current levels of monetary liquidity and international reserves, 83.64 bolivars are needed to acquire one dollar and not 1,211.54 bolivars<sup>(38)</sup>. The manipulation of the exchange rate, through figures published on websites to this date, is 14.5 times its estimated real value.

During 2015, the estimated average real exchange rate was 78.31 VEB/ US\$, whereas the average exchange rate manipulated and published on websites was 550.81 VEB/US\$. Chart 4 shows the disproportionate and accelerated increase since 2013 in the gap between the manipulated parallel exchange rate and the estimated real exchange rate. In 2013, the manipulated exchange rate was 1.5 times higher than the real exchange rate; in 2014 it was 2.4 times higher; in 2015, 7 times; and in 2016, the parallel exchange rate was 14.5 times higher than its real value.

It is also observed that the alleged exchange gap shown between the manipulated parallel exchange rate and the official exchange rate is not as wide. Had the exchange rate not been manipulated as recorded since mid-2012, the exchange rate in the parallel market would be expected to be around our estimated values, so that the difference between the parallel (non-manipulated or real) and the official exchange rate would have been much smaller.

Since 2012, there is an exchange gap when comparing the official exchange rate against the estimated real value of the currency, when measures should have taken to adjust it to the real exchange rate. In 2015, this gap reached its maximum levels<sup>(39)</sup>.

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38 Corresponding to the average exchange rate for the month of March 2016 published on *Dollar Today* website.

39 Since 2013, the increase in the exchange rate gap between the official and estimated real exchange rates is related to the increase in the estimated real exchange rate, while the official exchange rate remained constant. These increases in the estimated real exchange rate are mainly associated with the increase in monetary liquidity with annual changes

Since February 2016, the gap between the official and the real exchange rate has been reducing due to measures taken by the national government regarding exchange rate matters.

On February 2016, a new exchange scheme was implemented. This scheme was based on two tranches: The first one was a fixed exchange rate of 10 VEB/US\$ for sectors that import priority goods such as food and medicines, and a second tranche with a fluctuating exchange rate offered through auctions<sup>(40)</sup>. The figures presented by the Central Bank of Venezuela corresponding to the auction of March 23, 2016 show a 249.43 VEB/US\$ fluctuating exchange rate with an allocation of 7.18% of the total foreign exchange<sup>(41)</sup>.

The calculation of the weighted average of the exchange rate between both tranches is 27.19 VEB/US\$<sup>(42)</sup>. According to this new exchange rate scheme and by weighting both tranches, the official exchange rate is expected to slip towards the real value of the exchange rate, in order to reduce the exchange gap.

That the official exchange rate may reach the levels of the real exchange rate will depend on the amount of foreign exchange offered in the fluctuating tranche with respect to the protected one. As the proportion of foreign exchange offered at the fluctuating rate increases and the one in the protected tranche decreases, the weighted one will tend to reach its real value in a faster manner. According to this, the total demand for foreign

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of 65.8%, 70.4% and 111.2% in the years 2013, 2014 and 2015, respectively (Central Bank of Venezuela). (BCV).

40 VTV, 2016.

41 BCV data, 2016.

42 This value results from multiplying 249.43 VEB/US\$ by 7.18% of assigned currency and adding it to the result of the product of 10 VEB/US\$ and 92.82% (percentage of currency assigned to 10 VEB/US\$).

exchange between the protected and the fluctuating rate will remain at the same levels.

The analysis so far indicates that although there is a gap between the official and the real (estimated) exchange market since 2013, this gap cannot be compared to the one some sectors have intended to show through manipulations of the exchange rate in the parallel market. The disproportionate exchange rate differentials verified when comparing the official and the parallel exchange rates are caused not by the very low levels of the official exchange rate, but by the extremely high levels in the parallel market as a result of manipulation.

Sectors opposing the Government argue that the problem of the exchange market in Venezuela and its great differences when compared to an alleged parallel value are caused by excessive controls imposed by the State. However, we note that the problem began when the parallel market exchange began to be manipulated as from August 2012.

In this case, it is not the State controls what cause inefficiencies in the exchange market. On the contrary, there is a visible hand, enhanced with information technology resources and skills, which has distorted the market by publishing politically motivated disproportionate exchange rate differentials without economic grounds. Needless to say, exchange control in Venezuela was first implemented in 2003 and from that date and until 2011 no distortions of such magnitudes as those observed since 2012.

Among the allegations by sectors of the opposition, which seek to justify the value of the foreign exchange, lies the one stating that economic agents have been forced to move to a parallel market because the National Government does not allocate foreign exchange to the private sector, but to the public sector

only. In this scenario, demand in the parallel market expands by pushing the price of the foreign exchange upwards.

When the behavior of the allocation of foreign exchange by the State to the private sector compared against the allocations to the public sector, the result shows the opposite. Chart 20 compares the allocation of foreign exchange to the public sector<sup>(43)</sup> and to the private sector from 1999 to 2014. On the one hand, an increase is observed in the allocation of foreign exchange to the private sector, which in 1999 was 9.898 billion dollars. In 2014 the figure catapulted to 25.002 billion dollars. Alone in 2007 and 2008, US\$ 42,568 and US\$ 47,083 million were allocated respectively, i.e. approximately US\$ 100 billion, enough to cover needs for ten years if compared to the allocation in 1999. This is why the argument that foreign exchange has not been delivered to the private sector, and that they have therefore been forced to turn to a parallel market that pushes the exchange rate disproportionately upwards does not correspond to the figures shown in Chart 20<sup>(44)</sup>.

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43 Non-financial companies, including PDVSA and La Casa, were selected for public sector analysis.

44 It is important to mention, as other arguments put forward by some sectors of the opposition, that the foreign exchange granted for the import of goods to the private sector has been liquidated to historically constituted companies, many of them subsidiaries of large transnational corporations; Others also large but of national capital and with ample trajectory, and others not very big but very old. What needs to be pointed out is that some of the arguments in some sectors point to the fact that currency have been diverted to newly created (bag) or non-created companies (ghosts) and although enough information to support or deny such arguments is not available, it can be said that when analyzing the list of companies that have been allocated foreign exchange and measuring the increase in the amounts settled from 1999 to 2014, the big companies with great track record, seniority and wide coverage are included in the lists of markets. This list can be accessed through the following links: <[http://www.cencoex.gob.ve/images/stories/indicadores/empresas\\_2004\\_diciembre2012](http://www.cencoex.gob.ve/images/stories/indicadores/empresas_2004_diciembre2012)>; <<http://www.cencoex.gob.ve/images/stories/pdfs/estadisticas/Liquidacion.pdf>>; <<http://www.cencoex.gob.ve/images/stories/pdfs/estadisticas/Salud.pdf>>.

The chart also shows that the proportion of allocated foreign exchange to the private sector has been higher than to public sector. On average, 94% of the country's total foreign exchange for imports has been allocated to the private sector in 2013 and 2014 (when the disproportionate levels of the parallel exchange rate were shown), when the allocations to the private sector for imports amounted to 89% and 87%, respectively. The public sector, particularly the non-financial companies (mainly the company La Casa, engaged in food marketing) received an average 6% of the total foreign exchange from 1999 to 2014.

Based on this analysis, we can affirm that the largest foreign exchange transactions have been carried out within the official exchange market and have consisted of State allocations to the private sector companies. Therefore, private companies have not been necessarily forced to turn to the parallel market to purchase foreign exchange, thus pressing the price of the parallel exchange rate upwards.

Actually, there are agents who may be turning to such illegal market – Travelers wishing to supplement their quotas or especially small companies which did not receive foreign exchange through the mechanisms implemented by the government. However, the transactions carried out in this parallel market are marginal when compared to the magnitudes of foreign exchange allocated by the Government to the private sector through the mechanisms provided for in the exchange policy.

Of the total income in foreign exchange of the country (98% of Venezuela's average revenues in foreign exchange comes from the public sector as a result of the sale of oil in world markets), approximately an average of 65% has been earmarked for the

importation of goods, 94% of which has been allocated to the private sector.

Having demonstrated the magnitude of the disproportionate manipulation of the parallel and illegal exchange rate, the effects of this manipulation are discussed in the next section. Such effects are deemed to be the core of the economic warfare considering its atrocious consequences on the markets, price levels, production levels, and on the economy in general, and especially on the standards of living of people in Venezuelan.

## **2. Induced inflation**

The main and most serious consequence of the manipulation of the parallel exchange rate is not manifested precisely in the exchange market. The fact that a marginal proportion of economic agents acquire foreign exchange at a disproportionately manipulated value is not the factor mostly affecting the lives of people in Venezuela.

The greatest effect of the manipulation of the parallel and illegal exchange rate has been the high levels of inflation, which in 2015 reached 180.9%. Chart 21 shows the behavior of prices in the economy from 1998 through 2015. As in the case of the parallel exchange rate, since 2012 a turning point in price levels was recorded. Between 1998 and 2011 the trend was linear. However, since 2012, it became exponential.

At this point, it is crucial to understand the mechanism whereby changes in the exchange rate affect inflation. It is likewise important to determine the magnitudes of such effects and how much any variation in the exchange rate affects the prices of goods and services. Below, we describe this mechanism and, using econometric models, we estimate the levels of inflation that would

have been recorded had it not been induced by the manipulation of the parallel exchange rate.

### **Why, how and how much does the exchange rate influence the prices of goods and services?**

Given the structural characteristics of the Venezuelan economy, the value of the currency has always had a determining influence on the real economy, especially on the levels of price and quantity of all the goods and services that are produced and consumed.

The main reasons respond to two factors, which, as mentioned earlier, are the Achilles' heel<sup>(45)</sup> of the Venezuelan economy: 1) the high percentage of goods and services that we import for final consumption and for production; and (2) the concentration of imports in the hands of private monopolies and oligopolies.

Costs of production or marketing of goods include, in addition to salaries and payment of utilities, the price paid for the good, in case it is purchased for further commercialization, or the price of the raw material or inputs required for production. If these goods or inputs are imported, it is necessary to take into account the price paid in the international market (in foreign exchange) converted into bolivars. Decisive in the calculation of costs is the exchange rate at which the value of the raw materials, inputs or the final good will be converted. Depending on the exchange rate, the costs will be higher or lower, and the final price at which

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45 This term has been used because it is the same one used by Gene Sharp in his *Manual para derrocar gobiernos mediante guerras no convencionales*. The author states: "Knowing such intrinsic weaknesses, the ['democratic'] opposition may seek to aggravate these 'Achilles heels' deliberately, in order to alter the system drastically or to disintegrate it." G. Sharp, "The Methods of Nonviolent Action", Albert Einstein Institute [webpage], <<http://www.aeinstein.org/wp-content/uploads/2013/09/DelaDict.pdf>>. [Date of consultation: March 10, 2016].

the producer is willing to supply the goods in the market will be accordingly higher or lower.

For example, the businessperson who imports video games to place them on the domestic market shall calculate the cost by adding what he pays for wages, electricity, telephone, water, transportation plus what he paid for the video game in the international market. Since this payment was made in foreign exchange, he has to convert this amount into bolivars. Depending on the exchange rate he applies, the cost of the video game will be higher or lower.

Vegetable farmers calculate their costs by adding what they paid to the importer of seeds, plus what they pay to the mechanic who repaired his transport vehicle, and to the dealer of the tractor spare parts, among others. Although the vegetable producer does not directly import the seeds, or the spare parts for his vehicle, or his tractor, they buy them at prices fixed by the importer. This price is determined by international market values and by the exchange rate used for the conversion into bolivars.

As may be seen, the final prices of all goods and services are set in chains of production processes. If the production and marketing processes depend more heavily on imports, the cost structures will be determined by the prices of imported inputs. Furthermore, the higher the exchange rate -i.e. requiring more bolivars to acquire foreign exchange- the higher the cost of production and marketing and therefore, the higher the final price of goods. It is in this way that the quantities imported and the exchange rate affects the prices in the domestic markets.

About 20% of imported goods are directed to final consumption, i.e., it refers to ready-to-consume goods that do not require further manufacturing or production, but directly



go to the markets, 58% corresponds to imports for intermediate consumption, raw materials and inputs required for production processes, 21% goes to the gross formation of fixed capital, that is to say, it refers to the machinery and equipment necessary for production.

Therefore, 79% of the imported goods are required for manufacturing processes and become a part of the cost structures of companies<sup>(46)</sup>. The share of imports as a percentage of the total domestic production (GDP) is another indicator of the weight of imported goods in the economy. From 1999 to 2013<sup>(47)</sup>, imports accounted for an average of 35% of the GDP<sup>(48)</sup>.

Last but not least, it is necessary to mention the capacity that the importing companies have to fix the prices of the goods and the inputs they import. This capacity is greater when imports are concentrated in a few companies, that is, when these are large monopolies or oligopolies and do not depend on the market and perfect competition laws.

The capacity of monopolies to fix prices is known as monopoly power, and is measured by the difference between the price that would be set in a perfect competition market (after negotiations between the many suppliers and demanders) and the price fixed by the monopolist. In addition to its condition of being the sole, or among the few suppliers, this monopoly power is even greater if the goods are very necessary and difficult to substitute, such as food, medicines, spare parts for vehicles and machinery for the production, and inputs for production, just to mention a few<sup>(49)</sup>.

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46 BCV data.

47 This information is not available for the years 2014 and 2015. BCV The data published by the BCV is until 2013.

48 BCV data.

49 These goods are defined as inelastic, because they are very necessary and difficult to replace, consumers are willing to pay higher prices. That is why the margin of price fixed

In Venezuela, imports depend on a few companies. According to figures from the last economic census carried out in 2008, the total number of domestic economic units was 322,845<sup>(50)</sup>. Besides, according to information published by the Foreign Exchange Administration Commission (Cadivi) between 2004 and 2012, foreign exchange for the import of goods was delivered to 10,374 companies<sup>(51)</sup> i.e. 3% of the total number of economic units registered.

As observed, imports in Venezuela do not only represent a significant percentage of the size of the economy, 35% on average, but they also make up a small percentage of the total economic units, which gives them the power to fix the prices of imported goods. The more necessary these goods are for production or consumption, the greater the monopoly power.

The reference that import companies have to set and convert prices to bolivars is the exchange rate. That is why in Venezuela, the exchange rate is decisive on real economy, since the importing monopolies are the ones to have the power to set the prices of goods, mostly inputs for production. Downstream the production process, costs are calculated based on the prices of imported goods. The exchange rate serves as a marker of the prices of goods that are produced and traded domestically.

The central question is what kind of exchange rate is serving as a reference for importers to fix prices: the official exchange rate at

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by the monopolist in these types of goods is greater. See Joseph Stiglitz, *La economía del sector pública*, 2nd Ed., Barcelona, Antonio Bosch Editores, 1998. Robert Pindyck and Daniel Rubinfeld, *Microeconomía*, 5th ed. Madrid: Pearson Prentice Hall, 2005.

50 National Institute of Statistics "IV Economic Census 2007-2008. First Results", 2010, [webpage], <<http://www.ine.gov.ve/documentos/Economia/IVCensoEconomico/pdf/InformeIVCE.pdf>>. [Consultation date: March 15, 2016].

51 Cencorex, "Currency Allocation Statistics 2004-2012", 2013, [webpage], <[http://www.cencorex.gob.ve/images/stories/indicadores/empresas\\_2004\\_diciembre2012](http://www.cencorex.gob.ve/images/stories/indicadores/empresas_2004_diciembre2012)>. [Consultation date: March 2016].

which the foreign exchange has been allocated (up to 2015 it was 6.30 VEB/US\$) or the parallel illegal and manipulated exchange rate, whose value, as shown above was 14.5 times higher in 2015 than the official rate.

Chart 22 compares the national price index, the official exchange rate, and the illegal parallel exchange rate from 1997 through 2015. The close relationship between domestic prices in the economy as measured by the National Price Index and the parallel exchange rate is noteworthy.

As the parallel exchange rate increases, so does the price of goods in the economy. On the other hand, the relationship between prices and the official exchange rate does not show the same behavior: Whereas the official exchange rate remains relatively constant, prices continue to rise. This indicates that the reference exchange rate used by importers to calculate the price of goods in bolivars has historically been the parallel exchange rate, even though they have been allocated foreign exchange at the much lower official exchange rate.

The chart also shows that until 2011, as explained before, the behavior of the official and the parallel exchange rates is relatively similar; however, as from 2012, there was a change in the trend of the parallel exchange rate, as a result of manipulation. It is observed that since 2012, inflation and the manipulated exchange rate follow the same trend.

By measuring the statistical relationship using the Pearson's correlation coefficients among the behavior of the national price index, the official exchange rate and the parallel exchange rate, it is found that from 1997 through 2011, there was a strong correlation between the price index and both exchange rates, which leads to maintain and reaffirm our assumption that the price

levels in the Venezuelan economy are determined by the values of the currency. Secondly, we found that from 1997 through 2011 the correlation between prices, the official exchange rate and the parallel exchange rates is similar, with the parallel exchange rate being the best related to prices<sup>(52)</sup>. The relationship between both exchange rates is also noted to be high, 0.939, which indicates that until 2011 they showed a similar behavior, the exchange gap between official and parallel rates being relatively low.

Thirdly, we found that when performing an analysis from 1997 through 2015 (including the years after the manipulation of the parallel exchange rate 2012-2015), these correlations change. On the one hand, the correlation between official exchange rate and prices decreases, dropping from 0.940 between 1997-2011 to 0.729 between 1997-2015, while the correlation between prices and the parallel exchange rate remains relatively the same (with a value of 0.970). On the other hand, the correlation between the two exchange rates (official and parallel) decreases considerably from 0.939 between 1997 and 2011 to 0.548 for 1997-2015<sup>(53)</sup>.

**CHART 1**

		Correlations		
		NATIONAL PRICE INDEX 1997-2011	OFFICIAL EXCHANGE RATE 1997-2011	PARALLEL EXCHANGE RATE 1997-2011
NATIONAL PRICE INDEX 1997-2011	Person's correlation	1	940**	989**
	Sig. (bilateral)		.000	.000
	N	15	15	15
OFFICIAL EXCHANGE RATE 1997-2011	Person's correlation	940**	1	
	Sig. (bilateral)	.000		
	N	15	15	
PARALLEL EXCHANGE RATE 1997-2011	Person's correlation	989**	939**	1
	Sig. (bilateral)	.000	.000	
	N	15	15	15

\*\* The correlation is significant at level 0.01 (bilateral)

In summary, these results indicate that: (1) as the parallel exchange rate increases by one unit, domestic prices of the

52 Pearson's correlation coefficient between the price index and the parallel exchange rate is 0.989, higher than the obtained by relating the national price index to the official exchange rate of 0.940, which, according to our previous analyzes, was expected.

53 The results of the correlations for the period 1997-2015 are shown below.

economy increase by 0.970<sup>(54)</sup>; (2) price levels of economic goods are more closely related to the parallel exchange rate than to the official exchange rate, i.e., the real economy price marker is the parallel exchange rate; (3) from 1997 to 2011, the official and the parallel exchange rate showed a similar behavior, since 2012 there is no relationship between both exchange rates, thus disproportionately broadening the exchange gap; and (4) as from 2012, changes in domestic prices are strongly related to changes in the parallel exchange rate.

**CHART 2**

		Correlations		
		NATIONAL PRICE INDEX 1997-2015	OFFICIAL EXCHANGE RATE 1997-2015	PARALLEL EXCHANGE RATE 1997-2015
NATIONAL PRICE INDEX 1997-2015	Person's correlation	1	.729**	.970**
	Sig. (bilateral)		.000	.000
	N	19	19	19
OFFICIAL EXCHANGE RATE 1997-2015	Person's correlation	.729**	1	.548*
	Sig. (bilateral)	.000		.015
	N	19	19	19
PARALLEL EXCHANGE RATE 1997-2015	Person's correlation	.970**	.548*	1
	Sig. (bilateral)	.000	.015	
	N	19	19	19

\*\* The correlation is significant at level 0.01 (bilateral)

\* The correlation is significant at level 0.05 (bilateral)

The outcome is not surprising. A close relation between the price levels of the economy and the parallel exchange rate was expected due to the structural characteristics of the Venezuelan economy, which is known to be the following: high dependence of imported goods for the production processes and for final consumption, which determines the structures and levels of production costs; and concentration of imports in a few companies, what gives these businesses a monopoly power to set the prices of imported goods. However, the levels of manipulation of the parallel exchange rate published on web portals since 2012 are surprising. They have disproportionately widened the gap

54 *Ceteris paribus* the other variables that influence prices in the real economy, for example, aggregate demand. Aggregate demand has been incorporated into a bivariate linear regression model, whose results are shown below.

between the official and the parallel exchange rates, thus pushing upwards the domestic prices of the economy.

Given the strong relationship between the parallel exchange rate and the price levels of the economy, it became necessary to calculate to what extent the parallel exchange rate explains the levels of inflation. Theoretically, the price levels of the economy are determined by the behavior of aggregate demand, that is, as demand for goods and services increases, markets are adjusted by price increases, assuming a constant aggregate supply in the short term<sup>(55)</sup>.

However, there is a particular phenomenon here: The manipulation of the parallel exchange rate affects production costs in a rapid and direct manner and in the short term due to the component of imported goods in the cost structures of production processes in Venezuela is high. When production costs are altered in an accelerated and disproportionate manner, there is a contraction of supply through costs inflation, thus modifying the aggregate supply. For this reason, the parallel exchange rate has been incorporated as a variable in the conceptual and statistical model to measure the factors explaining the accelerated and high prices in the economy. The parallel exchange rate in our model measures the aggregate supply component in the markets.

Monetary liquidity has also been included in the measurements according to the monetarist theory, which states that price variations in the economy depend on the amount of money in the hands of the public, therefore, the more money there is, the greater the demand for goods <sup>(56)</sup>.

55 P. Samuelson and W. Nordhaus, *Economy*, op.cit.

56 Despite having incorporated monetary liquidity, a high correlation between this and aggregate demand is expected. In theory, if increase in monetary liquidity implies an increase in aggregate demand, measuring only demand is sufficient, and that way the collinearity error would decrease. Indeed, as it shall be seen later, it was necessary to

In summary, we have constructed a linear and bivariate econometric model, where the national price index, the aggregate demand of the economy, the monetary liquidity and the parallel exchange rate are related, and the conclusion is that 70% of the price levels of the economy is explained by the parallel exchange rate.

With a corrected goodness of fit of 94%, the model obtained relates the aggregate demand and the illegal parallel market exchange rate with price levels through the following function<sup>(57)</sup>:

$$NCPI = (8.808E-006) AD + (74.940) BMER - 541.45$$

exclude the monetary liquidity variable to eliminate the statistical error of collinearity. 57 Initially, the model was run with the national price index as dependent variable, and the independent variables were the monetary liquidity, the aggregate demand and the black market exchange rate. These variables were considered bearing in mind the neoclassic theory as to the determinants of inflation. Prices in the economy increase due to the expansion of demand or, as suggested, by the monetarists who relate inflation to increase of monetary liquidity. A high correlation between the monetary liquidity and the aggregate demand (the highest levels of monetary liquidity are reflected on the increases of the aggregate demand of the real economy) was expected and actually happened in the empirical model. That is how this model with these three independent variables generated an error of collinearity between de aggregate demand and the monetary liquidity, so it became necessary to do without the monetary liquidity due to its low levels of tolerance and the high levels of the proportion of the variance. The results of this principal model and the collinearity analysis are shown in the charts below.

Coefficients									
Model	Dimension	Non-standardized coefficients		Standardized coefficient	t	Sig.	Collinearity statistics		
		B	Std. Error				Tolerance	VIF	
1	(Constant)	516.827	713.760		-1.424	.163			
	Global demand	9.884E-006	.000	.290	3.261	.000	.472	2.117	
	Parallel dollar (annual average)	1.043E-000	.000	.732	3.003	.001	.040	24.622	
		-.572	29.466		-.019	.985	.959	1.043	
a. Dependent Variable: NCPI									
Collinearity diagnostics									
Model	Dimension	Condition index	Percentage of variance				Tolerance	VIF	
			Constant	Global demand	Monetary liquidity (annual average)	Parallel dollar (annual average)			
1	1	1.000	.00	.00	.00	.00			
	2	.886	2.200	.00	.01	.01	.111	9.000	
	3	.819	3.444	.00	.02	.27	.436	2.293	
	4	.813	3.700	.00	.02	.27	.436	2.293	
a. Independent Variable: NCPI									

Once the monetary liquidity is removing, the model of statistical regression was corrected getting the following results:

Coefficients									
Model	Dimension	Non-standardized coefficients		Standardized coefficient	t	Sig.	Collinearity statistics		
		B	Std. Error				Tolerance	VIF	
1	(Constant)	817.463	344.856		2.371	.021			
	Global demand	8.808E-006	.000	.313	3.463	.000	.503	1.981	
	Parallel dollar (annual average)	74.940	9.249	.732	8.104	.000	.529	1.881	
a. Dependent Variable: RPI									
Collinearity diagnostics									
Model	Dimension	Condition index	Percentage of variance				Tolerance	VIF	
			Constant	Global demand	Parallel dollar (annual average)				
1	1	1.000	.00	.00	.00				
	2	.457	2.481	.02	.05	.59			
	3	.216	3.700	.06	.09	.89			
a. Dependent Variable: RPI									

Where, NCPI is the National Consumer Price Index, AD is the aggregate demand and BMER is the Black Market (parallel) Exchange Rate.

With this econometric model, we have estimated the inflation levels for the Venezuelan economy over the years 2013, 2014 and 2015, based on the assumption that no manipulation of the parallel exchange rate had occurred since 2012. That is to say, we have estimated the prices level according to the real exchange rate calculated and shown above. Chart 23 compares the inflation results estimated (without any manipulation of the parallel exchange rate) against the average inflation rate.

Had the parallel exchange rate not been manipulated since 2012, the inflation throughout 2015 would have not been 181% but approximately 78% instead. That is, far less than half. The cumulated inflation since 2013 through 2015 would have been 159% – much lower than the inflation recorded in 2015 alone. In contrast, the cumulated inflation from 2012 thru 2015 hit 280%, mostly as a result of the manipulation of the illegal parallel exchange rate which accounted for 70% of the reason for such behavior.

The manipulation of the parallel exchange rate, which is one of the strategies of the economic warfare, has directly impacted the Venezuelan households because it has brought about the loss of the purchasing power. An item that in 2015 we could have bought for 78 bolivars, we had to buy it for 181 bolivars, that is, 2.32 times more expensive. This also explains the price increase in goods that we believe are not imported but produced in Venezuela, such as vegetables, legumes and fruits (plantains, onions, oranges, and potatoes), locally produced clothing and



footwear and services, such as car repair, transportation (taxis) or health care and education services.

The reason for such increase is that as long as their cost structure includes imported items, it will be adversely affected by the price of such items as a result of the manipulation of the parallel exchange rate and the upstream monopolistic power of the companies importing such inputs for production. This also explains why prices increase almost on daily basis – As the exchange rate is manipulated on daily basis (as it has effectively occurred), end users will see such manipulation reflected everyday on the prices of goods.

For such reasons, an imported end good (a videogame, for instance) that costs USD 20.00 in the international market and that we used to find in stores in Venezuela for 173 bolivars in 2011 (the annual average black market exchange rate was Bs. 8.65 VEB/US\$ 1.00 in 2011), today the same videogame has the price of Bs. 24,230.00 (the black market exchange rate by April 2016 is 1,211.54 VEB/US\$ 1.00). Nevertheless, the company importing the videogame received dollars for imports at an exchange rate of Bs. 4.30 in 2011 and Bs. 1,211.54 VEB/US\$1.00 in 2016. Therefore, based on the official exchange rate, we should not pay more than Bs. 100.00 for the videogame. Further, if we use as a reference the black market exchange rate (the real one, not the manipulated one), the videogame should be priced at Bs. 1,672.00.

The same thing happens to the farmer who needs the imported seeds, the mechanic and the taxi driver needing spare parts, among many other examples of activities that need to reflect on their costs structures the prices of imported goods, which

were converted to bolivars using the manipulated black market exchange rate.

The monopolistic power, in this case of importers, enabling them to fix the prices of imported goods and convert such prices using the manipulated black market exchange rate or at a lower value will depend on the type of goods. They will tend to convert and fix prices using a manipulated black exchange rate for those goods that are essential and difficult to replace, for instance, food, health care products, transportation, production inputs and spare parts for equipment and machinery.

This is an example of markets not achieving social well-being with an invisible hand justifying the non-intervention of the State. Instead, it justifies the intervention of the State to regulate and fix maximum prices a duty so as to counteract the effects of the visible hands manipulating the black market exchange rate and control the power of monopolies to fix prices in the domestic economy. This makes us wonder what the price of food and medicines would be if they were not subject of State control.

### **3. Costs inflation and supply shock: unconventional warfare method**

The unconventional nonviolent warfare method that has been evidently used since 2012 to distort the Venezuelan economy and to provoke social unrest and political destabilization is known in economic terms as *supply shock*, generated by the inflation costs. The tool used is the manipulation of the exchange rate in the parallel black market<sup>(58)</sup>.

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58 We have identified this method under number 188, included in the nonviolent intervention methods of the Gene Sharp's manual: *Los métodos de la acción no violenta*, which seeks to "provoke a downturn or slump economy." It is important to keep in mind that Venezuela has been subject of various nonviolent warfare methods since 1999, even

What we have shown in the preceding paragraphs, the manipulation of the black market exchange rate, costs inflation and the distortion of the costs structure of all goods and services, are all elements that have been generating an induced supply shock since 2012. This supply shock is marked by high inflation rates and, depending on the type of goods, by the reduction of production<sup>(59)</sup>. Supply shock as economic warfare method is presented below with mechanisms and results broken down step by step.

*Step 1: Manipulation of the exchange rate in the parallel market*

Daily publication of the alleged exchange rate in the black market – publications are posted on websites and social networks. The value is assigned arbitrarily not responding to any associated economic variable, such as international reserves and monetary liquidity.

*Step 2: Exchange rate as reference for calculation in bolivars of imported goods*

Due to the fact that imports are made by major monopolies and oligopolies, with their market power, they use the manipulated black market exchange rate instead of the official exchange rate as a reference to convert the value of the imported good in bolivars.

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though they have not been necessarily effective. Among them, two are worth mentioning: 1) the sabotage to the oil industry in 2002 which falls within the economic non-cooperation methods (1) economic boycott, specifically numbers 78 (workers boycott) and 79 (employers boycott); 2) the call for a general strike in late 2002 and early 2003, the method used also falls within the economic non-cooperation methods(2), strikes, method 117, general strike. G. Sharp, "The nonviolent...", loc.cit.

59 P. Samuelson and W. Nordhaus, *Economía*, op.cit.

*Step 3: Increase in the production and commercialization costs.*  
*Costs Inflation*

The pricing of imported goods, particularly the inputs, machinery and equipment for production using a manipulated black market exchange rate that is much higher than the official rate, necessarily implies an increase in the production and commercialization costs. In Venezuela this effect has an important impact due to the weight of imported goods in the economy (35% of GDP), especially in the costs structure of production processes. The increase of production costs is also known as costs inflation and generates what is known by supply shock.

*Step 4: Contraction of the aggregate supply*

The increase of costs produces a contraction of the aggregate supply. This means that companies are willing to produce and sell the same quantities of goods, but at a higher price. Therefore, in cases of costs inflation, it may happen in the domestic markets, depending on the elasticity and behavior of the aggregate demand, that prices increase (inflation) or that production is reduced, or both<sup>(60)</sup>.

The successive and accelerated contractions of the aggregate supply, resulting from costs inflation, in this case, so many contractions as daily manipulations of the black market exchange rate are made, is what we know as *aggregate supply shock*.

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60 *Ibidem.* R. Dornbush and S. Fischer, *Macroeconomía*, op.cit. Also, Jeffrey Sachs y Felipe Larrain, *Macroeconomía en la economía global*, México, Pearson Prentice Hall, 1994.

### *Step 5: Supply shock: Induced inflation*

The induced inflation has been the main manifestation of the aggregate supply shock. The increase of costs is proportionally larger than the drop of production since 2012 (see chart 9). The supply shock is also expressed in the fall of the quantities supplied, but this fall has been proportional much lower than prices. Despite the fall of the aggregate supply since 2013, the levels in 2015 are still higher than the 1999-2015 average; however, the inflation levels are disproportionately higher.

### *Step 6: Supply shock: Loss for companies*

The disproportionate and accelerated increase of costs has led to a loss of purchasing power in Venezuelan households and consequently to a rearrangement of their budgeted expenses. This has caused a decline of the demand of non-essential goods, prioritizing prime necessities, such as food, health care and transportation. The decline in demand of non-essential goods has been reflected on the decrease of the production levels of the companies of that market.

According to the 2015 report of the Central Bank of Venezuela the reduction of the GDP is attributed to the decline in the manufacturing industry and is determined by a negative performance of the production volume index of the following activities: leather and footwear (-32.3%), machinery and equipment (-29.9%), clothing -26,9%), common metals (-15.3%), paper (-13.2%), rubber and plastic products (-13.1%) machinery and electrical equipment (-12.6%), chemicals and substances (-10.9%), editing and printing (-10.5%), food,

beverages and tobacco (-4,6%), and metal products (-0.3%)<sup>(61)</sup>. As shown, the decline of production has occurred mainly in sectors related to non-essential goods, whereas food, beverages and tobacco have recorded lower drops in the production volumes.

Yet, prices behave otherwise. Food is the sector that has recorded the highest increase of prices during 2015. “In breaking down the results of the national price index for the fourth quarter of 2015, ten out of the thirteen categories have recorded an increase lower than the global average (34.6 6%), housing services (1.4%), rent (6.1%), communications (8.5%), household equipment (28.5%), healthcare (28.5%), recreation and culture (29.1%), miscellaneous goods and services (30.3%), education services (30.7%), clothing and footwear (31.3%) and alcoholic beverages and tobacco (33.1%). The three remaining groups showed the following variations: transportation (37.0%), food and non-alcoholic beverages (42.2%) and restaurants and hotels (46.6%)” <sup>(62)</sup>.

The behavior of both the prices volume and the production volume during 2015 is consistent with our analysis dealing with the induced supply shock. The manipulation of the black market exchange rate has provoked costs inflation, an alteration in costs structures and a contraction of the aggregate supply (due to the increase of costs.) This contraction of the aggregate supply has had different effects depending on the economic sector. For the sector of essential goods, such as food and transportation, because they are inelastic goods, the results of the supply contraction have been reflected on an increase of prices more than proportional

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61 BCV data, 2016.

62 BCV data, 2016

than the drop of the production volumes, as shown by the BCV (Central Bank of Venezuela) charts.

In turn, in the case of the non-essential goods sector, the effects of the supply contraction, as a result of the costs inflation, have brought about a lower increase in prices (when checked against the average) and a larger decrease of production volumes.

The decrease of production volumes in these companies and therefore, the drop in their profit margins is the result of an economic warfare that not only affects the Venezuelan households due to the loss of purchasing power, but also, and particularly since the second half of 2015, the companies of these non-essential goods sectors. Until a certain point in time, the economic warfare affected only the Venezuelan households and the working class; however, it currently impacts the level of profits of the companies. Even though in its earlier stage the economy was fit to absorb the consequences of the manipulation of the black market exchange rate through the increase of prices, at present the loss of purchasing power has provoked a contraction of the aggregate demand, thus affecting the companies as well.

#### **4. Conclusions**

Since August 2012, people in Venezuelan have been subject of an economic warfare, which, as any war, may be deemed atrocious and inhumane. This is an unconventional warfare that through the evident and disproportionate manipulation of an economic variable (the black market exchange rate) has caused the loss of the purchasing power of the Venezuelan households, thus triggering an inflation of 181% in late 2015, with all sorts of implications in terms of standards of living. Such manipulation has been based on the weaknesses of the structure of the Venezuelan economy (high

dependence on imports and on the concentration of imports in a few companies) added to the low control by the State over the monopolistic companies.

The economic warfare method is based on a shock of the aggregate supply due to costs inflation. This inflation is attributable to the alteration of the production costs structure for goods and services of the economy. This, in turn, is explained by the use of the manipulated black market exchange rate to convert the value into bolivars of the imported goods expressed in foreign exchange.

The results obtained empirically demonstrate:

1. The manipulation of the black exchange rate has been disproportionate and terrible. The average of the black exchange rate published in websites during 2015 was 550.81 VEB/US\$, the official exchange rate being 78.31 VEB/US\$ the same year.
2. Currently the exchange rate is estimated to be approximately 83 VEB/US\$; however, the black exchange rate published in websites is 1,211.54 VEB/US\$. In other words, 14.5 times higher, a situation that shows the disproportionate manipulation.
3. The manipulation of the black exchange rate has affected the inflation levels as it is used as price indicator of the domestic economy. Because they are monopolies and oligopolies, the importers of goods and services in Venezuela have the power of fixing the prices of imported goods using the black market exchange rate as a reference



instead of the official exchange rate by the National Government in the allocations to the private sector.

4. The parallel black market exchange rate determines the price levels of the real economy in 70%. Had it not been affected by the manipulation of the black market exchange rate, inflation during 2015 should have been 78%.
5. Therefore, inflation in Venezuela from 2013 onwards has been provoked by the disproportionate manipulation of the exchange rate in the black market.
6. This warfare strategy is based in the *aggregate supply shock* through “costs inflation” which has been sustained due to the two major weaknesses in the Venezuelan economy: The weight of the imported component in the cost structures in the production and commercialization of goods and services (imports represent 35% of the GDP); and the monopolization and cartelization of imports, which are concentrated in a few companies (Barely 3% of the economic units registered nationwide imports goods and services).
7. With the manipulation of one variable alone, in this case, the black market exchange rate along with media and psychological campaigns (to influence the expectations of the economic agents through messages conveying a serious crisis and the default of the Venezuelan economy) the costs structures of local companies were impacted, thus generating costs inflation and a contraction of the aggregate supply, the first implication being an adjustment of the markets through the increase of prices

and, depending on the sector and the type of more or less inelastic goods, the adjustments of the markets have recently been reflected on a decrease of production volumes as well.

Before this situation, contrary to the neo-liberal approach, we consider that the policies must be oriented to a major intervention of the State in the economy in order to: 1) regulate monopolies, in this case, the importing companies which have the power to fix the prices of raw materials required for production; 2) control and fix maximum prices of goods; 3) control the exchange market and the foreign exchange allocation; and 4) generate competition in the markets.

This work shows how a few visible and powerful hands can intentionally distort a whole economy by manipulating a single variable. These situations are becoming more feasible as the ownership of production means, the production itself, the distribution and importation are controlled by a few visibly selfish hands.

### III. SUPPLY BOICOT<sup>(63)</sup>

People are vulnerable to the actions of those who, seeking a particular interest, cunningly interferes the markets. Since 2002, people in Venezuela have been enduring the effects of economic manipulation by sectors that, for purposes of taking over the political power, have used various strategies. These actions have been possible because the ownership of the production means, the production itself and distribution are concentrated in a few hands.

In November 2002, the Board of Directors of PDVSA, the major company of the country which generates 99% of the income in foreign exchange, stopped the industry through acts of sabotage and strikes<sup>(64)</sup>. With social, economic and political destabilization plans to force the resignation of Hugo Chavez, they managed not only to paralyze the company, but also the whole economy.

They stopped the supply of fuel, an essential, irreplaceable input for mobilization and production. In fact, transportation of people, food, medicines and raw materials stood still, thus paralyzing the production and commercialization processes of most goods and services of the national economy. The GDP decreased by 8.9% and 7.8% in 2002 and 2003, respectively<sup>(65)</sup>.

By boycotting the supply of a single strategic product for the economy of any country (gasoline) they affected all the people. Among the consequences brought about by such heinous action stand out the increase of poverty<sup>(66)</sup>, which rose from 39% in

63 Based in the article made in April 21th, 2016 and published in [www.15yultimo.com](http://www.15yultimo.com)

64 People's Power Ministry for Communication and Information (Minci), "Del terrorismo petrolero al golpe económico", [web page], 2012, <<http://www.minci.gob.ve/wp-content/uploads/2012/08/WEB-Paro-petrolero-2002.pdf>>.

65 INE, "Resumen de Indicadores Sociodemográficos. Política social del Gobierno bolivariano y principales logros".

66 Measured by income level

2001 to 48% in 2002 and 55.1% in 2003; Inflation hiked from 12.1% in 2001 to 31.2% in 2002; Unemployment soared to its highest levels since 1999: In 2001 the unemployment rate was 11% and reached 14.6% in 2003. The infant mortality rate rose from 17.66 per thousand live births in 2001 to 18.49 in 2003. The rate of malnutrition in children under five increased from 4.5% in 2001 to 5.3% in 2003. The average daily consumption of kilocalories per person decreased 10%, from 2,470 kilocalories in 2001 to 2,236 kilocalories in 2002<sup>(67)</sup>.

The manipulation of economy, for political purposes, has visible social and human effects. The objective was political, the means were economic and the effects were social<sup>(68)</sup>.

Since that moment on, there has been no break for people in Venezuela. Late 2002 and early 2003, the employers association and mainstream workers union called for a general strike, which was joined by doctors and teachers unions, leaving a large part of the population without healthcare and education services. The producers and retailers of food and medicines also shut their doors down, thus hindering the access by a large part of the population to goods and services. Their interventions on the economic structure also aimed at provoking social destabilization and the political weakening of late president Hugo Chavez.

From 2003, the intentions of political and social destabilization continued, no longer with practices of economic non-cooperation through the call for strikes, but with economic boycott practices<sup>(69)</sup>. Since that year, Venezuelans have been experiencing occasional

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67 National Statistics Institute (INE in Spanish), "Summary of Indicators ..."; Loc.cit

68 All indicators, not only the economic ones but also social indicators during 2002 and 2003 reflected the effects of the actions carried out by sectors that opposed the government of Hugo Chavez, who sought, through non-democratic ways, to take power

69 Gene Sharp's manual on nonviolent persuasion methodologies classifies two types of economic non-cooperation: calls for unconventional strikes and boycotts.

episodes of shortages of some goods deemed essential for life, food, medicines or those goods required for mobilization and transportation (spare parts and parts of vehicles, tires, and energy accumulators -batteries for vehicles-).

As mentioned above, these episodes have been more intense in times of high political tension or near electoral processes, which leads us to associate shortage with intentional practices of social and political destabilization.

There is a big difference between these practices, particularly strikes and boycotts: Strikes require the participation, mobilization and approval of different and multiple political and economic sectors. On the other hand, boycotts do not necessarily require the mobilization and the approval of various political and economic sectors. On the contrary, with individual manipulations, or with the agreement by a few people, it can be carried out.

In the Venezuelan case, since 2003, levels of shortages have not been related to production levels. Both production and imports have remained relatively constant. Therefore, this shortage, which is measured in the shelves of the establishments, is associated with goods that have been produced but have not been placed in a regular timely manner or in sufficient quantities on the shelves of commercial establishments. In this case, Production has not been boycotted. The actions have been aimed at altering the goods distribution mechanisms and at impeding timely and regular access of these products to part of the population.

Goods, after many difficulties and inconveniences (long queues or higher prices in illegal markets – a practice locally known as *bachaqueo*-) have been acquired and consumed by the population. In other words, goods were produced and sold, and in this context, the boycott that has altered supply mechanisms

has not generated losses for those who have manipulated the distribution channels<sup>(70)</sup>, companies have continued to produce, distribute (by other practices) and sell.

As an example, chart 24 shows the level of consumption of one of the food staple which has generated the greatest difficulty in terms of availability, especially from 2013 onwards. It is also a staple which Venezuelans consume almost every day, the precooked corn flour<sup>(71)</sup>. The chart shows the average quarter consumption of each Venezuelan from the first quarter of 2012 to the second quarter of 2015. The clearest line shows the consumption by low-income people and the darkest line those with a higher income.

We can observe that the average consumption was constant from the first quarter of 2012 until the second quarter of 2015<sup>(72)</sup>. A low-income person in Venezuela consumed an average of 5.1 kilograms of precooked corn flour during the months of January, February and March 2012, or about 56 grams per day. Between April and June 2015, they consumed 58 grams daily (5.3 kg quarterly). Regarding Venezuelans belonging to the socioeconomic group with a higher income, they consumed 7.2 kilograms of precooked corn flour both in the first quarter of 2012 (80 grams per day) and in the second quarter of 2015.

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70 According to the manual by Gene Sharp, these actions that correspond to the intermediaries is the method 80: boycott of suppliers and of those who transact with those goods. In the Venezuelan case, the major suppliers of staple goods, subject to shortages, are also the large and small producers.

71 Venezuelans consume an average of 115.7 grams of precooked corn flour a day, according to the results of the National Food Consumption Survey conducted by the National Statistics Institute (INE in Spanish). In addition, precooked corn flour is the first of the main twenty food components of the consumption pattern in the general population (INE, 2013a).

72 The slopes of the trending functions, in both cases, for the quartile 1 (Q1) and the quartile 4 (Q4), are close to zero and positive. (See figure 2).

What we intend to demonstrate with this chart is that despite the difficulties in terms of access in this case of precooked corn flour, its consumption has remained constant during the past years. For this to occur, that is to say, for the level of consumption to have remained the same, the goods must have been produced, and even when this is obvious, we must emphasize it, we cannot consume something that does not exist, something that has not been produced.

Chart 25 shows the production of pre-cooked corn flour by one of the companies with a market share of 50%<sup>(73)</sup>. At first glance, the production has remained relatively constant from January 2012 to January 2016 despite some production drops in very specific moments throughout the series. This confirms the fact that the cause for shortages of several of the staples and high consumption products is not a decline in production.

It is important to emphasize that the fact that the consumption of precooked corn flour on average has remained constant, it also shows that not only “Alimentos Polar” has maintained its production levels, but the other companies, both private and state-owned that cover the other 50% of the market, have also maintained their production/import levels; otherwise, consumption would be impossible to remain constant as well.

The level of shortages that have been recorded in the case of pre-cooked corn flour, manifested in long queues or in surcharges in the parallel and illegal market (*bachaqueo*), do not correspond either to the levels of production or with consumption levels.

The same behavior is applicable to all food products that have been scarce and whose purchase generates long queues: Rice,

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73 We have calculated the market coverage of “Alimentos Polar” by dividing the average levels of production between the average levels of consumption of the population, specifically for the case of precooked corn flour.

pasta, vegetable oil, pasteurized milk, beef, chicken meat, chicken eggs, local hardened white cheese, mayonnaise, sugar, coffee, just to mention a few.

Chart 26 shows the consumption of chicken meat. As in the case of pre-cooked corn flour, it depicts a constant trend in consumption, both for low and high-income socioeconomic groups.

The same behavior is shown in the consumption of coffee, which ranks second among the main twenty food products consumed by Venezuelans. Chart 27 deals with the consumption of this item from the first quarter of 2012 through the second quarter of 2015.

Charts 28-32 show the consumption of other food items from the first quarter of 2012 through the second quarter of 2015. The behavior of consumption is similar in all, on average, for both low and high-income households.

That is, the behavior of food items consumption is consistent with the average consumption of people in Venezuela, measured in kilocalories. Chart 33 shows the daily kilocalories in Venezuela from 2012 through 2015. The consumption in 2015 was 3092 kilocalories and in 2012 3097, levels which are far above those minimum levels established for food security by the FAO.

If we in Venezuela have been consuming, on average, the same amount of staple foods (whether measured in kilograms or kilocalories), and, if we consume them because they have been produced or imported, the following questions arise: What has been happening in between production/import and consumption so that products are not on the shelves with the regularity and quantities needed? Why must we stand in long queues to acquire some of these food items? And why must we buy them in the



parallel and illegal market at very high prices (*bachaqueo*) if both production and importation have been maintained?

Since 2003, those who oppose the National Government have applied strategies involving the use of economic non-cooperation methods to generate political and social destabilization, no longer through the call to strikes, which requires the participation of different and multiple political sectors, but through boycotting the supply of goods.

These actions have intensified since 2013. From 2003 through 2013, the episodes of shortages were occasional and punctual; some of the staple goods were not on the shelves. Occasionally, milk was scarce while other products were available. Soon the pre-cooked corn flour became scarce but the rest of the goods, including the milk, were available. And mentioned before, this happened with greater intensity in periods that were close to electoral processes.

However, since 2013, shortages have simultaneously affected most of Venezuelan main consumer goods, precisely those representing the highest expenditure of households besides being essential and hard to substitute, such as food, personal and household hygiene products, spare parts and parts for vehicles medicines and healthcare products, thus adversely affecting transportation and healthcare services.

In the face of this situation, those who moved by selfish and political interests, have conspired to manipulate the distribution mechanisms of the goods most needed by Venezuelans have poorly explained the situation that people in Venezuela endure, as they attribute such situation solely to the actions undertaken by the National Government.

Their main argument is that companies have been forced to not produce or to reduce their production, and that is why goods are not available <sup>(74)</sup>. As we have seen, in the preceding paragraphs and charts, if consumption has been maintained is because the goods have been produced in similar quantities. Furthermore, complaints by workers in the main companies responsible for the production of such goods about the fall in production or the closure of these factories have remained unheard of, not at least equivalent to the magnitudes of the level of shortages.

Two reasons stand out among the arguments intending to justify the alleged decline in production: Firstly, the Government has failed to deliver the necessary foreign exchange to import raw materials and inputs for production. Secondly, the price control and regulation policy of a failed socialist state model has turned the companies unable to cover their production costs and, therefore, to shut down their companies due to the controlled prices.

We have already demonstrated above that the cause of shortage in Venezuela is not the decrease in production. However, with the intent of dismantling the myth of the implications of price controls, we show in this chapter that in the Venezuelan case, the price regulation policy has not been the source of shortages of the main consumer goods. We will demonstrate that there has been no relation between the behavior of regulated prices and the production levels.

We begin by outlining what economic theory provides about price regulation policies and maximum pricing, and in what cases

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74 "The Venezuelan Chamber of Food Industry (Cavidea in Spanish) reiterated that the shortage of the country is due to a production problem, not a distribution one," February 15th, 2016, <<http://www.descifrado.com/2016/02/empresas/cavidea-reitera-que-de-materia-prima-y-control-de-precios-son-causas-de-la-escasez/>>

it is justified, to later show what has happened to price regulation in Venezuela since 2003 and its connection with the levels of production.

### **Why is it necessary to regulate prices?**

Even the most neoliberal currents of economic thought agree that because markets are imperfect, state intervention is necessary and justified. Markets are imperfect when the main assumption underlying the classical and neoclassical theory is not fulfilled, that is, when there are not many suppliers and demanders, and therefore, a few have the power of influencing the market and prices.

When one or a few companies produce goods and services, we are in the presence of monopolies or oligopolies; they have the capacity to fix prices and quantities of the products that will be supplied in the markets. They have what is called the monopoly power.

If, in addition, such goods are essential and hard to substitute (inelastic goods), the monopoly power is greater because consumers are willing to pay a higher price to acquire them because of those characteristics. Food and medicine are examples of inelastic goods<sup>(75)</sup>.

In these conditions, the State intervention in the economy is not only justified, but it is a duty to regulate these companies to guarantee the access to these goods by the entire population. Price

<sup>75</sup> Monopolies and oligopolies that produce staple goods, in the face of price increases, will always see their incomes increase because, even when the quantities demanded decrease, by the Law of Demand, this decrement on the prices is less proportional than the increase in prices. It is in the interest of these companies to increase their incomes and, consequently, their profits by increasing prices and decreasing production; which implies the appropriation of the surplus of the consumers, damaging, in other words, the well-being of the consumer and his or her access to these much needed types of goods (Stiglitz, 1998).

regulations are policies provided under the neoclassical economic theory and are actions carried out in most countries.

In Venezuela, the production, distribution and marketing of food (especially processed foods), medicines, household and personal hygiene products, spare parts for vehicles, to mention some of the basic necessities, lie in a few hands. It is a duty of the State to regulate them in order to guarantee the access of these goods by the entire population. In addition, since 1999, food and healthcare, in Venezuela, are fundamental rights (Constitution of the Bolivarian Republic of Venezuela, 1999).

Price regulation includes fixation of maximum prices (i.e. price above which goods and services should not be sold) and minimum prices, such as wages and salaries. The issue we are dealing with is the regulation of maximum prices in Venezuela and the way how they have influenced the levels of production and its connection with the shortage of several of the items with controlled.

### **Prices control in Venezuela as a source of shortages**

Given the arguments of the business sectors and those opposing the Government, a comparison of the production levels of the regulated goods and the maximum prices fixed by the State, a delay or a failure to revise such prices in the course of time would be expected to imply a decrease in the quantities produced, and vice versa. That is, we would expect a statistically positive relationship between both variables.

The reason underlying this theoretically expected relationship is that if the maximum price is below the average costs of production, companies will decide whether to produce or decrease their production. Another great assumption of neoclassical

economic theory is that all agents are rational. In the case of producers, they will always seek to maximize their profits; therefore, they will not produce at a loss. In other words, if the regulated price does not cover the costs, companies will not produce or will produce less.

Below we compare the behavior of prices of some of the food items subject to regulation against their availability levels. We carried out the analysis as from 2003 (when the price regulation policy started) to 2013<sup>(76)</sup>. Based on a correlation study, we calculated the Pearson correlation coefficients between the following two variables: 1) percentage of the maximum price with respect to the “real”<sup>(77)</sup> price; and 2) availability of food<sup>(78)</sup>.

Chart 34 presents the availability (production plus import) of pre-cooked corn flour from 2003 through 2013, showing a relatively constant trend during this period<sup>(79)</sup>. When comparing the extremes of the series, we observe that in 2003, 35.4 kilograms

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76 We performed the analysis until 2013 since the information used corresponds to that provided by the Food Balance Sheet published by the National Institute of Nutrition (INN in Spanish). For the date of this study, we only count until 2013.

77 The percentage of the “real” price comes from dividing the maximum price fixed by the Government and the “real” price, provided it had been adjusted annually based on the consumer price index for food and non-alcoholic beverages. The year 2003 was taken as the basis for the calculation of “real” prices and we assumed that the maximum price fixed at that time corresponds to a perfect competition equilibrium price, that is, therefore, above average costs of production. That is to say, 2003’s maximum price was adjusted from year to year taking into account the variation of the national index of food and beverage prices (for example, the regulated price of precooked corn flour in 2003 was 0.75 Bs/Kg, food prices for that year varied by 36%, therefore, by adjusting the regulated price of flour for 2004, it was 1.02 Bs/kg). Once the “real” price was obtained, the percentage of the maximum price in 2004 was calculated with respect to that calculated “real” price (the maximum price of precooked corn flour in 2004 was 1.25 Bs/kg, “Real” was 1.02 Bs/kg, in relative terms the regulated price in 2004 was 122.5% of the “real”). Following this example for 2005, the “real” price of precooked corn flour should have been 1.31 Bs/kg; however, the maximum price was 1.25 Bs/Kg, consequently the percentage of the maximum price in relation to the “real” in 2005 was 95.7%.

78 The availability of food corresponds to the total amount of food which has been produced and imported measured in kilograms per person per year.

79 The slope of the trend line is equal to 0.0987.

of pre-cooked flour per person were available annually and in 2013, 36.1 kilograms.

As for the regulated price, we see that this shows a decreasing trend from 2003 through 2013. In 2004, the maximum price was above the “real”. On the other hand, although there were adjustments of the maximum prices for years 2007, 2008, 2009, 2011, 2012 and 2013, they were not proportional to the variations of the national price index corresponding to food and beverages as the percentage of the maximum price with respect to the “real” price was below 100%.

However, even though the regulated prices were lagging behind, the production and importation of pre-cooked corn flour did not decline over that study period. What the figures and the chart show is contrary to what we theoretically expected. If indeed regulated prices lagged with respect to the behavior of the general prices of the economy, the production/importation was also expected to decrease.

However, the trends are opposite, and statistically the correlation is negative (Pearson's coefficient is -0.349). We also observe, contrary to expectations, how, as from 2010, there is a greater adjustment and recovery of regulated prices, and yet availability shows a downward trend.

Since companies never produce at a loss, we must understand that the maximum fixed prices of pre-cooked corn flour have always been above average costs of production; otherwise, companies would not have produced and the availability would have decreased.

Chart 35 compares the availability of rice from 2004 through 2013 with the maximum prices set by the State. As in the case of pre-cooked corn flour, what is observed is contrary to what

we were expecting. Despite the lag on the controlled prices, rice production and imports increased during the period (Pearson's correlation coefficient is negative almost close to 1, -0.77).

An equal behavior is shown on other products analyzed: Chicken meat, pasteurized milk, coffee, pasta, vegetable oil (mixture) with respect to regulated prices. Price lags do not necessarily correspond to a decrement in production and imports.

With the examples shown above, we observe that during the 2003-2013 period there is no relation between the behavior of regulated prices and production and/or importation. They have continuously been produced and imported in spite of the price lag, which could give us indications that the prices fixed are higher than the average costs of production, therefore, sufficient for the entrepreneurs to decide to maintain and, in some cases further increase, the levels of availability in the markets.

On the other hand, there are goods whose prices are not regulated by the State and, nevertheless, they are scarce; among others, we got legumes, especially black beans, or margarine. Chart 41 shows the availability of black beans from 2003 through 2013 and the prices for each year. Anywhere in 2003-2004, there was an increase in the maximum price, above the break-even point, which did not imply an increment in the availability, on the contrary, it decreased.

As from 2005, black beans stopped being subject of price regulation. The availability of black beans between 2005 and 2009 increased, but as from 2009, it decreased again. And it remains unavailable today despite not being under regulation.

Margarine is another example of unregulated goods, which have been and continue to be in short supply. Chart 42 presents the availability of margarine and its prices from 2003 through

2013. It is noted that between 2003 and 2007, prices decrease and, however, the availability of margarine increased. As from 2009, it was excluded from regulation and its availability decreased. There is no relation between the control of prices and the production of a good. It is important to mention that the availability of margarine, in per capita terms, between 2003 and 2013 increased.

What happens with margarine is a good example of a good whose price is not regulated, but it is scarce (you have to queue to buy it or buy it in the illegal market). The level of consumption, and therefore of production, has been maintained from 2012 through 2015, and the production of one of the main companies has maintained its levels from 2012 to 2016. Charts 43 and 44 show, respectively, the consumption of margarine from 2012 through 2015, and the fortnightly production of *Alimentos Polar*.

The question we pose is why margarine is not regularly, timely and in sufficient quantities on the shelves if it was produced and, additionally, its price is not regulated.

As with margarine, the rest of staples and high-consumption foodstuffs have also recorded levels of short supply in the last three years, especially in 2015. However, we need to make some clarifications; not all high-consumption foods are in shortages, or are, as we showed earlier, those whose prices are regulated. Foods that are scarce meet certain conditions, which we identify below.

### **Characteristics of food products in short supply**

Among the top twenty food products that Venezuelans consume, shown in chart 1, those highlighted in yellow have reportedly been scarce. This chart gives rise to several questions: Why are pre-cooked corn flour and black beans scarce but



plantains and guavas are not? Why are rice and coffee traded on the illegal market but chicken and beef are not? And why are not carbonated beverages scarce?

Scarce products (or rather, those that are not regularly available on the shelves, thus creating a perception of shortage and making people stand in long queues), have specific characteristics and meet some very particular requirements, whether they are subject to pricing regulations or not.

Firstly, these are high consumption products (e.g. pre-cooked corn flour, coffee, rice, sugar, black beans, pasta and chicken eggs). They are indispensable in the diet of Venezuelans and play a part in their culture.

Secondly, besides the high consumption of these products, their production and distribution are in the hands of a few entrepreneurs, generally, these food products are controlled by monopolies and oligopolies. For this reason, even if guavas, plantains and orange juice are highly consumed, buying these products does not generate queues. Numerous producers of these products do not have the capability to cartelize and distort distribution.

Thirdly, these food products are non-perishable or easy to preserve for a relatively extensive period. Pre-cooked corn flour, rice, pasta, coffee, black beans, milk, margarine, edible oil, to name just a few, can be preserved for up to one year, but this does not apply to plantains and guavas.

As noted above, price regulation does not explain why some food products are currently scarce. It is also important to mention that there are products whose preservation is expensive, so they do not enter the illegal market, as in the case of chicken, beef, hardened white cheese and chicken eggs. These products need

refrigeration for their preservation and can be found in facilities where food products are sold at prices higher than the regulated ones, which contravenes the law.

### **Final remarks**

This chapter demonstrated through correlation analyses that shortages and long queues to buy several high consumption food products in Venezuela are not caused by the pricing regulations established by the State. It demonstrated that there is no relationship between the price control and the production level of reportedly scarce food products.

Price regulations are well-justified policies accepted by the most neoliberal trends of economic thinking, through which the State regulates the power of monopolies and oligopolies to fix the prices of the goods they produce. They are well justified, especially when it comes to goods needed for daily life, such as food products and pharmaceuticals.

Likewise, this entire chapter provided the evidence that the shortage of several food products is caused by a decline of production. On the contrary, both production and consumption of currently scarce products have remained relatively constant since 2012. This leads us to conclude that if goods are being consumed and therefore produced, the reason why we have to queue in long lines lies between production and consumption, that is, in the distribution and supply of products.

It is the alteration of distribution and supply mechanisms, which makes goods produced not available in the necessary quantities at the right time on the shelves. For this reason, at this point, shortage cannot be solved through adjustment or increase of prices, much less through price deregulation. This is

so true that the State has recently adjusted the price of several food products, namely, chicken eggs in November 2015, coffee in March 2016 and rice in April 2016; however, they cannot be found on the shelves yet.

The adjustment of prices is not the solution to shortages, long queues and *bachaqueo* (illegal sales) since it does not constitute the source of these problems. They are caused by the boycott of supply and the alteration of the distribution mechanisms. Hence, policies must be focused on supervision and regulation.

A few yet powerful and visibly politically motivated hands are responsible for the distortion of the distribution and supply mechanisms of the most essential goods for the life of people in Venezuela.



#### IV. COVERT TRADE EMBARGO<sup>(80)</sup>

On top of the difficulty to access food products, the people in Venezuela have endured the shortage of medicines since mid-2012.

As from the second quarter of 2012, the media engaged in a smear campaign focused on the shortage of medicines in Venezuela<sup>(81)</sup>. In May 2012, the media already propagated the notion that there was an “acute shortage” of medicines because of a 42% cut in the allocation of foreign exchange to the healthcare sector<sup>(82)</sup>. By 2013, the shortage of medicines reached 40%<sup>(83)</sup>; in 2014, 60%<sup>(84)</sup>; in 2015, it was 70%<sup>(85)</sup>; and in 2016, the shortage of medicines in pharmacies has reached 85%. The reason for such situation was that production, importation and distribution companies have not received foreign exchange<sup>(86)</sup>.

There is no doubt that, since 2012, purchasing medicines, especially those dispensed in pharmacies<sup>(87)</sup>, has become

80 Based on an article entitled “*Falta de divisas o embargo comercial encubierto*”, published on May 19, 2016.

81 No news published before 2012 regarding medicines shortage in Venezuela can be found.

82 “*Denuncian escasez de medicamentos en Venezuela*”, Eastside Magazine [website], published on May 4, 2012, <<http://www.eastwebsiteside.com/denuncian-escasez-de-medicamentos-en-venezuela.html>>.

83 “*Escasez de alimentos ronda el 35%*”, El Universal [website], published on March 18, 2013, <<http://www.eluniversal.com/economia/130318/escasez-de-medicamentos-ronda-el-35>>.

84 “*Escasez de medicamentos llega a 60% en la capital según Federación Farmacéutica*”, El Universal [website], published on October, 2014, <<http://www.eluniversal.com/nacional-y-politica/141010/escasez-de-medicamentos-llega-a-60-en-la-capital-segun-federacion-farm>>.

85 “*Advierten que escasez de medicina se ubica en 70%*” by Irene Sarabia, El Universal, [website], published on June 11, 2015, <[http://www.eluniversal.com/noticias/caracas/advierten-que-escasez-medicinas-ubica\\_45791](http://www.eluniversal.com/noticias/caracas/advierten-que-escasez-medicinas-ubica_45791)>.

86 “*Escasez de medicamentos en farmacias subió a 85% en menos de 3 meses*” by Dulce María Rodríguez, El Nacional [website], published on April 6, 2016, <<http://www.noticierodigital.com/2016/04/el-nacional-escasez-de-medicamentos-en-farmacias-subio-a-85-en-menos-de-3-meses/>>.

87 It has been observed that shortage is worse in the case of those medicines for outpatient treatment (purchased in pharmacies) than in the case of non-dosed medicines and medical and surgical equipment used in health centers, especially from the private

increasingly difficult for the people in Venezuelan. However, this shortage does not match the import levels of medicines recorded in Venezuela. It does not match the historical demand for medicines either, and much less, the annual financial reports of the largest transnational corporations responsible for importing these products for the consumption by the people in Venezuela.

Chart 45 shows the imports of pharmaceuticals (in dollars and kilograms) in a timeline encompassing 2003 (at the beginning of the implementation of the current exchange system) through 2014 (latest year available). This chart also shows the average cost of imported medicines per kilogram.

First, 2003-2014 imports amounted to 22.752 billion dollars. This amount was allocated to private companies importing pharmaceutical products, given that the import of these goods in Venezuela is mainly the responsibility of private companies. The National Public System for Health (SPNS, in its Spanish acronym) that is responsible for providing pharmaceuticals to its dependent establishments and pharmacies, purchases these products in the domestic market in Venezuelan bolivars from the private importing or producing companies<sup>(88)</sup>.

Second, from 2003 through 2014, the imports of pharmaceutical products (measured in dollars) have increased by 463%. Therefore, the National Government has additionally allocated 463% of additional foreign exchange in 2014, in comparison with 2003. However, increase in kilograms was

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sector. The same problem applies to cafeterias, bakeries, *areperas* and restaurants where coffee, milk, sugar, corn flour, wheat flour, edible oil, among other food products can be found. However, these very products are not easily available in supermarkets and food-selling establishments.

88 The National Public System for Health (SPNS) runs only direct imports of medicines provided by the Venezuelan Institute of Social Insurance (IVSS), vaccines covered by the Immunization Plan and provided by the Pan American Health Organization (PAHO) and medicines for people with HIV/AIDS, also provided by this organization.

barely 44%. This means that the average cost of each kilogram has increased by 290%, while in 2003 each kilogram cost around 22.24 dollars. In 2014, it cost 86.80 dollars per kilogram, that is, the price quadrupled in 2014. Did the world prices of these products by any chance show such an increase?

Thirdly, in 2004, the National Government allocated around 608 million dollars for the import of pharmaceuticals. It is important to bear in mind that there was no shortage. In 2013, 3.200 billion dollars were allocated. In 2014, 2.400 billion dollars were delivered to private companies importing pharmaceutical products. So, why was shortage at 42% in 2013 and at 60% in 2014 if these companies received 5.2 and 4 times, respectively, more foreign exchange than in 2004, when there was no shortage?

Fourth, 28 million kilograms of medicines were imported in 2014, while 23 million kilograms were imported in 2004, when there was no shortage. In other words, importation in kilograms in 2014 was greater than in 2004. So, why was the shortage of medicines at 60% in 2014?

Fifth, the imports of pharmaceutical products in 2012 reached 55.6 million kilograms, in 2013, 54.7 million kilograms, and in 2011, when there was no shortage either, 54 million kilograms were imported. So, why was “a significant level of shortage in medicines” reported in 2012 if around 2 million dollars in products were additionally imported? Why was 40% of shortage in medicines reported in 2013 if imports in kilograms were higher than in 2011? Where did medicines end up during those years?

Sixth, between 2013 and 2014, there was reportedly a decrease of 24% in imports of pharmaceutical products, measured in dollars, it represented a drop from 3.2 billion to 2.4 billion

dollars<sup>(89)</sup>. However, imports measured in kilograms decreased by 50% and the average cost of imported pharmaceutical products obviously increased by 48% in both years, going from 58.62 US dollars to 86.80 dollars per kilogram. So, why was the decrease of imports in kilograms higher than the decrease of allocated foreign exchange in 2014?

### **Foreign exchange allocated to large pharmaceutical corporations**

As mentioned before, the import of pharmaceutical products into Venezuela is the responsibility of pharmaceutical private companies; therefore, foreign exchange is allocated by the National Government to these companies. Since 2004, foreign exchange for the import of pharmaceutical products was allocated to 193 private companies<sup>(90)</sup>. Fifty percent of the total allocations concentrated in ten companies, and 80% in no more than forty companies – The largest transnational corporations in the world that produce and distribute pharmaceuticals. On average, these forty companies received in 2014, 86% more foreign exchange if compared against the allocations in 2004-2011.

The chart below shows the list of the ten companies receiving 50% of the foreign exchange for the pharmaceutical sector since 2004. It also shows the amount of foreign exchange allocated from 2004 through 2014<sup>(91)</sup> and a comparison between the foreign exchange allocated in 2014 and in the 2004-2011 period. These

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89 It is important to insist that the amount of foreign currency allocated between 2013 and 2014 was 5.2 and 4 times higher than those years when there was no shortage.

90 The list of private companies receiving foreign currency from the National Government between 2004 and 2014 can be found in Cencorex [website], <<http://www.cencorex.gob.ve/images/stories/pdfs/estadisticas/Salud.pdf>>, and <[http://www.cencorex.gob.ve/images/stories/indicadores/empresas\\_2004\\_diciembre2012](http://www.cencorex.gob.ve/images/stories/indicadores/empresas_2004_diciembre2012)>.

91 This excludes 2013, given that information on that year is not available.



are the largest world pharmaceutical corporations responsible for the import and distribution of 50% of pharmaceuticals in Venezuela.

## FOREIGN EXCHANGE ALLOCATED TO COMPANIES IN THE HEALTHCARE SECTOR

COMPANY	OVERALL TOTAL (2004-2011)	2014*	MONTHLY 2004-2011	AVERAGE 2014*	VARIATION (2004-2011/2014)	PERCENTAGE OF THE TOTAL	CUMULATIVE PERCENTAGE
	US\$	US\$	US\$	US\$	%	%	%
ABBOTT LABORATORIES, C.A.	1,183,601,295	136,455,250	12,329,180	17,056,906	38	7,76	7,8
PRODUCTOS ROCHE	1,180,454,919	115,943,301	12,296,405	14,492,913	18	7,74	15,5
NOVARTIS DE VENEZUELA, S.A.	831,923,104	78,578,774	8,665,866	9,822,347	13	5,46	21,0
BAYER, S.A.	804,674,374	126,135,978	8,382,025	15,766,997	88	5,28	26,2
PFIZER VENEZUELA, S.A.	795,963,771	105,909,665	8,291,289	13,238,708	60	5,22	31,5
SANOFI-AVENTIS DE VENEZUELA, S.A.	751,111,826	103,980,350	7,824,082	12,997,544	66	4,93	36,4
MERCK, S.A.	552,781,337	105,741,558	5,758,139	13,217,695	130	3,62	40,0
ASTRAZENECA VENEZUELA, S.A.	489,040,024	37,575,989	5,094,167	4,696,999	-8	3,21	43,2
MERCK SHAR & DOHME DE VENEZUELA, S.R.L.	476,524,642	160,091,224	4,963,798	20,011,403	303	3,12	46,3
LABORATORIOS LETI, S.A.V.	363,153,377	64,414,560	3,782,848	8,051,820	113	2,38	48,7
GLAXOSMITHKLINE, VENEZUELA C.A.	341,403,015	38,412,957	3,556,281	4,801,620	35	2,24	51,0
*Foreign exchange allocated from January to August 2014							
Source: CENCOEX							

Given the shortage levels, 40% in 2013 and 60% in 2014, it was expected that the level of imports and foreign exchange allocation would have been lesser than in the years were shortages were not recorded. We expected to see an abrupt decrease in foreign exchange allocation, at least, in the same proportion as the increase of shortages. Nonetheless, the opposite may be observed, the level of both imports and foreign exchange allocation increased in 2012, 2013 and 2014. According to the analysis, the lack of foreign exchange allocation has not seemingly caused the 2012-2014 shortage of medicines recorded in Venezuela.

Since no information on 2015 imports and foreign exchange allocation<sup>(92)</sup> is available, the analysis was based on the annual

92 Figures are published up to 2014.

financial and accounting reports published precisely by the aforementioned largest companies<sup>(93)</sup>. If the shortage of medicines reached 70% in 2015, it was expected that this situation would be reflected on the financial reports of these corporations and explained by a decrease both in net sales and in operating profits.

### **Financial reports by the largest pharmaceutical corporations**

None of the ten largest pharmaceutical corporations responsible for importing 50% of pharmaceuticals in Venezuela recorded an operating loss, operating profit decrease or a sales decline during 2015. On the contrary, in several cases, increases in net sales were reported. Nor did these corporations record operating losses or sales declines during 2012, 2013 and 2014.

The “losses” reported by all these companies correspond to the depreciation of their assets when converted into foreign exchange due to the devaluation of the bolivar. In this regard, it is important to clarify, firstly, that these depreciation caused by the conversion of assets into foreign exchange is not related to the operating results. In other words, this loss has nothing to do with the income gap by reason of sales and costs. One thing is the level of operating sales, and another very different thing is how the value of their assets is estimated.

Secondly, it is noteworthy that all these companies have reported occasional losses of value in their assets in times of devaluation; however, they never reported occasional profits in the value of their assets considering that the National Government has been allocating foreign exchange to these companies at a

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93 These large transnational corporations are obliged to publish their financial reports on a quarterly and annual basis, showing financial results of both the parent company and subsidiaries in each country.

preferential rate. In the case of medicines, foreign exchange is allocated at a subsidized exchange rate.

The table below summarizes the data contained in the annual reports submitted by the ten largest pharmaceutical corporations receiving 50% of the foreign exchange allocated to import pharmaceuticals to Venezuela. The analysis focuses especially on year 2015.

PHARMACEUTICAL CORPORATION	FINANCIAL REPORT
<b>ABBOTT LABORATORIES, C.A.</b>	“Revenues for operations in Venezuela represented approximately 2% of Abbott’s total net sales; total net sales without taxes accounted approximately US\$ 200 million in 2015 and US\$ 175 million in 2014. Abbott’s sales in Venezuela primarily refer to nutritional products segments and established pharmaceutical segments”. (Abbott, 2014; p. 44 <sup>(1)</sup> ).
<b>PRODUCTOS ROCHE</b>	In the first quarter 2016, this company reported an increase of 21% in net sales in Latin America. It did not report a decrease in sales in Venezuela (Roche, 2016; p. 35) <sup>(2)</sup> . In 2015 Annual Report fails to mention Venezuela. It reports neither sells decreases nor losses in Venezuela. (Roche, 2015) <sup>(3)</sup> . “Sales in the International region were 2% higher, with strong growth in Latin America, in particular Venezuela, Argentina and Brazil, as well as in Algeria”. (Roche, 2014; p. 42) <sup>(4)</sup> .

1 Abbott, “Financial Reporting”, [website], <<http://www.abbottinvestor.com/phoenix.zhtml?c=94004&p=irol-proxy>>.  
2 Roche, [online document], <<http://www.roche.com/irp1q16e-a.pdf>>.  
3 Roche, [online document], <<http://www.roche.com/gb15e.pdf>>.  
4 Roche, [online document], <<http://www.roche.com/gb14e.pdf>>.

PHARMACEUTICAL CORPORATION	FINANCIAL REPORT
<b>NOVARTIS DE VENEZUELA, S.A.</b>	<p>“Other financial income and expense amounted to an expense of USD 454 million compared to USD 31 million in the prior-year period, mainly on account of the exceptional charges of USD 410 million related to Venezuela due to foreign exchange losses of USD 211 million and monetary losses from hyperinflation accounting of USD 72 million and a loss of USD 127 million on the sale of PDVSA bonds.” (Novartis, 2015; p. 144) <sup>(5)</sup>.</p> <p>“Net income from continuing operations of USD 7.0 billion was down 34% (-18% cc) declining more than operating income mainly due to the exceptional charges related to Venezuela in the current year.” (Novartis, 2015; p. 144) <sup>(6)</sup>. As previous companies did, Novartis did not report operating losses during the period under consideration.</p>
<b>BAYER, S.A.</b>	<p>“As of December 31, 2015, Bayer S.A., Venezuela, had trade accounts equivalent to €121 million (2014: €150 million) payable to other group companies in U.S. dollars”. (Bayer, 2015; p. 241) <sup>(7)</sup>.</p>

5 Novartis, Annual Report 2015, [website], <<https://www.novartis.com/sites/www.novartis.com/files/novartis-annual-report-2015-en.pdf>>.

6 Novartis, Annual Report 2015, [website], <<https://www.novartis.com/sites/www.novartis.com/files/novartis-annual-report-2015-en.pdf>>.

7 Bayer, Integrated Annual Report, [website], <<http://www.bayer.com/en/integrated-annual-reports.aspx>>.

PHARMACEUTICAL CORPORATION	FINANCIAL REPORT
<b>PFIZER VENEZUELA S.A.</b>	<p>“As of December 31, 2015... our Venezuela revenues for 2015 are equivalent to approximately US\$34 million (converted using the SIMADI 200 rate).” (Pfizer, 2015; p. 55) <sup>(8)</sup>.</p> <p>However, when converted at the constant exchange rate, which was the exchange rate allocated by the government—that is 6.3 rate, the Pfizer revenues would amount to 1,079 million dollars in 2015.</p> <p>“During 2014, our <i>Revenues</i> from Venezuela totaled approximately US\$716 million (converted using the 6.3 rate) These amounts may grow in the future.” (Pfizer, 2014; p. 48) <sup>(9)</sup>.</p> <p>We recall the fact that in 2014, Venezuela faced an epidemic of chikungunya and dengue, whose treatment are based on analgesics, especially acetaminophen. Yet, there was shortage of this active ingredient, in particular the <i>Atamel</i> branded, manufactured by Pfizer, which contrasts with the revenue increase reported by this company in 2014.</p>
<b>SANOFI-AVENTIS DE VENEZUELA S.A.</b>	<p>“In emerging markets, the Generics Business generated net sales of €1,094 million, an increase of 5.2% CER, driven by Eurasia/Middle East and Venezuela.” (Sanofi, 2015; p. 32) <sup>(10)</sup></p> <p>“Aggregate net sales in Latin America advanced by 4.0% CER to €3,305 million. Growth was boosted by a favorable sequence of purchases in the local market in Venezuela (+ 22.2% CER, at €457 million)” (Sanofi, 2015; p.100) <sup>(11)</sup></p> <p>“In 2015, the Venezuelan subsidiaries contributed €455 million to consolidated net sales.” (Sanofi, 2015; p. 234) <sup>(12)</sup></p> <p>“In 2014, Venezuela contributed €388 million to consolidated net sales.” (Sanofi, 2015; p. 256) <sup>(13)</sup></p>

8 Pfizer, Appendix A. 2015 Financial Report, [website], <[https://www.pfizer.com/system/files/presentation/2015\\_Pfizer\\_Financial\\_Report.pdf](https://www.pfizer.com/system/files/presentation/2015_Pfizer_Financial_Report.pdf)>.

9 Pfizer, Appendix A. 2014 Financial Report, [website], <[https://www.pfizer.com/system/files/presentation/2014\\_Pfizer\\_Financial\\_Report.pdf](https://www.pfizer.com/system/files/presentation/2014_Pfizer_Financial_Report.pdf)>.

10 Sanofi, Form 20-F 2015, [website], <[http://en.sanofi.com/Images/45889\\_Sanofi\\_20-F\\_2015\\_V2.pdf](http://en.sanofi.com/Images/45889_Sanofi_20-F_2015_V2.pdf)>.

11 Ibidem.

12 Ibidem.

13 Sanofi, Form. 20-F 2014, [website], <[http://en.sanofi.com/Images/38473\\_Sanofi\\_20-F\\_2014.pdf](http://en.sanofi.com/Images/38473_Sanofi_20-F_2014.pdf)>.

PHARMACEUTICAL CORPORATION	FINANCIAL REPORT
<b>MERCK S.A./ MERCK SHARP &amp; DOHME DE VENEZUELA, S.R.L.</b>	<p>"In fiscal 2015 Merck generated sales of €175.1 million, €168.3 million of which was attributable to the first half of 2015. Net sales using the CENCOEX exchange rate amounted to €221.1 million in 2014". (Merck, 2015, p. 191) <sup>(14)</sup></p> <p>However, when calculating the amount of 2015 total sales (even, the second half) at the subsidized exchange rate to which the currencies were allocated, resulted an amount of €397 million. Hence, there was an increase from €221.1 million in 2014 to €397 million in 2015.</p>
<b>ASTRAZENECA VENEZUELA S.A.</b>	<p>"During the latter part of 2015, the Company implemented further targeted restructuring of our commercial business, principally in Venezuela (in response to challenging economic conditions) and Europe" (Astrazeneca, 2015; p. 68) <sup>(15)</sup></p> <p>However, they report neither losses nor revenue decrease during this year.</p> <p>"The Latin American pharmaceutical market continues to grow. AstraZeneca sales were down 1% to US\$1,188 million (2012: US\$1,331 million; 2011: US\$1,455 million), driven principally by declines in Mexico, down 18%, with sales also slightly down by 1% in Brazil. This was partially offset by Argentina (up 22%) and sales growth in Venezuela (up 7%)." (Astrazeneca, 2013; p. 219) <sup>(16)</sup></p> <p>In the 2014 report, no losses or sales decrease were reported in Venezuela. (Astrazeneca, 2014) <sup>(17)</sup></p>
<b>LABORATORIOS LETI, S.A.V</b>	A local equity company whose reports are not published in the internet.

14 United States Securities and Exchange Commission, Form 10-K, [website], <[http://s21.q4cdn.com/488056881/files/doc\\_financials/2015/annual/MRK\\_2015\\_Form\\_10-K\\_FINAL\\_r879.pdf](http://s21.q4cdn.com/488056881/files/doc_financials/2015/annual/MRK_2015_Form_10-K_FINAL_r879.pdf)>.

15 Astrazeneca, Annual Report and Form 20-F Information 2015, [website], <<http://www.astrazeneca-annualreports.com/2015/>>.

16 Astrazeneca, Annual Report and Form 20-F Information 2013, [website], <[http://www.astrazeneca-annualreports.com/2013/assets/pdfs/AstraZeneca\\_Annual\\_Report\\_2013.pdf](http://www.astrazeneca-annualreports.com/2013/assets/pdfs/AstraZeneca_Annual_Report_2013.pdf)>.

17 Astrazeneca, Annual Report and Form 20-F Information 2014, [website], <<https://www.astrazeneca.com/content/dam/az/our-company/investor-relations/presentations-and-webcast/Annual-Reports/2014-Annual-report-Annual-Reports.pdf>>.

PHARMACEUTICAL CORPORATION	FINANCIAL REPORT
<b>GLAXOSMITHKLINE, VENEZUELA C.A.</b>	<p>“Because of the continuing political and economic uncertainties in Venezuela, at 31 December 2015, we changed the exchange rate used to translate our subsidiaries in Venezuela. Up to that point, we applied one of the official rates available of VEF 6.3/US\$1. At 31 December 2015, this was changed to VEF 199.6/US\$1 (VEF 293.4/£1). This change had no significant impact on the Group income statement, but gave rise to an exchange loss on translation of the cash held by the Venezuelan subsidiaries of £94 million.” (Glaxo, 2015; p. 69) <sup>(18)</sup></p> <p>In the 2014 report, no losses or sales decrease were reported in Venezuela. (Glaxo, 2014) <sup>(19)</sup>.</p>

18 GSK, Annual Report 2015, [website], <[http://annualreport.gsk.com/downloads/GSK\\_Annual\\_Report\\_2015.pdf](http://annualreport.gsk.com/downloads/GSK_Annual_Report_2015.pdf)>.

19 GSK, Annual Report 2014, [website], <<http://www.gsk.com/media/609156/20-f-2014.pdf>>.

### On personal care and household products

The same situation has affected the personal care and household products market, which have also recorded shortage levels since 2012 and whose imports, production and distribution are mainly in the hands of large transnational corporations.

By March 2012, headlines read: “Personal care products are almost non-existent in supermarkets and drugstores. Bath soap, deodorant, shampoo, toothpaste, sanitary napkins, toilet paper and shaving cream for men are the articles in greatest demand by consumers”<sup>(94)</sup>. Even in 2013, the shortage of these products was tangible: “... it is increasingly common for buyers to seek a growing number of personal care products, given the fact that

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94 Dulce María Rodríguez, “Se agudiza escasez de productos de higiene personal y surgen opciones artesanales”, El Nacional [website], March 11th 2016, <[http://www.el-nacional.com/economia/agudiza-productos-personal-opciones-artesanales\\_0\\_809319318.html](http://www.el-nacional.com/economia/agudiza-productos-personal-opciones-artesanales_0_809319318.html)>.

many well-known and well-established trademarks have stopped manufacturing several product lines”<sup>(95)</sup>.

By 2014, the shortage of these products was already apparent:

To the list of products in short supply, where toilet paper and napkins have been recorded since last year, spray and bar deodorant, bath soaps, shampoo, body cream, razors, sanitary napkins and spare parts for shavers are also included now. Items such as washing powder, chlorine bleaching, dishwashing soap, fabric softeners, floor waxes, toothpaste and disinfectants, to mention a few, cannot be found regularly<sup>(96)</sup>.

However, when reviewing the annual financial reports of four of the large companies controlling this market in Venezuela, namely: Procter & Gamble, Colgate, Kimberly Clark and Johnson & Johnson, we notice that none of these companies have recorded any operating loss or sales decline in Venezuela during the last years, including 2015. As happened with pharmaceutical corporations, the “losses” that these companies have recorded are associated with the valuation of their assets. On the other hand, when we analyze the amount of foreign exchange that the government has allocated to these transnational corporations, we see that the amount allocated to each of these four companies has increased.

Johnson & Johnson Consortium runs several companies in Venezuela. Mead Johnson Nutrition is in charge of the import and distribution of infant and nutritional formulas; Johnson and Johnson Medical is responsible for healthcare supplies; and

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95 “Escasez golpea a productos de cuidado y aseo personal”, El Impulso [website], August 2nd 2013, <<http://www.elimpulso.com/noticias/economia/escasez-golpea-a-productos-de-cuidado-y-aseo-personal>>.

96 “Se agudiza escasez de artículos de higiene personal”, El Impulso [website], July 2nd 2014, <<http://www.elimpulso.com/noticias/economia/se-agudiza-escasez-de-articulos-de-higiene-personal-fotos>>.



Johnson & Johnson for personal care and household products. This consortium received around 2.8 million dollars a month between 2004 and 2011, and in 2014 alone, it received from the government the amount of 11.6 million dollars a month, that is, an additional 318% of foreign exchange, four times more than what it has historically received, and yet all the products of this company have been in short supply.

In reviewing their annual financial reports, we observe that they do not record operating losses in Venezuela during the last years, including 2015. On the contrary, they maintain their operating profits, increased, in turn, by receiving subsidized foreign exchange from the National Government. One of their reports states: “Our branch office in Venezuela shows that a lower gross profit was partially offset by the differences in the exchange from cash received at the Venezuelan Government’s official rate, compared to the SICAD I rate adopted by the company in February 2014”<sup>(97)</sup>. Another report reads: “the company strives for keeping its profit margins through cost reduction programs, productivity improvement and significant price increases”<sup>(98)</sup>.

Concerning Procter & Gamble, it received an additional 432% of foreign exchange in 2014 against their historical 2004-2011 allocations record.

In 2014, it received US\$58.7 million, 5.3 times more than its monthly allocation between 2004 and 2011, that is, US\$11 million. Its annual reports do not record operating losses or decline in sales in Venezuela (P&G, 2014 and 2015<sup>(99)</sup>). On the

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97 MeadJohnson Nutrition [website], <<http://investors.meadjohnson.com/phoenix.zhtml?c=226007&p=irol-IRHome>>, pp.34.

98 Johnson & Johnson, Annual Report Pursuant To Section 13 of The Securities Exchange Act Of 1934, [website], December 28th 2014, <<http://www.investor.jnj.com/secfiling.cfm?filingid=200406-15-4&cik=>>>, p.38.

99 P&G. 2015 Annual Report, [website], <<http://www.pginvestor.com/>>

contrary, in a statement issued by this company in July 2015, it announced its intentions to stay and continue to invest in Venezuela, a decision that it would not have made were Venezuela a loss-generating market: “In recent years, the Company has made substantial investments in the country aimed at increasing local production capacity and offering innovation in our products. As a result, our local production capacity has increased by more than 50%, and today we enjoy absolute preference from Venezuelan consumers, who have granted our trademarks a leading position in the categories where they compete”<sup>(100)</sup>.

Kimberly Clark Venezuela, the company responsible for the import and distribution of toilet paper and sanitary napkins, received 958% more foreign exchange in 2014 than the amount allocated between 2004 and 2011 by the National Government. The company was allocated US\$ 9.8 million per month in 2014, whereas, from 2004 through 2011, the monthly allocation was US\$ 800,000. Kimberly Clark’s annual financial report for 2015 does not record operating losses or decline in net sales in Venezuela. It only refers to the company’s calculations to revalue its assets due to devaluation processes, which, as mentioned before, are not attributable to declines in sales or profits (Kimberly-Clark, 2015)<sup>(101)</sup>.

As for Colgate-Palmolive, in 2014, this company received 2.7 times more foreign exchange than it did between 2004 and 2011, that is, an additional 176%. Between 2004 and 2011, the monthly

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[Cache/1001201800.PDF?O=PDF&T=&Y=&D=&FID=1001201800&iid=4004124](http://www.pginvestor.com/interactive/lookandfeel/4004124/PG_Annual_Report_2014.pdf)>, y <[http://www.pginvestor.com/interactive/lookandfeel/4004124/PG\\_Annual\\_Report\\_2014.pdf](http://www.pginvestor.com/interactive/lookandfeel/4004124/PG_Annual_Report_2014.pdf)>.

100 La Patilla, “Statement of P & G”, [website], <<http://www.lapatilla.com/site/2015/07/30/comunicado-de-pg-metodo-contable-se-fijara-a-tasa-simadi/>>.

101 Kimberly Clark Corp, Form 10, Annual Report, [website], <[http://www.cms.kimberly-clark.com/umbracoimages/UmbracoFileMedia/2015\\_AnnualReport\\_umbracoFile.pdf](http://www.cms.kimberly-clark.com/umbracoimages/UmbracoFileMedia/2015_AnnualReport_umbracoFile.pdf)>.

allocation was US\$ 4.9 million, whereas in 2014 it was US\$ 13.6 million. The 2013, 2014 and 2015 financial reports published by the company do not record losses by decrease of operating sales. Like the rest of the large corporations. They only refer to the calculation of the value of the company's assets in events of currency devaluation. They also mention the company's decision to change accounting methods, implying the "de-consolidation" of the branch office in Venezuela from the parent company<sup>(102)</sup>.

The dependence of the people in Venezuelan on large transnational corporations for the acquisition of medicines and personal care products is one of the weaknesses of its economy. These large foreign-funded corporations are responsible for supplying all markets. Their decisions have immediate and powerful effect on markets. They are large monopolies and oligopolies that concentrate capital, technology, production and the global distribution of these goods.

Despite having arrived this far in our analysis and despite the available information we cannot answer where the medicines and the personal care products are. However, we can affirm that the import levels of pharmaceutical products, measured in dollars or in kilograms from 2012 to 2014, do not correspond to the shortage levels recorded.

We can also affirm that the large corporations of the pharmaceutical industry responsible for the import of medicines in Venezuela have received foreign exchange from the National Government. We can further assert that these large transnational corporations have reported no losses or a decline in their net sales during the last four years, including 2015 and 2016. Conversely,

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102 Colgate Palmolive, Annual Report 2015, [website], <<http://www.colgate.com/us/en/annual-reports/2015/home/>>; <<http://www.colgate.com/us/en/annual-reports/2014/home/>>; <<http://www.colgate.com/us/en/annual-reports/2013/home/>>

several of them have reported increases in sales of medicines in Venezuela last year.

We can show that the large transnational corporations responsible for importing and supplying personal care and household products have received an amount of foreign exchange that sufficiently covers the requirements for such purposes. In addition, they have not recorded any losses or decrease in their sales; on the contrary, they have expressed their intention to continue to be present in the Venezuelan market.

Neither economic nor accounting factors can explain the shortage of medicines and personal care products in Venezuela since 2012. Other factors have an impact on this phenomenon. Factors, decisions and political and geopolitical actions are behind the fact that the people in Venezuela are being subjected to ruthless states of anguish concerning the impossibility of getting medicines.

History shows that formal declarations of economic blockades or commercial embargoes are not essential to actually carry out actions that affect economies, or rather, the peoples, and which prevent or make it difficult for them to have access to essential goods, food and medicines - Mechanisms to exert pressure in order to achieve political objectives.

According to the declassified documents related to the coup in Chile on September 11, 1973, published on the National Security Archives website of the United States of America, “the Nixon administration did engage in an invisible economic blockade against Allende, intervening at the World Bank, IDB, and Export-Import bank to curtail or terminate credits and loans to Chile before Allende had been in office for a month”<sup>(103)</sup>.

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103 The National Security Archive, The Georgetown University, [online document]

On September 15, 1970, the US President Richard Nixon asked Henry Kissinger, National Security Adviser, to come up with a plan of action that would prevent Salvador Allende, the newly elected president of Chile, from taking office. Among the instructions issued by President Nixon, he emphasized the need to make “the economy scream” in Chile<sup>(104)</sup>.

It is stated in the documents that President Nixon decided to take on a “correct but cool” public position to avoid the Government of Allende from laying a foundation that would allow him to obtain national and international support for the consolidation of the regime; but at the same time, he decided to maximize the pressures on that government to avoid its consolidation and to limit its capability to implement policies contrary to the interests of the United States. He issued instructions to reduce assistance and investments in Chile, and issued the order not to engage in new economic commitments<sup>(105)</sup>.

Unlike the economic, commercial and financial blockade of the United States against Cuba decreed in February 1962, in the case of Chile it was not declared, there was no resolution whatsoever issued by that country; on the contrary, as appears from the declassified documents of the National Security of the United States, it was undercover.

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<<http://nsarchive.gwu.edu/NSAEBB/NSAEBB8/nsaebb8.htm>>; <<http://nsarchive.gwu.edu/NSAEBB/NSAEBB8/docs/doc09.pdfpp.1>>. Translated by the author.

104 The instructions were given at a meeting attended by President Richard Nixon, Henry Kissinger, and the director of the CIA, Richard Helms, who recorded handwritten the orders received. The document can be consulted online <<http://Nsarchive.gwu.edu/NSAEBB/NSAEBB8/docs/doc26.pdf>>. It is also recommended to read the declassified documents related to the military coup in Chile on June 11 1973, [online document] <<http://nsarchive.gwu.edu/NSAEBB/NSAEBB8/nsaebb8.htm>>.

105 For more details, see the memorandum sent on November 9th 1970 by Henry Kissinger summarizing the policies of the United States towards Chile. Specifically read the literals a, b, c and d (p.2). National Security Council, National Security Decision Memorandum 93, Policy towards Chile, 9 November 1970, [online document], <<http://nsarchive.gwu.edu/NSAEBB/NSAEBB8/docs/doc09.pdf>> pp. 1>.

The US Government was aware of the political implications of this type of economic sanctions at that time. In this regard, we quote a fragment of the December 4, 1970 document addressed to Henry Kissinger and prepared by the interagency working group on Chile, which was appointed by President Nixon to design proposals for sanctions and pressures against the Government of Allende:

The array of favorable and unfavorable effects of applying any or several of these additional [non-legislative and economic] sanctions is different only in degree from the effects already listed for the “standard” [legislative and military] sanctions. The unfavorable reactions could be expected to be strongest were sanctions to take on the color of “economic warfare” as might be implied from a severe application of the Export Control Act or the Trading with the Enemy Act<sup>(106)</sup>. In that event, Chile might well attack the U.S. in the OAS and perhaps in other forums because for “economic aggression” or “unlawful intervention.” Chile might call attention to Article 19 of the OAS Charter, which provides that “no State may use or encourage the use of coercive measures of an economic or political character in order to force the sovereign will of another State and obtain from it advantages of any kind”<sup>(107)</sup> ... If strong sanctions were applied in the absence of

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106 The Trade with the Enemy Act of 1917 authorizes the President of the United States to regulate commercial transactions in a period of war or during any other period of national emergency declared by the president.

107 We transcribed Article 19 of the Charter of the Organization of American States (OAS): “Article 19: No State or group of States has the right to intervene, directly or indirectly, and for whatever reason, in the internal or external affairs of any other. The foregoing principle excludes not only armed force, but also any other form of interference or tendency that threatens the personality of the State, the political, economic and cultural elements that constitute it,” OAS, 1948. We supplement the information, citing Article 20 of the same instrument: “Article 20: No State may apply or encourage coercive measures of an economic and political nature to force the sovereign will of another State and obtain

demonstrable Chilean interventionism or threatening military ties with the USSR, Chile would find some public and more private sympathy from Latin American governments for the “economic aggression” charge. An at least equally sympathetic response could be anticipated from some sectors of public opinion in Latin America<sup>(108)</sup>.

There are several similarities between what happened in Chile in 1970-1973 and what is currently happening in Venezuela<sup>(109)</sup>. In March 2015, after US President Barack Obama declared Venezuela an extraordinary and unusual threat to the national security and foreign policy of that country<sup>(110)</sup>, the Foreign Minister of the Bolivarian Republic of Venezuela, Delcy Rodríguez, denounced:

A financial and commercial blockade is on the agenda, an economic blockade, and the whole nation must be aware of it. Do not believe the story about a set of sanctions against a group of Venezuelans. No. Venezuelans will be affected by this law, and this

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from it any advantages of any kind.” OAS, 1948, [online document], [https://www.oas.org/dil/esp/afrodescendientes\\_Manual\\_Formacion\\_Lideres\\_anexos.pdf](https://www.oas.org/dil/esp/afrodescendientes_Manual_Formacion_Lideres_anexos.pdf)

108 Department of State, Memorandum for Henry Kissinger on Chile, December 4, 1970, pp. 38-39 [online document], <<http://nsarchive.gwu.edu/NSAEBB/NSAEBB8/docs/doc20.pdf>>.

109 For example, one of the similarities between the coup in Chile in 1973 and to what is currently taking place in Venezuela, is the “diplomatic” effort to force the expulsion of Chile from the Organization of American States (OAS), or its resignation, as well as negotiations with other Latin American countries for that purpose. It is recommended to read the declassified documents of the coup in Chile in 1973, especially those that show the different options presented to President Nixon to bring about the overthrow of Allende. The documents are available on the Washington National Security archives page, [online document], <<http://nsarchive.gwu.edu/NSAEBB/NSAEBB8/nsaebb8.htm>>. The memorandum prepared by Henry Kissinger on 4 December 1970 contains the five scenarios related to Chile’s participation in the OAS and the options proposed to force its expulsion from the agency, [<http://nsarchive.gwu.edu/NSAEBB/NSAEBB8/docs/doc20.pdf>].

110 You can read Obama’s Executive Order online <<http://www.elmundo.com.ve/noticias/actualidad/noticias/descargue---decreto-de-barack-obama-con-las-sancio.aspx>>.

should call us for national union and reflection. What happened is significantly serious, unheard of in the history of our country<sup>(111)</sup>.

In order to carry out a trade embargo, especially a covert embargo, it is necessary to have the support of economic agents with a power over the markets big enough to influence economy. Large transnational corporations play an important role in these actions, as well as the banks and the financial sector. In this century, world markets are visibly in the hands of large corporations, and the economy of the planet is at the service of 1% of the population that concentrates world wealth<sup>(112)</sup>.

Insofar as capital, technology, production and distribution of goods and services, including finance and communications, are concentrated in a few hands and constitute monopolies and oligopolies, they will have a major power to influence markets and dominate the economies through the fixing of prices and quantities supplied,. If, on top of that, they deal with goods and services associated to life, such as food, health and transportation, the power of these corporations is greater.

It becomes necessary to remember that the presence of monopolies or oligopolies, by definition, implies dependence by those who need, demand and consume the goods and services produced and distributed by these large corporations.

Has anybody by any chance given an order to make the Venezuelan economy scream? We will only find out when the manuscript of whomever was taking notes at that time be declassified.

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111 "US interventionist actions contemplate possible economic blockade against Venezuela", AVN [webpage], 11 March 2015, <<http://www.avn.info.ve/contenido/canciller-advierte-que-acciones-eeuu-contra-venezuela-buscan-bloqueo-econ%C3%B3mico>>.

112 Oxfam [website], <[https://www.oxfam.org/sites/www.oxfam.org/files/file\\_attachments/bp210-economy-one-percent-tax-havens-180116-es\\_0.pdf](https://www.oxfam.org/sites/www.oxfam.org/files/file_attachments/bp210-economy-one-percent-tax-havens-180116-es_0.pdf)>.



## **V. INTERNATIONAL FINANCIAL BLOCKADE**

Another weapon used in the framework of this unconventional warfare against the people in Venezuela is international financial blockade. It consists in creating increasing difficulties to access credit in international financial markets for the country or its domestic companies -mainly PDVSA- and in hampering international financial transactions.

This blockade does not necessarily imply denial of loans to the country by investors, but the placement of hardships to access them by making them increasingly costly, i.e., by fixing higher interest rates. The mechanism to make the access to international credit more difficult is based on a number of strategies aiming at portraying Venezuela as a financially risky country for investors.

Like other economic warfare weapons, international financial blockade has been concealed and veiled. It has been based mainly on the publication of country-risk indicators that do not correspond to the economic and financial reality, as well as on actions by financial intermediaries that slow down financial transactions. These mechanisms seek to manipulate markets and, in so doing, they also distort the perception of risk regarding Venezuela.

The hand that visibly manipulates financial markets, and the behavior of its agents, continues to be that of large corporations, in this case, that of the financial world. We highlight the three credit rating agencies of the world economy controlling 95% of these markets: Moody's Investors, Standard & Poor's, and Fitch Ratings. We also highlight the banks responsible for country-risk calculation: Credit Suisse, Bank of America, J.P. Morgan, Morgan Stanley and Deutsche Bank.

We especially draw attention to the fact that they are private enterprises responding to the particular interests of its financial clients. It is not a public service. These agencies are part of and hold stock in large companies and even mass media in the world.

### **Country-risk**

Country-risk is an index that seeks to measure the guarantee level of a State to fulfill its financial commitments. It expresses the probability that a debt issuing country is able to meet its principal and interest payment commitments under the terms set. It is a risk premium associated to the probability of foreign debt payment default. The higher the country -risk, the higher the risk premium, and therefore, in the event of international credits requests, the country will have to pay higher interest rates to cover such premium. In other words, investors will demand a higher return based on the risk.

Therefore, the country-risk value is the difference between the interest rate of the risky country's debt in comparison to the countries deemed "risk-free" (in this case, in comparison to the debt issued by the United States). The result is expressed in points. Every 100 points equal an additional 1% interest rate. If the country-risk is 2000, the debt will cost 20% higher than the debt issued by the United States Treasury.

Large banks and rating agencies are responsible for continuously monitoring the credit risk of countries. Its daily publications influence the possibility for a country to have greater or lesser access to credits in the international financial markets, or in any case, that such credit may be more or less expensive. Very high rates could turn credits very expensive, thus redirecting the countries to the International Monetary Fund (IMF), whose

credit rates are lower, but involving the acceptance of a whole set of “macroeconomic stabilization” policies.

The question we pose is: Do these agencies act in a rigorously scientific way when calculating the country-risk or, conversely, they are hands that visibly manipulate the results in favor of their own interests or the interests of the global financial markets, or do they respond to political intentions beyond economic financial objectives?

Answering this question requires identifying the multiple factors on which country-risk measuring depends. Among them, and especially, the country’s capacity to service its debt, for instance, the foreign debt paid as a proportion of the total foreign debt related to the GDP; the economic performance, measured by indicators such as GDP or inflation. In the case of Venezuela, there are other indicators that could have an impact on country-risk, as the average oil barrel price because it represents over 95% of the foreign exchange revenues and, therefore, the payment capacity. Another important indicator is the level of international reserves<sup>(113)</sup>.

Venezuela is the country with the highest country-risk index. As of November 25, 2016, it amounts to 2,323 points, much higher than the second in the list, Ecuador, with 745 point, and also higher than Ukraine, with 698 (see chart 46).

Chart 47 shows the country-risk of Venezuela from December 2001 through August 2016. It can be observed, in the first place, that during this period, the country-risk index exceeded on average a thousand points, which rose up to 1,086. In the second

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113 Central Bank of Venezuela, *El riesgo-país y sus determinantes*, Caracas, BCV workbooks, Technical Series, 2000. See also: José Alberto García Freites, *Country risk: determinants in the Venezuelan case 1998-2000*, Caracas, Central Bank Of Venezuela, Central Banking and Society Series, Working Papers Series No. 54, 2004.

place, the lowest levels recorded correspond to April 2006, which by that time amounted to 167.

The behavior of country-risk trends is noteworthy: Between 2001 and March 2003 the country-risk shows an increasing trend; between March 2003 and December 2006, this trend is reversed and decreases. There is a new turning point and the index begins to increase from December 2006 to reach a maximum value in December 2008; between January 2009 and January 2013 the trend remains stable; as from February 2013 this index has been escalating.

Vis-à-vis this behavior of the country-risk trends, in theory, increases expectedly should match mainly defaults of foreign public debt service. High peaks of the country-risk, resulting from high variations in short periods, should also be expected to be related to economic situations such as sharp declines in oil prices, in GDP, or significant drops in international reserves, further to the above-mentioned defaults of foreign debt service. These are the cases, for example, of high positive variation of the country-risk from January 2007 to December 2008, or of the sustained increase since January 2013.

The following analysis seeks to explain the country-risk behavior vis-à-vis the rest of the associated variables pursuant to the economic theory, which also determine the country-risk behavior. In a historical series beginning in 2001, we compare the country-risk against the payment of the foreign debt service, and GDP, the oil barrel price and against the international reserves.

### **Country-risk and payment of foreign debt service**

In theory, default of the foreign debt service, especially public debt, should be reflected on increases in the country-risk index,

and vice versa<sup>(114)</sup>. However, in the case of Venezuela and during the period 2001-2016, the results show the opposite: higher levels of compliance with payment of foreign debt service are associated with higher country-risk. Chart 48 shows how the debt service payment increases concomitantly with the country-risk<sup>(115)</sup>.

We highlight the 2006-2008 term to note that the country-risk increased significantly as the debt service payment increased. In fact, those years recorded the greatest variation in country-risk: Between 2006 and 2007, the variation was 177% hiking from 183 to 577; from 2007 to 2008, the variation was 257% skyrocketing from 577 to 1808. Note that in 2007 the referendum for the reform of the Constitution was held and that during that year there were very high levels of planned and selective shortages. Likewise, the manipulations of the illegal exchange rate reached their peak.

Since 2013, when an escalation of the country-risk started, to the present, Venezuela has paid US\$63.566 billion for foreign public debt service. The country has fulfilled all its commitments in a timely manner, and however, the country-risk index hiked 202% during the same period, starting from 768 in 2012 to 2323 in 2016.

We have calculated the percentage that represents the payment of the foreign public debt service in relation to the total foreign public debt, so as to compare it against the country-risk.

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114 In statistical terms, we would expect a negative correlation, this means, an increase in payment of debt services should correspond to decreases of country-risk. Pearson's correlation coefficient therefore should be negative. And given the theoretical determination between the fulfillments of the service payments of the Country risk, we would also expect a relatively high and close to 1.

115 Pearson's correlation coefficient between country-risk and service external public debt for the period 2001-2016 proved to be, contrary to the expectations, Positive: 0.595 with a level of significance lower than 0.05.

That is, rather than analyzing the payment in dollars on account for debt service, we intended to assess the weight that said payment represents in the total foreign public debt. Theoretically, we expect that as the percentage of the service payment with respect to the total foreign debt is larger, the country-risk decrease. What we seek is to eliminate the effect of a possible increase in the foreign public debt<sup>(116)</sup>.

Chart 49 shows the trends for both indicators. As in the preceding analysis, a behavior is observed opposite to what was expected between 2006 and 2008, as the proportion of the foreign debt service payment with respect to the total foreign public debt was higher the country-risk, instead of decreasing actually increased. The same situation happened from 2013 to 2015, and in 2011<sup>(117)</sup>.

We found no connection between increases in country-risk in Venezuela with the payment of the foreign public debt service. Unlike the theoretical precept concerning the determination of compliance with debt service payments with respect to the country's risk rating, the opposite occurred in Venezuela - Higher timely payments of foreign public debt are associated with higher levels of risk country, especially in very particular periods between 2006 and 2008, and from 2012 onwards.

Therefore, the high country-risk levels of Venezuela cannot be explained by defaults of foreign public debt commitments. In this case, this economic variable does not explain the country-risk.

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116 In this case, and statistically, we would expect that to the extent that the proportion of the service payment with respect to the total foreign debt is higher, the country risk should be reduced. In other words, if more and more debt commitments are met, the risk should be reduced. That is, we expect a negative Pearson coefficient and close to 1.

117 Pearson's correlation coefficient, although it turned out to be negative, is closer to "0" than to 1, which indicates that there is a weak correlation between both variables.

## **Country-risk and oil barrel price**

There is no relation whatsoever between the oil barrel price and country-risk. Given the importance of exporting oil for the Venezuelan economy, particularly because it obtains over 95% of the country's foreign exchange revenues from this source, we expected to find a high negative relation between both variables. An increase in the price of oil should be accompanied by a decrease in country-risk and vice versa. However, the statistical results show a positive relation close to "0", which means that there is no correlation between both<sup>(118)</sup>.

Chart 50 shows the price of an oil barrel and country-risk. Observe that between 2006 and 2008, when the oil price increased, the risk also increased. From 2012 onwards, the decline in oil prices begins-. However, such prices until 2014 were on average much higher than other years. Therefore, relatively high increase in country-risk does not fit. Then, in 2015, a sharper decline in the price of oil is recorded along with an increase of the country-risk index.

But it was not like this in 2016, when a sharper decline of the oil price actually corresponded with a decrease in the country-risk index.

## **Country-risk and international reserves**

Country-risk and international reserves keep an inverse relationship. This means that, as expected, declines in international reserves were, in most of the years, associated with a country-risk increase. However, chart 51 shows, as it has been the case in the preceding analyses, that between 2006 and 2008 the

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118 Then in 2015, there is a further fall in the price of oil and an increase of country risk.

behavior is inexplicable from an economic point of view: An increase in international reserves was associated with country-risk increases. In contrast, since 2012, declines in international reserves correspond to country-risk increases, with the exception of 2016.

Statistically, although the relation, measured by the coefficient of correlation, proved to be negative as expected, such result is not significant. We cannot say, with a low margin of error, that this is the actual relation between both variables.

### **Country-risk and GDP**

There is no statistically and theoretically consistent relation between country-risk behavior and production levels. It was expected that if GDP increased, the country-risk would decline<sup>(119)</sup>, but the results showed the opposite. Chart 52 shows that the higher GDP, the higher is the country-risk. It happened between 2006 and 2008, as the GDP in 2008 recorded the highest since 2001, the increase between 2006 and 2008 was 14%, and as mentioned before, between these years, country-risk soared to 888%.

A similar behavior is observed between 2012 and 2013, the GDP increased 1% and the country-risk jumped 42%. Despite the fact that GDP between 2013 and 2015 recorded a 9% decline, the country-risk increased disproportionately: 142%.

Chart 52 also shows that the 2001-2003 country-risk index was relatively low despite the fact that those years were marked by a significant decline in GDP, which sunk 16%, and by a decline in the oil export revenues, a consequence, as it can be remembered, of the sabotage of the oil industry and the call for a general strike

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<sup>119</sup> Pearson correlation coefficient was expected to be negative and close to 1.



by the opposition against the National Government. During that period, the average oil barrel price did not exceed 25 dollars. In that term the country-risk conversely declined by 47.5%<sup>(120)</sup>.

### **Country-risk and inflation**

When comparing country-risk with inflation we observe that the country-risk increases with the price levels<sup>(121)</sup>. This result coincides with the expectations. Both variables are shown in chart 53 showing that even between 2006 and 2008, an increase in the country-risk index coincided with increases in price levels. Of course, whereas inflation rose from 17% in 2006 to 27.3% in 2008, a variation of 60%, the country-risk varied 888%. A similar situation occurred in 2013 and 2014; the country-risk increase was more proportional than that of inflation.

We highlight the results of the high positive relation between both variables, as well as their statistical significance, which means that these results allow us to confirm that, unlike the variables analyzed so far, there is an important relation between country-risk and inflation.

However, we must highlight the fact that, as shown in the second chapter, inflation in Venezuela has been induced through the manipulation of the Illegal exchange rate on web portals since 2006, especially and with greater intensity since August 2012. Given this result, we would expect that there was also a high relation between country-risk and the exchange rate in the illegal

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120 The Pearson correlation coefficient is 0.405 and a statistical significance of 0.134. Contrary to expectations, it is a positive relation. This indicates that as far as the GDP increases, also country risk increases. However, statistically the result is not significant, so we cannot say with a low margin of error that this is the relation between both variables.

121 Pearson's correlation coefficient was 0.738, with statistical significance of 0.002. i.e., positive and high, which means that an increase in inflation is associated with an increase of country-risk.

market, since the latter, as shown above, determines the levels of inflation in Venezuela.

### **Country-risk and the illegal exchange rate**

As expected from the rationale of the preceding paragraphs, there is a close relation between country-risk and the illegal exchange rate<sup>(122)</sup>, Chart 54 shows both variables. As the illegal exchange rate increases, or in other words, as the manipulation of the currency value is intensively used as a weapon to distort the economy by affecting domestic prices<sup>(123)</sup>, country-risk also increases.

Based on the above calculations and analysis, the country-risk in Venezuela, since 2001 and to the present day, has not been associated to the factors that should theoretically determine it; namely, the payment of foreign public debt commitments, the international reserves, the price of oil, and the GDP. On the contrary, it is highly associated with two variables whose behavior, in recent years, have been subject of manipulations with the aim of distorting the economy and generating political destabilization, i.e., the illegal exchange rate and inflation.

The behavior of the three variables -induced inflation, illegal exchange rate and country-risk- is closely related, and it is the result of the same political destabilization plan. In the first two cases, the objective is to distort the economy and erode the purchasing power, and in the case of country-risk, which goes hand in hand with the first two variables, the objective is to

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122 The Pearson correlation coefficient is 0.672 with a statistical significance of 0.004. there is a high positive relationship between country risk and the illegal exchange rate. As the value of the currency in the illegal market increases, also does the country risk.

123 Review the second chapter of this text entitled "Inflación inducida", which shows the relationship between the manipulation of the exchange rate in the parallel market and the variation of domestic prices, the inflation, in this case, an induced one.

hamper access to International financial credits, thus rendering them more expensive and forcing the country to seek international Monetary Fund's help, whose loans are granted at lower interest rates, but subject to the application of neoliberal policies to achieve the so-called "macroeconomic stabilization", especially at times when there is a sharp drop in oil prices.

It is not surprising that similar results are obtained between the country-risk and the levels of programmed and selective shortages. Should that be the case, we could say that the country-risk in Venezuela in recent years has been associated and manipulated, like all those variables (illegal exchange rate, shortages and inflation) in electoral times or at times of political unrest, that is, it also shows variations associated with political cycles.

Chart 55 shows that between 2003 and 2006, the levels of shortage and the country-risk decreased likewise. From 2006 until 2008, this trend is reversed and we notice a growth in both variables. Then, after 2008, certain stability of shortage and country-risk levels is recorded until 2013, when they resume escalation levels<sup>(124)</sup>.

It is important to highlight that even if country-risk also includes in its definition the relation with political variables, (since a higher or lower risk depends on political stability) we can state that in this case country-risk is directly associated to the manipulation of the illegal exchange rate and planned shortages, which at the same time show variations on the eve of electoral process or in times of political tension. These events result from

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124 Correlation coefficient of Pearson between both variables is 0,889, with a level of significance of 0,000, which means that there is a positive correlation and almost perfect between both. An increase of the shortage levels is associated to the increase of the country risk.

manipulation aimed at adversely affecting the political preferences of voters or to generate social unrest.

In other words, the relation sequence between these variables is as follows: On the eve of electoral process or during times of political unrest, the illegal exchange rate is manipulated in order to induce inflation and erode the purchasing power of the people in Venezuela. Likewise, the shortage of essential goods is programmed, thus causing long queues and illegal sales proliferation. Both manipulations of these markets by large local or transnational corporations, supported by local political factors, intend to impact the electoral preference of Venezuelans or create political tension.

We have identified that the disproportionate levels of the country-risk index is not based on the variables that theoretically determine it, (especially, those concerning the fulfillment of debt commitments) but it is rather associated to electoral process and the political moment.

No matter if those who calculate the country-risk are using the manipulated illegal exchange rate, the induced inflation rate or the programmed shortage rate as a reference, the result is a high correspondence between the country-risk and these other variables, which result from manipulations during election campaigns and in times of political unrest.

Further on the country-risk of Venezuela, it is necessary to note that 90% of Venezuelan bondholders have not redeemed them. Instead, they have kept them, which can be interpreted as a sign of confidence in the payment capacity of the Venezuelan State.

### **Other mechanisms of international financial blockage**

The manipulation of the country-risk, in this case, by the visible hands of the financial markets, has been accompanied by other mechanisms intending to block the access of Venezuela to international financial credits. Among them are worth mentioning the strong smear media campaigns focused on positioning public opinions locally and internationally whereby our country is insolvent and is swamped in an economic and financial crisis. Another mechanism used in this economic warfare against the people in Venezuela is the interruption, limitation and slowing down of Venezuela's financial operations in international banks.

### **Smear media campaigns**

In November 2013, headlines announced the worst financial crisis in Venezuela, as well as a *default* situation, for instance, "Venezuela is living the worst financial crisis in the last fifteen years"<sup>(125)</sup>. We have to remember that during 2013, US\$16.716 billion dollars were paid for the foreign public debt, it was the second year with the biggest payment of debt service since 2001 (see chart 48). In addition, the government allocated US\$30.859 billion to the private sector for purposes of importing goods (see chart 20). This allocation was above the annual average recorded since 2003, even it was higher than the average recorded in 2014 (27.48 billion dollars).

In other words, despite the 2013 public opinion campaigns, Venezuela not only met the foreign public debt commitments, but also reduced 8 % of the debt from US\$110.832 billion in

125 Ludmila Vinogradoff, "Venezuela vive su peor crisis financiera en los últimos quince años", *ABC* [website], November 15th 2013, <<http://www.abc.es/internacional/20131114/abci-venezuela-crisis-financiera-201311141702.html>>.

2012 to US\$10.794 billion in 2013<sup>(126)</sup>, but also complied with the allocation of foreign exchange for the import of goods. All this was achieved despite the 5% decrease of the global oil barrel prices, which dropped from US\$103.46 to US\$98.08. However, the country-risk index hiked 42% between 2012 and 2013, from 768 to 1090 (see chart 48).

In September 2014, some media reported that Venezuela would incur in default, in other words, it could not meet its public foreign debt commitments<sup>(127)</sup>. However, like the preceding year, the government not only paid 18.049 billion dollars by reason of public foreign debt service (the largest payment recorded since 2001) but also allocated 25.002 billion dollars to the private sector for the importation of goods. This brought about that the total amount of foreign debt decreased 11%, from 101.794 billion dollars in 2013 to 90.844 billion dollars in 2014, within the framework of a 10% decline of the oil barrel price, from 98.09 to 88.42 dollars. However, the country-risk soared 104% between 2013 and 2014, from 1,090 to 2,226.

Likewise, in October 2015, headlines stated that “Venezuela requires urgent economic measures to avoid default”<sup>(128)</sup>. However, in spite of a 50% drop in the oil barrel price, from 88.42 to 44.65 dollars, the country met all the debt payment commitments with 12.760 million dollars, even though the public foreign debt rose, with a 2% variation from 90.844 to 92.213 billion dollars<sup>(129)</sup>.

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126 BCV, data from many years.

127 Ricardo Hausmann, “¿Hará default Venezuela?”, *La Patilla* [website], September 5th, 2014, < <https://www.lapatilla.com/site/2014/09/05/escriben-ricardo-hausmann-y-miguel-angel-santos-hara-default-venezuela/> >.

128 See the article in *Notitarde* [website], October 26th 2015, <<http://www.notitarde.com/Economia/El-pais-requiere-medidas-economicas-urgentes-2537277/2015/10/26/677251/>>.

129 We don't have the information about foreign currencies allowance for 2015. The information is available only for three months of the year.

Between 2006 and 2008, the country-risk increased 888% from 183 to 1808. During those years, the price of the oil barrel increased 53%, from 56.35 to 86.49 dollars. The foreign debt commitments were met, and 23.788 billion dollars were paid in three years. In 2008 alone, 9.941 billion dollars were paid, which represents 25% of the total debt, which by that time increased to 38.511 billion. The smear campaign intended to portray that Venezuela was amidst a financial crisis<sup>(130)</sup>.

### **Smear media campaign against pdvsa 2017 bonds exchange**

Vis-à-vis the decision announced by PDVSA on September 13, 2016 to exchange the 2017 bonds for 2020 bonds, a strong smear campaign against this decision was launched. It was public opinion campaign positioning the idea that the company was insolvent or in default<sup>(131)</sup>.

On September 15, “*El Nuevo Herald*” and national media headlines read: “Pdvsa debt moratorium threatens oil exports”<sup>(132)</sup>. In order to prevent the oil company from exchanging the bonds, last September 18th other media published: “Standard & Poor’s reduced credit rating of Pdvsa from ‘CCC’ to ‘CC’ with negatives prospects”<sup>(133)</sup>. It is worth mentioning that part of the financial blockage mechanisms is associated, as explained above, to risk

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130 Víctor Salmerón, “Pese al brillo del crudo el riesgo país supera al de Argentina”, *El Universal* [website], August 15th 2008, <<http://venezuelareal.zoomblog.com/archivo/2008/08/15/pese-al-brillo-del-crudo-el-riesgo-pai.html>>.

131 Among other media, see: *Penzini Analítica* [website], September 15th 2016, <<http://www.analitica.com/penzini/penzini-analitica-bonos-pdvsa-2017-canjear-o-no/>>.

132 Antonio María Delgado, “Moratoria de deuda de Pdvsa amenazaría exportaciones petroleras”, *El Nuevo Herald* [website], September 15th 2015, <<http://www.elnuevoherald.com/noticias/mundo/america-latina/venezuela-es/article35386086.html>>.

133 “Standard & Poors rebaja calificación crediticia de Pdvsa de CCC a CC con perspectiva negativa”, *La Patilla* [website], september 19th 2016, <https://www.lapatilla.com/site/2016/09/19/standard-poors-rebaja-calificacion-crediticia-de-pdvsa-de-ccc-a-cc-con-perspectivas-negativas/>”.

assessment publications that, in this case, attempted to disqualify the company for the bonds exchange operation.

On October 19, the public opinion smear campaign against Pdvsá's decision, went on with media headlines like: "Default, bankruptcy and doubts, words used by the international media about the Pdvsá's bonds exchange attempts"<sup>(134)</sup>. On September 20, headlines continued: "A possible default of Pdvsá in Venezuela is anticipated"<sup>(135)</sup>, this information was based on Standard & Poor's report, where it "warned about the possible default of the most important oil company of that country in the event that the scheduled voluntary bonds exchange is carried out".

This campaign was systematic and continued until October 24, when the results of the operation were announced. Despite media aggressions, the exchange of bonds 2017 for new 2020 ones closed with a participation of 52.57%, which represents a total of 2.799 billion dollars. This percentage represents an average of 45.3% of the capital to be amortized in the bonds corresponding to November 2017<sup>(136)</sup>. Both the domestic and Pdvsá's bonds portfolio reacted with strong and high acceptance, when the success of the exchange operation was announced<sup>(137)</sup>.

## Financial intermediaries

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134 See: "Default, quiebra y dudas, las palabras que usa la prensa internacional para referirse a los intentos de canje", Runrun.es [website], October 19th 2016, <<http://runrun.es/la-economia/283285/default-quiebra-y-dudas-las-palabras-que-usa-la-prensa-internacional-para-referirse-a-los-intentos-de-canje-de-bonos-de-pdvs.html>>.

135 See: "Advierten sobre posible default de Pdvsá", *El Espectador* [website], 20 September 2016, <<http://www.elespectador.com/noticias/economia/advierten-sobre-posible-default-de-pdvs-venezuela-articulo-655807>>.

136 See: "Oferta de canje para bonos Pdvsá alcanzó 52,57% de la meta", *El Universal* [website], 24 October 2016, <[http://www.eluniversal.com/noticias/economia/oferta-canje-para-bonos-pdvs-alcanzo-5257-meta\\_624000](http://www.eluniversal.com/noticias/economia/oferta-canje-para-bonos-pdvs-alcanzo-5257-meta_624000)>.

137 See: "Pdvsá anuncia resultados del canje de bonos 2017 con alcance de 3,4% de la oferta", *Banca y Negocios* [website], s.f., <<http://www.bancaynegocios.com/pdvs-anuncia-resultados-del-canje-de-bonos-2017-con-alcance-de-394-de-la-oferta>>.



Financial intermediaries' intervention within the unconventional warfare against the people in Venezuelan has also contributed to hamper the access to less expensive financial credits by Venezuela.

In recent years, the international financial system has been promoting a blocking scheme and intends to isolate the financial operations of the Bolivarian Republic of Venezuela, through clogging the financial movement of several national entities (public and private) to make payments to suppliers, execute transactions, manage investment portfolio, and pay financial obligations and/or access to international funding sources.

For instance, it is noteworthy that Venezuelan operations in international banks have been hampered, slowed and interrupted. Such as the intentional delay on transactions made by the country and state-owned companies, as reported by Eulogio del Pino, PDVSA President, who stated that in spite of timely payments, their effectiveness is delayed by the international bank, thus resulting in uncertainty for investors and recipients<sup>(138)</sup>.

Furthermore, a unilateral cancellation of banking contracts against Venezuela has been carried out. This is the case of Citibank's decision in July 2016, when it suspended the accounts of the Venezuelan government entities<sup>(139)</sup>. It is remarkable that only the Central Bank of Venezuela and *Banco de Venezuela* accounts – state-owned banking entities – were suspended but the private entities accounts were not affected.

Citibank announced that its decision was based on the risk assessment and it would not change its commitment with

138 Declarations of the President of PDVSA, Eulogio del Pino, November 21st 2016, Youtube [webpage], <https://www.youtube.com/watch?v=vZ0JF8iORdY>

139 See: “¿Qué tan grave es para Venezuela que el Citibank haya cancelado las cuentas de su Banco Central?”, *BBC* [webpage], July 13th 2016, <<http://www.bbc.com/mundo/noticias-36787458>>.

Venezuela. We would like to learn the basis of such risk assessment, given that this has been widely discussed in this chapter. We wonder as well, why this decision was made at that moment instead of in 2008, when the country-risk increased more than 200%.

### **Final remarks**

Intending to show Venezuela, from a financial perspective, as a high-risk level country has been other weapon used in this economic and unconventional warfare. In one hand, the purpose is to dispel investments; and on the other, to block access to international credits by hindering them and impeding eventual funding, especially in times of significant drop of oil prices – main source of foreign exchange revenues for our country.

Limiting the access to external funding simultaneously to the decline revenue from oil export intends, on one side, to pressure the country for failing in complying its debts, thus putting it in default and forcing it to seek the International Monetary Fund's help, whose loans are granted at a lower interest, but under "macroeconomic adjustments" that imply strong reductions of social investment, privatization, liberalization of markets -including the exchange market- and labor market flexibility, among others. On the other side, this weapon of warfare intends to submit the country to a strong adjustment of its social investment, pushing it into a choice situation: Pay its debt commitments and avoid default or maintain its social investment levels.

The country-risk has been one of the main weapons used for financially blocking Venezuela. It has been manipulated in time and magnitude, as same as the illegal exchange rate and the planned shortage of essential goods. Chart 56 presents, simultaneously, the behavior of the three main economic weapons

against Venezuela, i.e., planned shortage; manipulated illegal exchange rate, and manipulated country-risk.

The chart shows similar variations at the same moment for those three indicators, whose highest levels of manipulation are related to electoral process or political situations. They follow a behavioral pattern that serves political cycles.

As shown in preceding chapters, we have demonstrated again that there is no correspondence between shortage and illegal exchange rate levels and the real and monetary economy. They result from manipulations, mostly in the eve of elections.

Likewise, the country-risk trend is similar to the shortage and the illegal exchange rate behaviors. The country-risk neither is an outcome of firmly scientific assessments nor economic variables. Though it is not a consequence of political events, it seems to be the main cause of political unrests.

This assertion could be demonstrated by the Pdvsa bond exchange case. The risk qualifiers, before the bonds exchange, downed the company's rate from "CC" to "CCC". The re-classification to "CCC" was intended to affect such financial operation.

In this case, the weapons of the economic warfare have been employed by the large financial institutions. The world largest financial monopolies are the visible hands that have intended to impact on financial markets and the Venezuelan economy as a whole.

The almost identical behavior of the warfare weapons trend is no coincidence: Planned shortage, manipulated illegal exchange rate and, additionally, induced inflation, and country-risk. Those weapons are intrinsically massive and aim the people as a whole, thus affecting the democratic stability.

Despite the pressure resulting from international financial blockade, Venezuela has met its international debts commitments and, at the same time, has maintained its social investment levels, thus guaranteeing the social and human rights of the population.

State funding is mandatory to keep the conditions to guarantee the protection of the people against the strong economic aggressions. This funding must be made through the increase of the incomes derived from direct and progressive tax-revenue, involving collection improvement by reduction of tax evasion and avoidance, rather than cuts on social investments or turning to the International Monetary Fund. Responses cannot be borne by the people, who is the main victim of this unconventional warfare. It is the capital owners, especially the large corporations, who have to bear the costs of the economic warfare. They are, by the way, the hands that had visibly attacked the people.

It is necessary to audit these large financial corporations and review if they have met their tax liabilities, besides analyzing its solvency levels strictly.

The international financial blockades, trade embargoes, essential goods distribution boycott, and recently, manipulation of the currency value, are mechanisms that the capitalist regime, in its highest stage, has been implementing before the threat represented by the establishment of an alternative economic model that guarantees justice and freedom.

## VI. FINAL REMARKS

We have insisted and proved that the current situation endured by the people in Venezuela is not caused by the failure of the Bolivarian economic model or the policies implemented since 1999. This situation is caused neither by the drop in production nor prices control nor for failure to allocate foreign exchange to private companies.

It is neither the consequence of the drop of oil prices nor the much discussed depletion of the rentier model. Despite the fall of oil prices during the last years, since 2012, the decrease of the private gross domestic product was proportionally lower than the drop of oil prices, recording higher levels than registered in 2004 and 2005, when there was not registered shortage in Venezuela, as previously stated.

Chart 57 shows that the national GDP decreased 8% between 2012 and 2015, and the drop of oil price was 57%, falling from 103.46 dollars per barrel in 2012 to 44.65 dollars per barrel in 2015. Noteworthy, decrease on private GDP was 12% while the public one increased 4%.

From a closest perspective about production in Venezuela, it has been observed that during the period 1999-2014, the GDP from non-oil activity increased 66%, out of it, some increases in all activities were registered: agriculture, 26%; manufacture, 21%; construction, 76%, business and repair service, 72%; transportation and storage, 57%; communications, 321%; financial institutions and insurance, 446%; real estate services 50%<sup>(140)</sup>.

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140 Data collected from Venezuelan Central Bank (BCV, in Spanish)

From a different view, it is possible to affirm that, on the contrary, the fact that the State can still rely on oil revenue has allowed it to mitigate the terrible attacks against the economy and people.

Currently, the oil rent has allowed the State to implement protection policies on public employment, salary, strengthening social policies including health, food, education and housing missions and scholar food system, among others; thus counteracting the negative effects from distortion of the economy caused by large corporations.

In 2015, as shown in Chart 58, in the apogee of economic warfare, when shortage levels registered over 30%, production levels registered 34% higher than in 2004 when shortage registered its lowest levels (7%).

Likewise, total imports in 2014, in the apogee of the covert trade embargo, were on average 91% higher than in 2004. Out of these, food imports represented 259% more in 2014 compared to 2004, and medicines were 302% above (see Chart 59).

In order to overcome the current situation that people in Venezuela are experiencing, it is necessary to firstly identify the cause of the problem. Otherwise, policies will not have positive results.

On the one hand, it is important to recognize that these are destabilizing political actions, which use the economy and the markets to that end.

On the other hand, the real Achilles heel of the Venezuelan economy is obviously made up of the high concentration of production, imports and distribution of goods and services on a few companies, the presence of monopolies and oligopolies in the essential goods markets, and the high dependence on imports.

This places the country in a highly vulnerable situation before economic warfare methods and the political, economic and social destabilization by large international and national corporations, which also have the assistance and support of the opposition wing.

In this context, the policies to be implemented to face this situation have to be oriented to deepen on the supervision and control of the production and distribution processes of large national and international corporations that are responsible for the supplying of food, medicines and personal care products in our country – those entrusted by the State for the import and production of such essential goods, by favoring them with foreign exchange allocation at a preferential exchange rate.

The poor and deficient historical performance of the State as a regulator of the large monopolies has made and continues to make the Venezuelan economy more vulnerable to the impacts of the economic warfare. Lack of information regarding the criminal acts of the large corporations has allowed them to employ the economic warfare weapons with greater effectiveness, thus preventing the people from clearly identifying the responsible ones and their intentions.

Not taking prisoners on this war has paved the way for those who are violating the human rights to food, health and life of the people in Venezuela by implementing a planned shortage, manipulation of the inflation rate, staples supply boycott and covert trade embargo.

In structural terms, policies should aim at ending our dependence on these monopolies, on the large transnational and national corporations that supply food, drugs and personal care products, as well as technology, machinery and spare parts.

Besides overcoming the rentier oil model through diversifying production and increasing exports, a transversal strategy to this end should be the inclusion of more producers under a social ownership of the means of production model to complement private and joint endeavors.

The aim is to break the concentration of production and distribution of essential goods, as well as to reduce dependence on large corporations that cartelize and distort the markets affecting the people as a whole, under the current circumstances.

### **Perspectives for the near future**

Imperialism through large corporations will not rest until they achieve their main goal: concealing the success of alternative models to capitalism.

The economic aggressions against the people will continue. Large corporations are aware of the effectiveness of these strategies, of their impact on elections and on the social pressure that they entail.

These aggressions have influenced electoral outcomes. As they increasingly intensify, and deprive the people in Venezuela of food, drugs and personal care products, thus subjecting them to longer queues and affecting their purchasing power by manipulating the illegal exchange rate, their impact on the election results would be more tangible.

Statistically, there is an almost perfect inverse relationship between shortage levels and electoral gaps, and between the illegal exchange rate and such gaps. As the planned shortage and the manipulated exchange rate increase, the electoral gap, resulting from subtracting the percentage obtained by Chavism from that of the opposition, decreases. This is shown in chart 60.



There has been a decrease in the electoral gap between both sides since the presidential elections on October 2012 until the parliamentary elections on December 2015, and an increase of shortage and prices in the same period<sup>(141)</sup>.

There is no reason to think that after four years of intense and relentless economic warfare against the people, the imperialism will lay down its weapons. On the contrary, they are expected to intensify their operations.

The hoarding, essential goods supply boycott, manipulation of the exchange rate and covert trade embargo will continue, as well as the international financial blockade and any other mechanism aimed at destabilizing the economy. These actions will constantly be accompanied by media manipulation, electric sabotages and attempts to paralyze the transport system, either through calls to strike, hoarding the spare parts of vehicles, or even through violent actions such as thefts, and kidnappings of transporters.

Such actions may be of greater or lesser intensity, depending on the electoral and political situation, but they will persist.

Venezuela is currently facing a significant political situation. The opposition is counting down to the January 10, 2017, which is the deadline set to oust not only the legitimate and constitutional president, but also the Bolivarian Revolution.

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141 It is important to mention that the election in which there was no increase in the aforementioned electoral gap, despite the constant attacks on the economy, was the election of mayors held in December 2013. Analysts have attributed this effect to a reversal of the trends owing to the so-called "Dakaso". We must remember that since October and during the month of November, the polls showed as loser the government party.

After the decision taken by President Nicolás Maduro against the speculation of the companies, specifically Daka, distributor of electrical appliances, the results of the polls were reversed, showing as a winner the government party. This presidential decision consisted in the taking of these establishments by the State and the sale of its goods at a fair price.

The opposition intends to overthrow the President before January 10 to call for presidential elections. After that date, any absence of the President guarantees the continuity of the Bolivarian Government in power until the end of the presidential term. For that purpose, under the Constitution, they need to revoke the presidential mandate. His eventual resignation produces the same results, as well as his physical disappearance, as set forth in Article 233 of the Constitution of the Bolivarian Republic of Venezuela.

Historically, the opposition has chosen the path of social pressure, distortion of the economy and incitement to social unrest in order to accomplish the first two actions, that is, to revoke the mandate or to press for an eventual resignation.

Non-constitutional means have never been off the table. Currently, they have used the visible manipulation of the market in an effort to create a generalized chaos, to intensify the economic warfare, to increasingly deprive the people in Venezuelan of food and to undermine the purchasing power of their households. This could result, according to their plans, in the need for international intervention under the pretext of an alleged humanitarian crisis.

Constitutionally or not, the scenario of intensifying the aggressions against the people remains effective.

In this regard, after March 2016 there has been a decrease in the production of those foods that have become scarce since 2012, which are highly consumed by the people in Venezuela. The producing companies have expressed a decrease in their production levels<sup>(142)</sup>.

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142 "Polar afirma que producción de alimentos cayó por falta de insumos", El Mundo [website], <<http://www.elmundo.com.ve/noticias/economia/empresas/polar-afirma-que-produccion-de-alimentos-cayo-por-.aspx>>.

Chart number 61 shows the production levels of one of the main food companies of the country. Since April 2016, after the setting of maximum prices, the company with the largest share on the food market reported a sustained decrease of 36% in its average fortnight production, including pre-cooked corn flour, rice, pasta, oil, margarine, ketchup, mayonnaise and tuna.

Between January 2012 and March 2016, the fortnight average production was 1.16 kilograms per person. From early April to mid-August 2016 production drop to 0.74 kilograms on average, historically the lowest since 2012.

Noteworthy, National Government created the Supply and Production Local Committees (CLAP, for its acronym in Spanish) in March 2016, as an initiative that aims to distribute essential goods through organized communities. At that time, we warned about the need to ensure that the goods were produced and imported by serious companies in order to guarantee the supply through the communities.

Subsequently, the Great Mission for Sovereign Supply was created in July 2016, and its objective is to regularize the distribution of essential goods. This mission, personally led by the President of the Republic and the People's Power Minister for Defense, has performed inspections in establishments, warehouses and customs throughout the country.

Until August 2016, this mission had seized 115,000 tons of food, medicines and personal care products. It has inspected 1,034 food establishments, including supermarkets and warehouses, 793 public and private companies of production and distribution plants and six ports. More than 7,500 officials

from different agencies have been deployed and 92 people have been prosecuted<sup>(143)</sup>.

Both measures have contributed to improve the distribution of products. Nevertheless, it is essential to supervise the production and import levels of the main companies responsible for the supply of food, medicines and hygiene products in this new phase of political onslaught of the economic warfare.

The possibility of having their warehouses inspected and, consequently, these hoarded products confiscated, leads the companies to two immediate reactions. On the one hand, they tend to distribute these products as soon as possible in order to reduce their stocks. On the other hand, they reduce the production of these goods so they can prevent the replenishment of stocks and therefore generate the shortage of these products, no longer through hoarding and distortion of distribution mechanisms, but rather through a reduction in production.

As for the levels of induced inflation and the manipulation of the exchange rate, it is necessary to point out that, as we demonstrated, the manipulation of this exchange rate in the illegal market is greater on the eve of electoral processes or political situations.

We have noted that the unofficial value of the foreign exchange determined on websites and aimed at to destabilize the price levels of the economy has stabilized. However, it is worth to point that this exchange rate in the illegal market -published on websites- has stabilized since the official complementary exchange rate (Dicom, for its acronym in Spanish) began to increase.

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143 "Misión Abastecimiento Soberano ha incautado 115 mil toneladas", Correo del Orinoco, [website], 24 August 2016, <[www.correodelorinoco.gob.ve/wp-content/uploads/2016/08/CO2480.pdf](http://www.correodelorinoco.gob.ve/wp-content/uploads/2016/08/CO2480.pdf)>.

It is the case that the value of Dicom is acting as a price setter for the domestic economy. The positive changes have an effect on price levels. Firstly, it is noteworthy remember that Dicom is a complementary exchange rate, representing only 8% of the total foreign exchange allocation. Remaining 92% are allocated to private companies at a preferential exchange rate of 10 VEB/US\$. In other words, the Dicom exchange rate is not the value of the currency; it only corresponds to a market with a low offer, not reaching 8% of the total.

Increases in the Dicom exchange rate impact on domestic prices, so for those who manipulate the parallel dollar in web portals, it is not necessary to continue modifying it on a daily basis, since Dicom has been taking care of this issue.

In this regard, it is urgent to take measures to avoid distortions in this market and its impact on domestic prices of the economy. The suggestion is to increase the amount of foreign exchange offered through Dicom, to decrease the value of the foreign exchange under this mechanism until its true value.

At the same time, allocation of foreign exchange at preferential exchange rate should be reduced and only destined to priority sectors, such as food and medicines, imported by the public sector.

The allocation of foreign exchange must be made publicly. It is important that Venezuelans have detailed and timely information about whom received foreign exchange and the products to be imported, and their date of arrival to the country.

Developing a foreign exchange plan is crucial. In this regard, it must be highlighted that the average imports from 1999 to 2015 in Venezuela amounts 15 billion dollars. This amount is sufficient

to import the goods required in the country, such as inputs for production or final consumer goods.

We are aware of the imperialism power and, therefore, the difficulty to fight against the blackmail from companies on which are responsible for a large part of the food and medical supplies, as well as personal care products. There are no more than twenty companies responsible for supplying these products to the people in Venezuela. They have the power to exert pressure, blackmail and manipulate the markets.

However, in order to ensure the supply, it is important to stand firmly against the adjustment of regulated prices or the increase of foreign exchange allocation. None of these actions will favor a greater availability of goods in the market. We reiterate, since 2012 the cause of these economic phenomena is political and does not rely on costs or economic and logistics factors.

On the contrary, giving in to blackmail by increasing prices or allocating more foreign exchange will help funding the economic warfare.

It is observed that the adjustment of prices has three effects: first, it will not ensure the filling of the shelves with goods again. We have already experienced this. Since 2013 there has been an annual adjustment of food prices (sugar price, three times; rice price, four times; chicken, coffee, milk and oil prices, three times; and especially precooked corn flour price, five times) and yet, these goods are not only absent from the shelves but are increasingly difficult to be acquired. The same has happened with personal care products.

Second, the price increase of goods directly affects the budget of those households with lower incomes, since they are the ones who need to buy goods at regulated prices. However, the high

inflation, which resulted from the manipulation of the economy, has negative effects on every Venezuelan household.

Third, and not least important, the price increase of goods will contribute to the funding of the economic warfare. Through the increase of prices, the large corporations responsible for the planned shortage may reduce their production levels and might obtain similar or higher sales revenues despite the fact that they produce fewer goods. In this case, the strategy to deprive the people in Venezuela of food will not only consist in the distortion of distribution mechanisms, but in the reduction of production.

Something similar has happened with the foreign exchange allocation. Due to foreign exchange allocation has remained stable since 2013; the lack of foreign exchange can hardly be seen as the cause of such alleged “shortage”. The problem of timely and sufficient supply of the essential goods on the shelves persists, even though the foreign exchange allocation for food, medicines and personal care products has increased since 2013.

In 2011, the Government allocated 4,454.33 million dollars to food sector; in 2012, the allocation increased to 4,843.84 million; in 2013 amounted to 4,624.10 million and 4,173.20 million dollars in 2014. Noteworthy, the allocation of this foreign exchange was mainly made to the largest companies on this sector, those that serve and supply the majority of the markets.

To continue allocating foreign exchange to these companies without a strict control is contributing to funding the economic warfare.

It is necessary to keep on taking measures for the protection of the people against the assaults of imperialism, not only in the current political situation, but also in the near future. It is also essential to maintain and reinforce the Sovereign Supply

Mission and emphasize on the supervision of the production and distribution processes. The same apply for the Supply and Production Local Committees (CLAP) as a mechanism of distribution and popular organization, for the Food Program for Schools, and for the Community Food Centers. Freezing the prices of regulated goods and basic services such as electricity, transport, water and telephone is also necessary.

It is crucial to keep fighting against speculation and illegal goods vendors or *bachaqueros*.

Regarding the labor sector, it is necessary to oversee private companies' compliance with the decree of salary increase and labor immobility and to inform the working class about the available complaint mechanisms in the event of non-compliance with these standards, and to evaluate the possibility of implementing another salary increase in case of an escalation of the induced inflation.

Contrary to the statements argued by the apologists of neo-liberalism, it is compulsory to reinforce social programs and boost public investment. The promoters of neo-liberal policies propose a recipe for "macroeconomic stabilization" that requires cuts in government spending, a hike in public services prices, staple goods price liberation, and labor market flexibilization.

The international financial blockade has served as a weapon seeking to preclude the country's access to funding and the protection of the people in Venezuela and their human rights. This strategy aims to force the country to fail to comply with its debt commitments and declare itself in default, hence force the country to look for help from agencies such as the International Monetary Fund and submit itself to neoliberal-oriented loan terms, which require cuts in social investment, markets liberalization, exchange



market flexibilization, wage freeze, and public services, health and education privatization, among many requirements.

Nevertheless, these measures run counter the interests of the people. In the case any sacrifices are required to “stabilize the economy”, there are two options. The first one involves cuts in government spending, in which case the burden falls on the people. The second one entails an increase on tax revenues, in which case the burden falls on the elites.

In this regard, it is important to consider whether the margin would favor the choice of the second option.

Venezuela is the country with the lowest tax burden in the region. Tax burden is calculated by dividing the amount of taxes collected by the GDP index. While Argentina, Brazil and Uruguay come highest on the list of Latin American countries with the greatest tax burden, with levels over 35% and very close to 40%, Venezuela ranks last on the same list, with a burden that falls short of 15% by 2013 <sup>(144)</sup>. Additionally, this burden mostly corresponds to the value-added tax or VAT. While tax burden on the income tax does not exceed 4%, that of the VAT, which falls on consumers and not on business owners, exceeds 8% <sup>(145)</sup>.

In other words, our private business people do not pay enough taxes. Moreover, a possible evasion and avoidance by some taxpayers who disguise their financial statements with gains and losses may be added to this equation.

In addition, Venezuelan companies record the highest rates of profitability worldwide. According to figures published by Asdrúbal Baptista on his book *Bases cuantitativas de la economía venezolana*, the rate of profitability before the payment of direct

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144 OECD data, 213.

145 SENIAT data, several years.

taxes went from 10.4% in 1999 to 21.5% in 2008. They show steady increase since 1999, and historically, they are the highest rates recorded in Venezuela and in the world.

According to Forbes magazine, in an article entitled “How profitable are the largest companies in the world?” the ten largest companies in the pharmaceutical industry rank first on the list with an average of 19% profitability, together with the ten largest banks. The ten largest oil and gas companies come next, with average rates of 8%; and the car companies, with a 6% average profit margin <sup>(146)</sup>.

Having in mind that imperialism will never cease its aggressions, it is essential to take measures to solve both the current situation and the problems in the near future, such as considering structural aspects that may lead the people in Venezuela into reducing their dependence on large corporations.

The time to progress towards the economic revolution has come.

A final thought for reflection:

*The inhumanity of wars will never cease to amaze me, whether they are conventional or not. I am surprised at the type of weapons used to massively attack an entire people, and leave their children, elders, women and men in want of food and medicines.*

*The fact that these weapons are driven by large and powerful transnational corporations constituted as public limited companies never ceases to amaze me, either.*

*But what surprises me the most is the attitude of those who call themselves political leaders, who were born in this territory and*

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146 Liyan Che, Cuan rentables son las compañías más grandes del mundo?, Forbes [online magazine], May 14, 2014, <[http://www.forbes.com.mx/cuan-rentables-son-las-companias-mas-grandes-del-mundo/#gs.EYtk\\_Yk](http://www.forbes.com.mx/cuan-rentables-son-las-companias-mas-grandes-del-mundo/#gs.EYtk_Yk)>

*are the “representatives” of a people, and yet become accessories and remain silent before such atrocities.*



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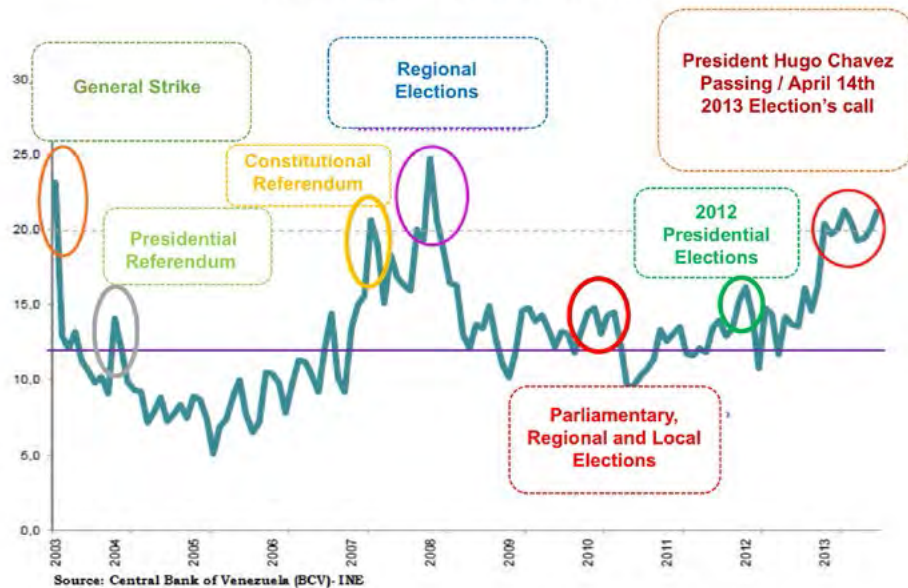
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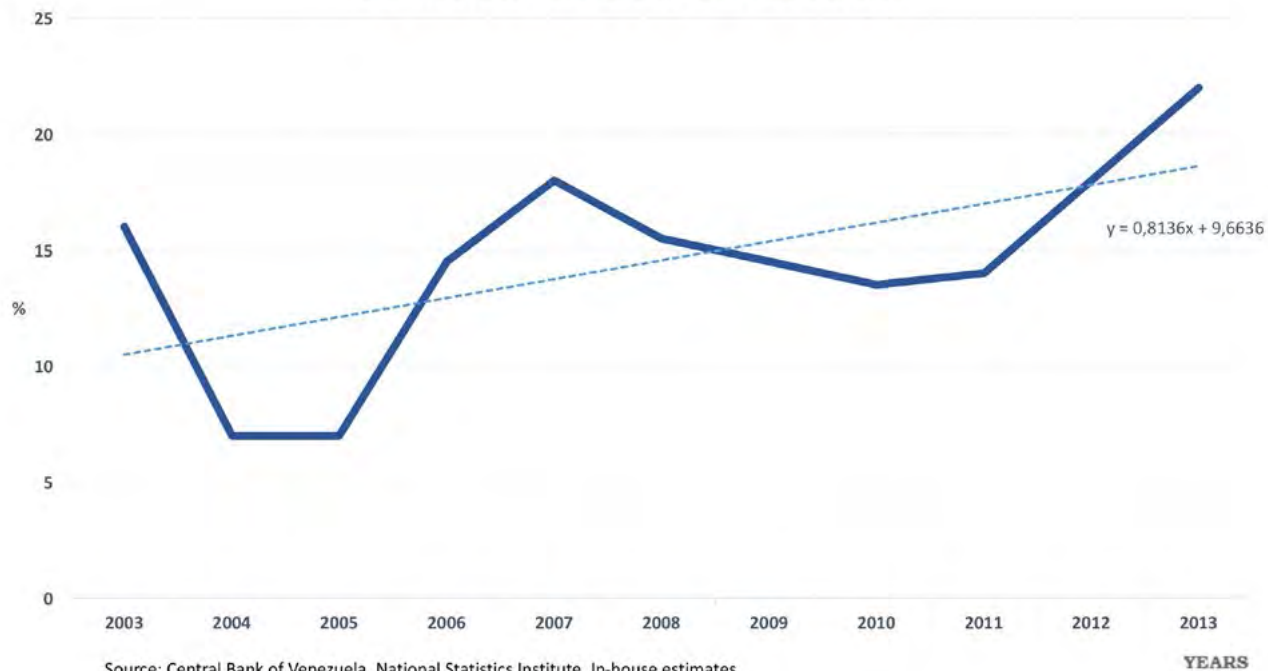


## DIAGRAMS

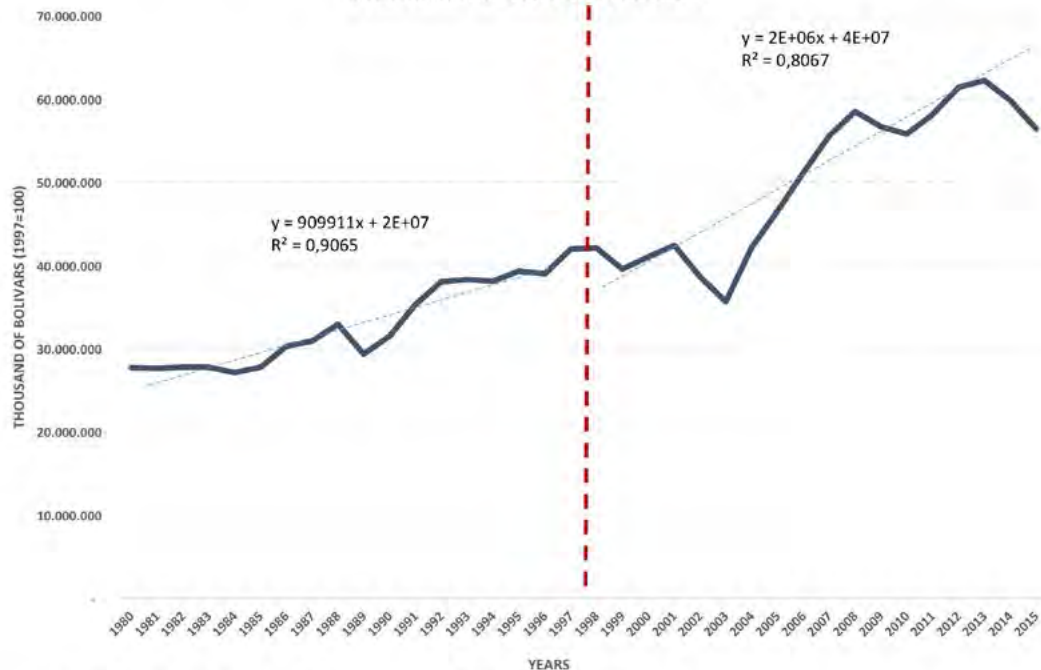
**CHART 1**  
**MONTHLY SHORTAGE RATE**  
**BOLIVARIAN REPUBLIC OF VENEZUELA**



**CHART 2**  
**ANNUAL AVERAGE SHORTAGE RATE**  
**BOLIVARIAN REPUBLIC OF VENEZUELA**



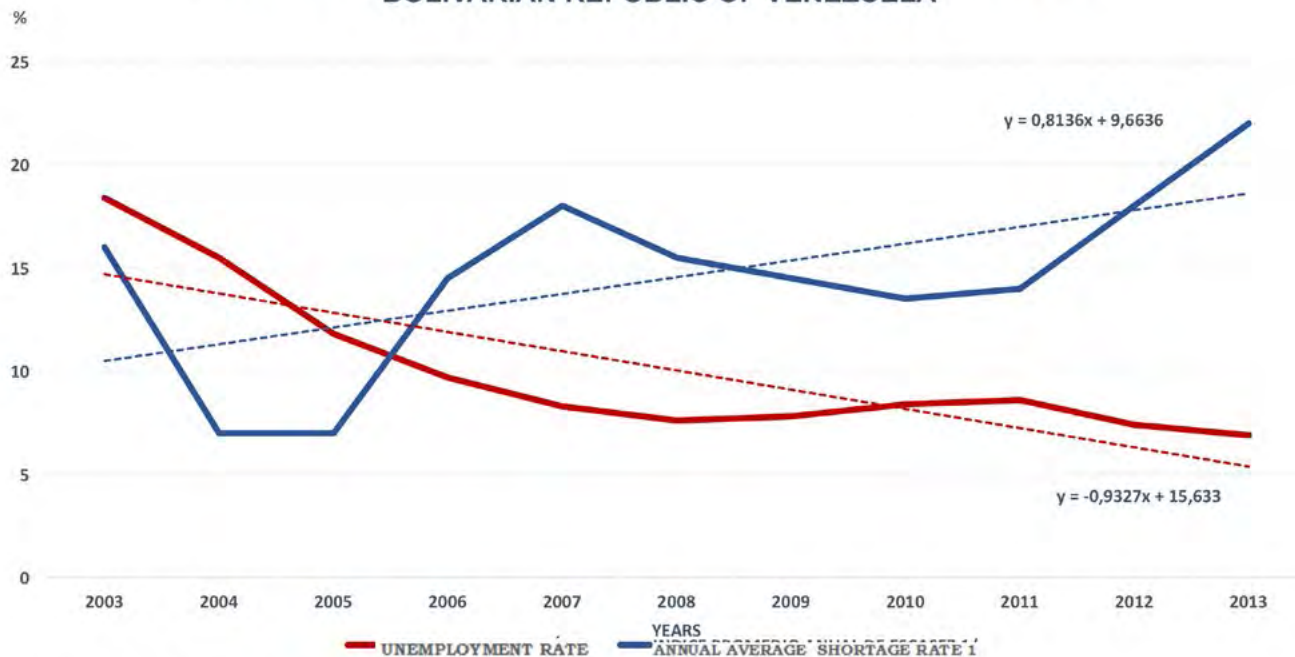
**CHART 3**  
**GROSS DOMESTIC PRODUCT**  
**BOLIVARIAN REPUBLIC OF VENEZUELA**



Source: Central Bank of Venezuela. National Accounts Reports. Several years.

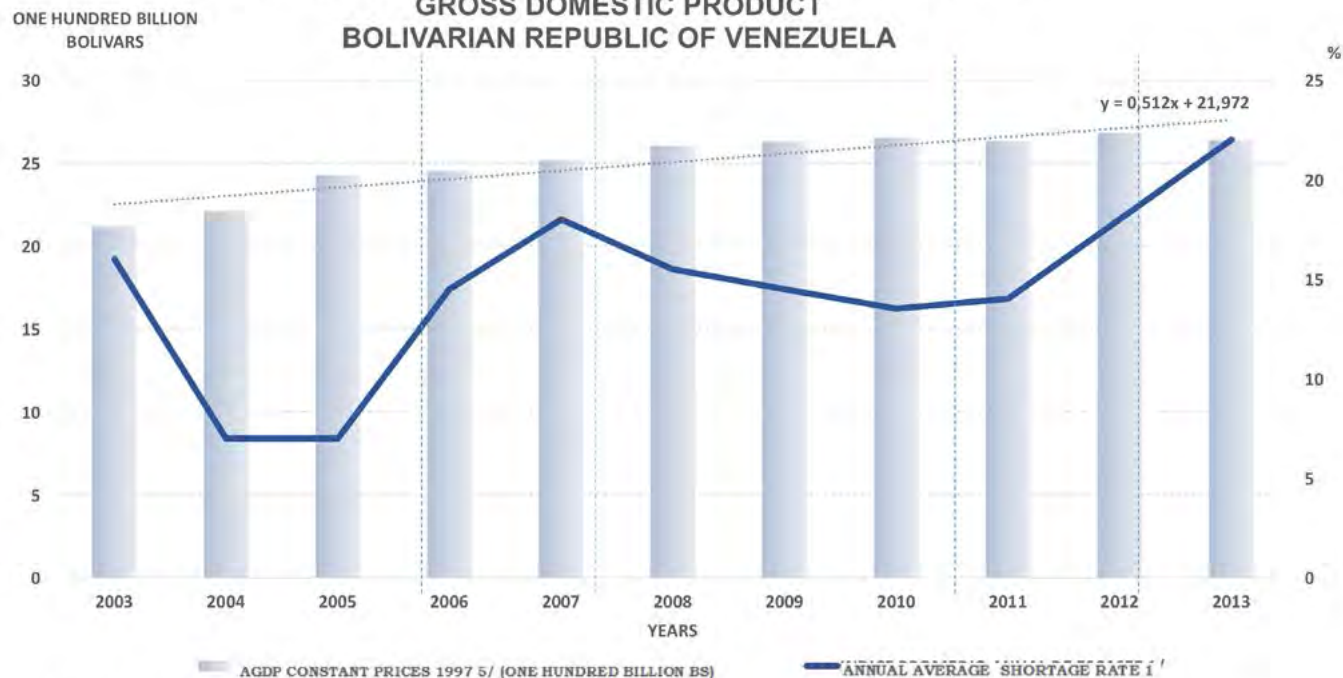


**CHART 4**  
**ANNUAL AVERAGE SHORTAGE RATE AND UNEMPLOYMENT RATE**  
**BOLIVARIAN REPUBLIC OF VENEZUELA**



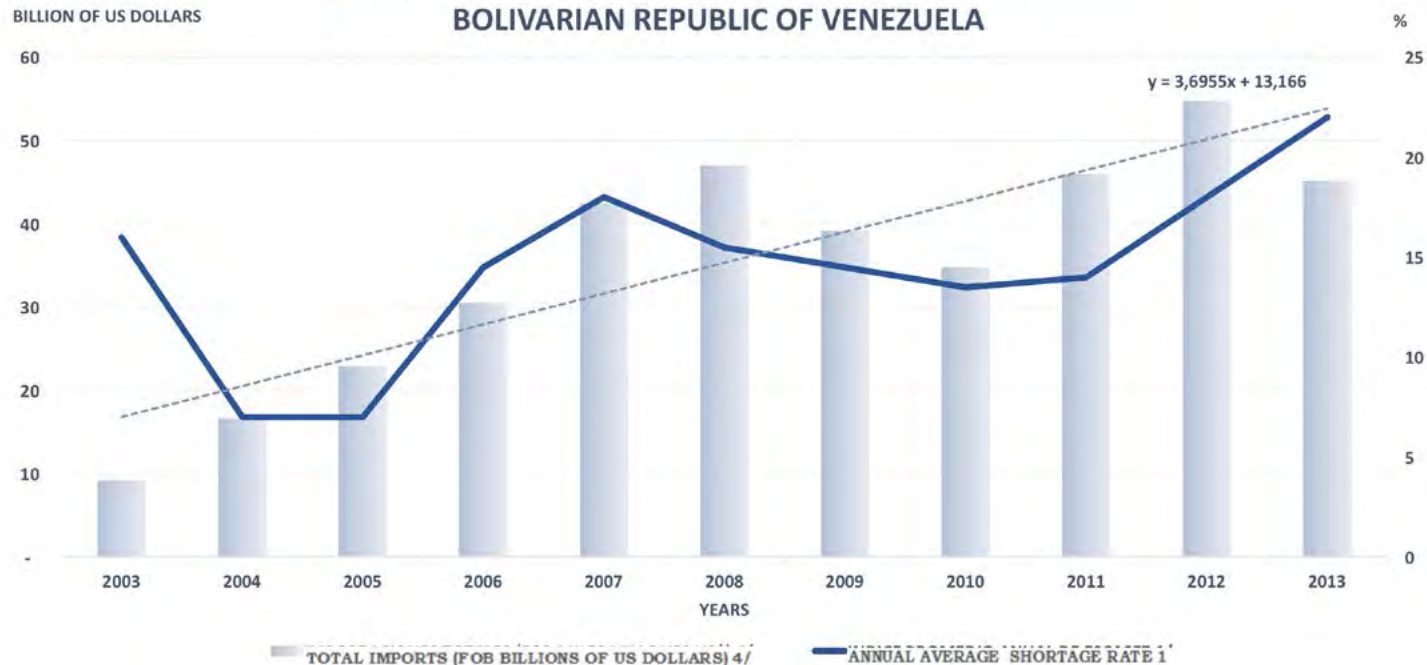
Source: Central Bank of Venezuela. National Institute of Statistics. In-house estimates

**CHART 5**  
**ANNUAL AVERAGE SHORTAGE RATE AND AGRICULTURAL**  
**GROSS DOMESTIC PRODUCT**  
**BOLIVARIAN REPUBLIC OF VENEZUELA**



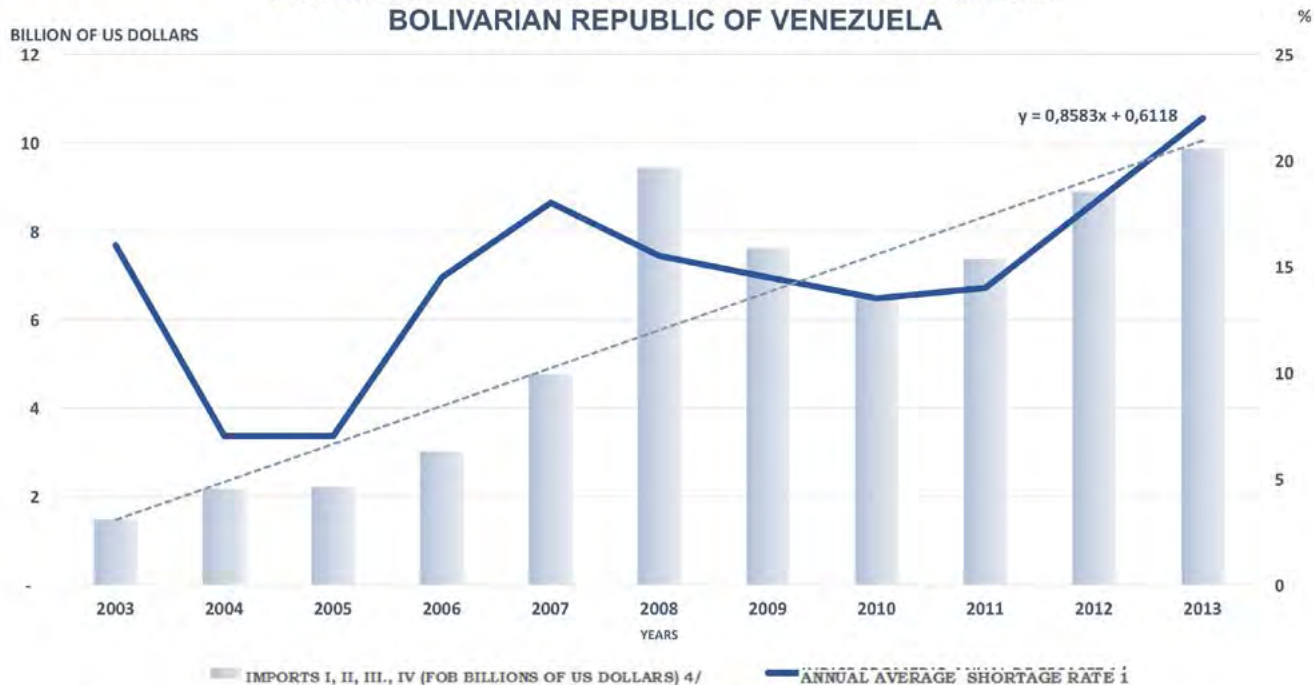
Source: Central Bank of Venezuela. National Institute of Statistics. In-house estimates

**CHART 6**  
**ANNUAL AVERAGE SHORTAGE RATE AND TOTAL IMPORTS**  
**BOLIVARIAN REPUBLIC OF VENEZUELA**



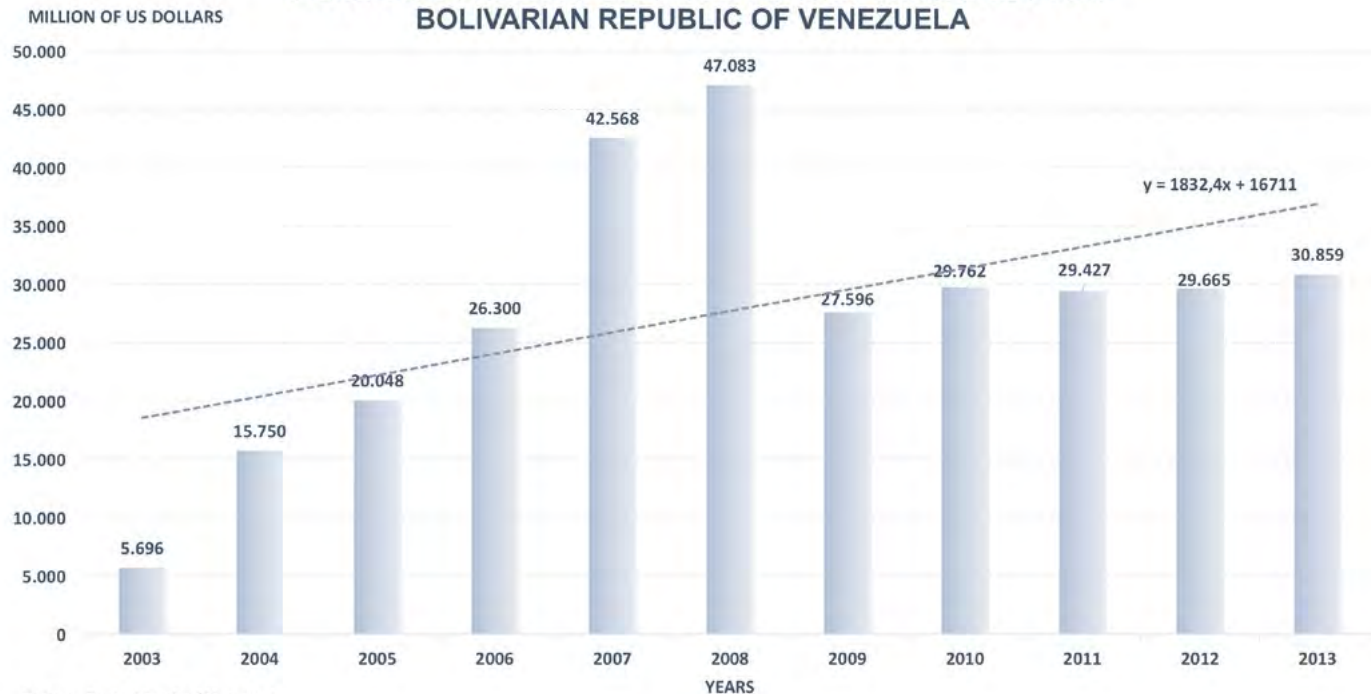
Source: National Institute of Statistics. Foreign Trade. In-house estimates

**CHART 7**  
**ANNUAL AVERAGE SHORTAGE RATE AND FOOD IMPORT**  
**BOLIVARIAN REPUBLIC OF VENEZUELA**



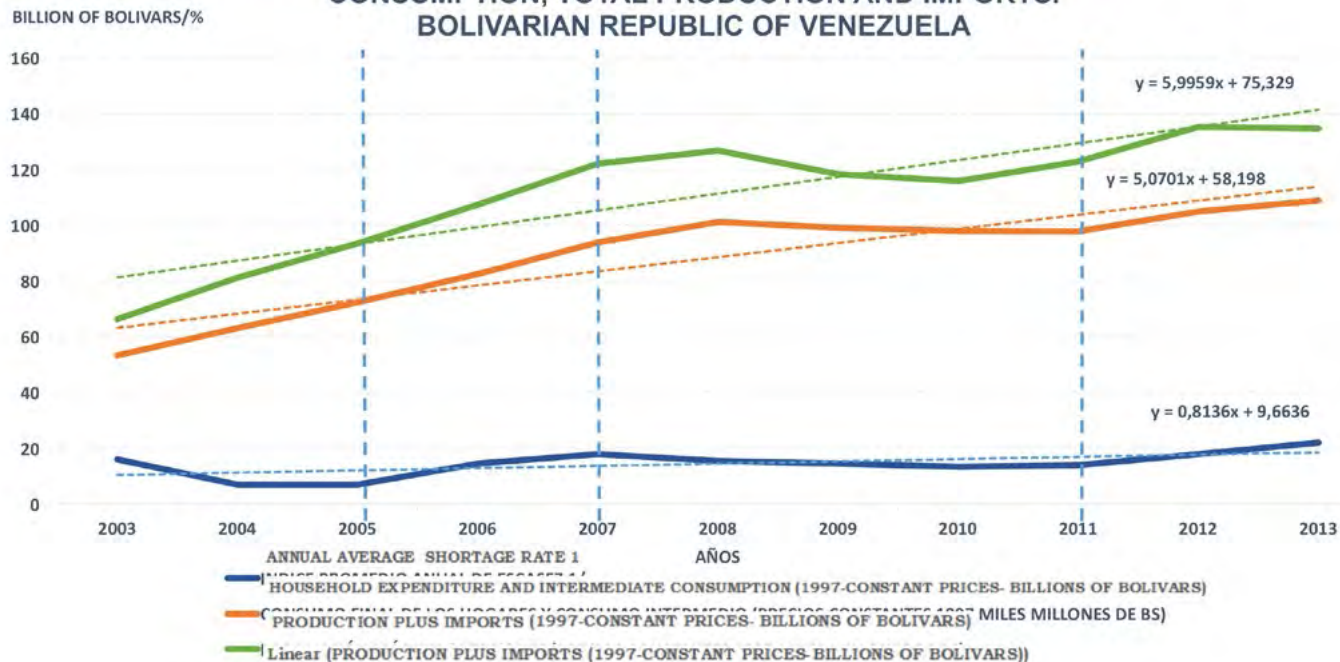
Source: National Institute of Statistics. Foreign Trade. In-house estimates

**CHART 8**  
**FOREIGN CURRENCY GRANTED TO THE PRIVATE SECTOR**  
**BOLIVARIAN REPUBLIC OF VENEZUELA**



Source: Central Bank of Venezuela.

**CHART 9**  
**ANNUAL AVERAGE SHORTAGE RATE, FINAL AND INTERMEDIATE**  
**CONSUMPTION, TOTAL PRODUCTION AND IMPORTS.**  
**BOLIVARIAN REPUBLIC OF VENEZUELA**



Source: Central Bank of Venezuela. National Institute of Statistics. In-house estimates

**CHART 10**  
**IMPORTS OF TOTAL GOODS AND SERVICES**  
**BOLIVARIAN REPUBLIC OF VENEZUELA**

KG/US\$

60.000.000.000

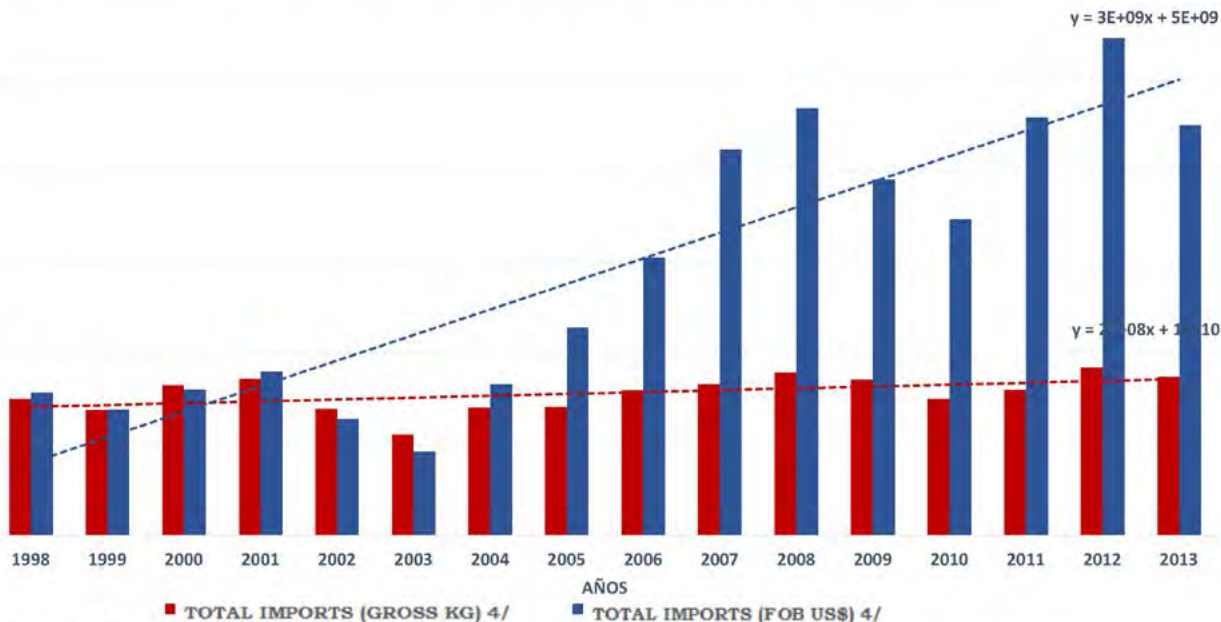
50.000.000.000

40.000.000.000

30.000.000.000

20.000.000.000

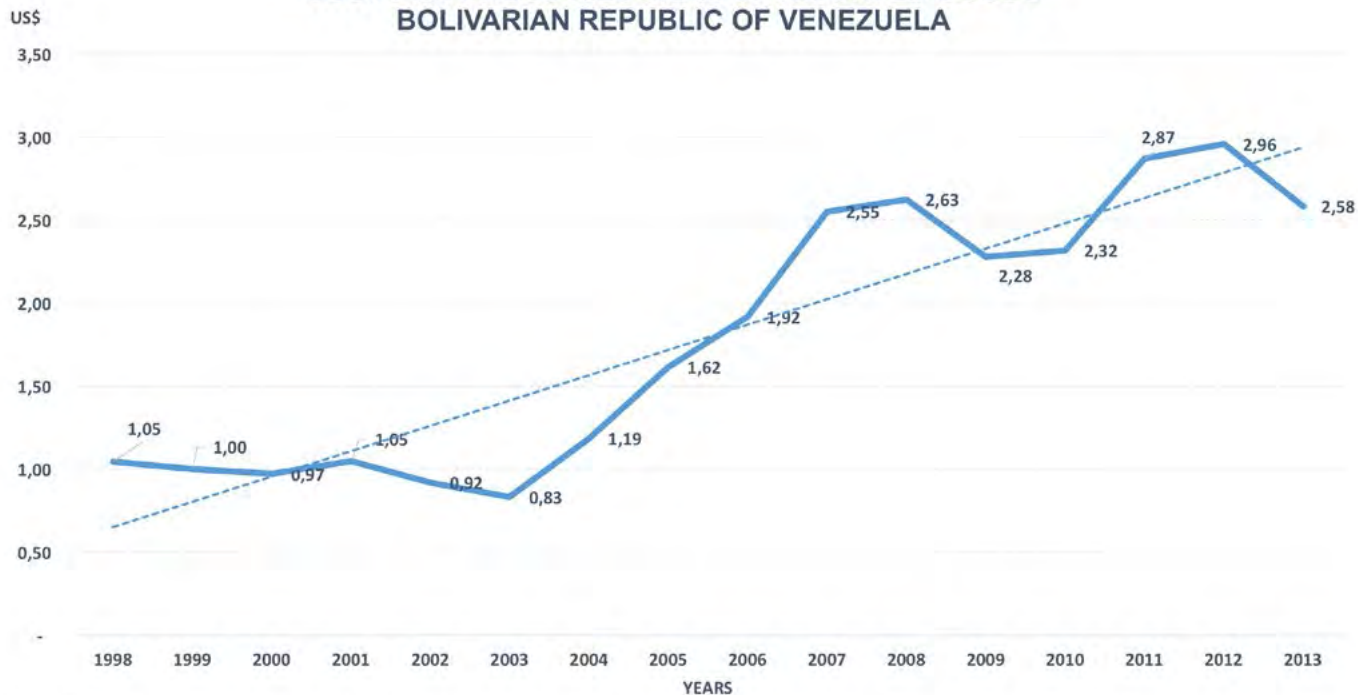
10.000.000.000



Source: National Institute of Statistics . Foreign Trade.



**CHART 11**  
**COST PER GROSS KILOGRAM OF IMPORTED GOODS**  
**BOLIVARIAN REPUBLIC OF VENEZUELA**



Source: National Institute of Statistics. Foreign Trade.



**CHART 12**  
**FOOD IMPORT**  
**BOLIVARIAN REPUBLIC OF VENEZUELA**

KG/US\$

12.000.000.000

10.000.000.000

8.000.000.000

6.000.000.000

4.000.000.000

2.000.000.000

1998 1999 2000 2001 2002 2003 2004 2005 2006 2007 2008 2009 2010 2011 2012 2013

YEARS

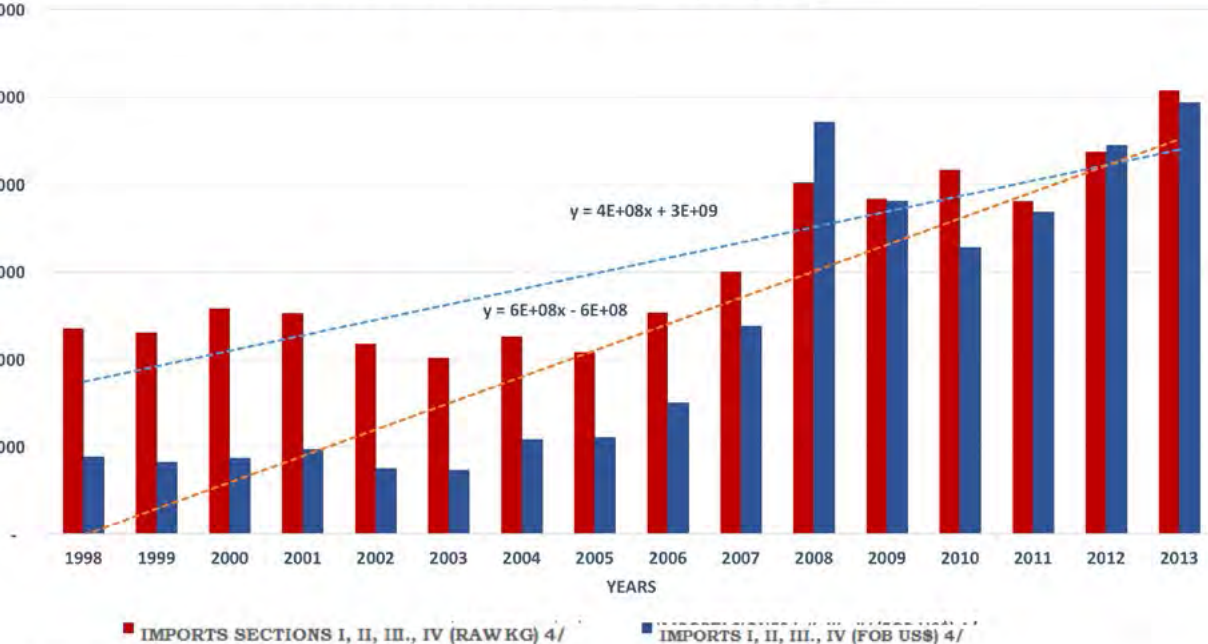
$$y = 4E+08x + 3E+09$$

$$y = 6E+08x - 6E+08$$

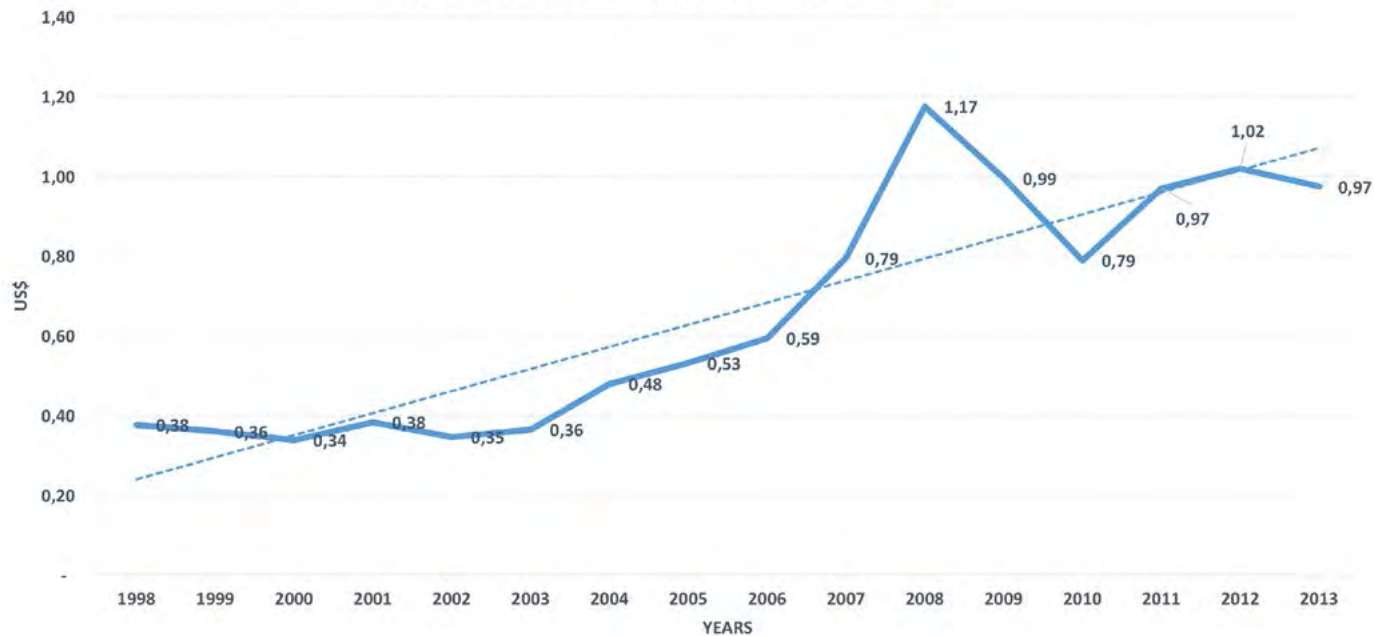
■ IMPORTS SECTIONS I, II, III., IV (RAW KG) 4/

■ IMPORTS I, II, III., IV (FOB US\$) 4/

Source: National Institute of Statistics. Foreign Trade.

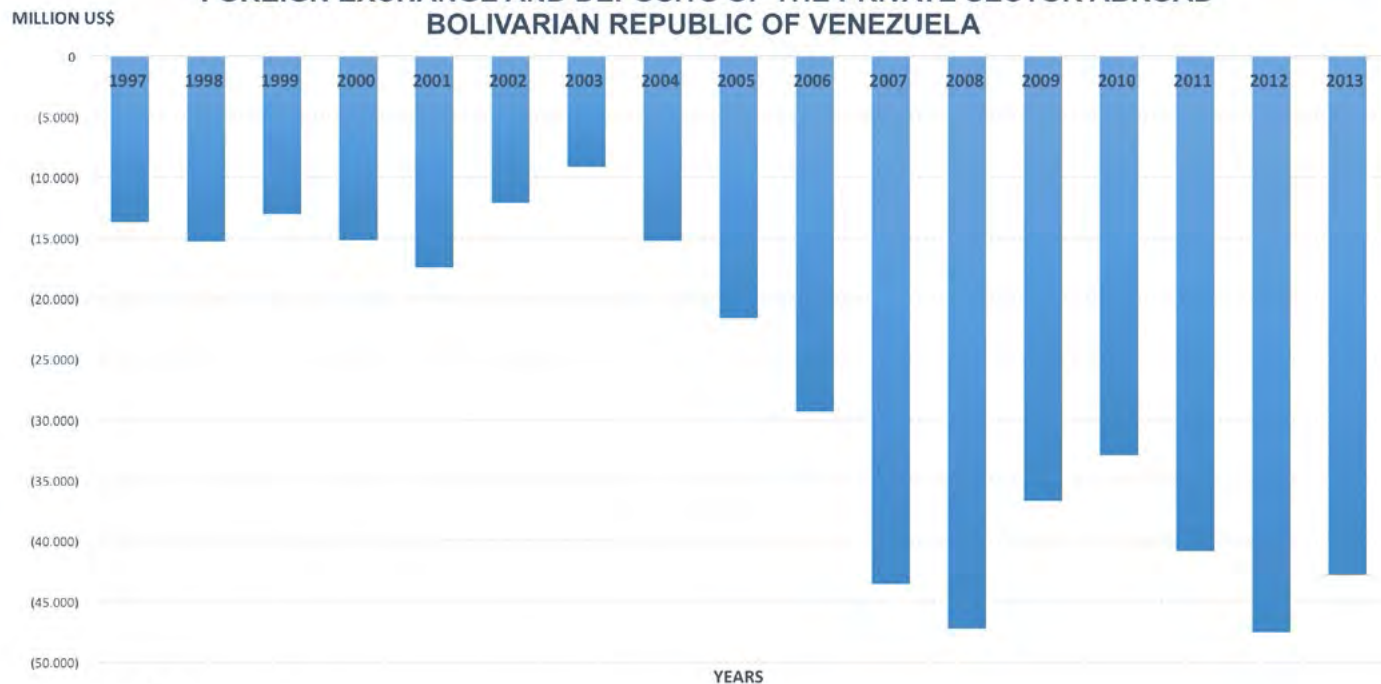


**CHART 13**  
**COST PER GROSS KILOGRAM OF IMPORTED FOOD**  
**BOLIVARIAN REPUBLIC OF VENEZUELA**



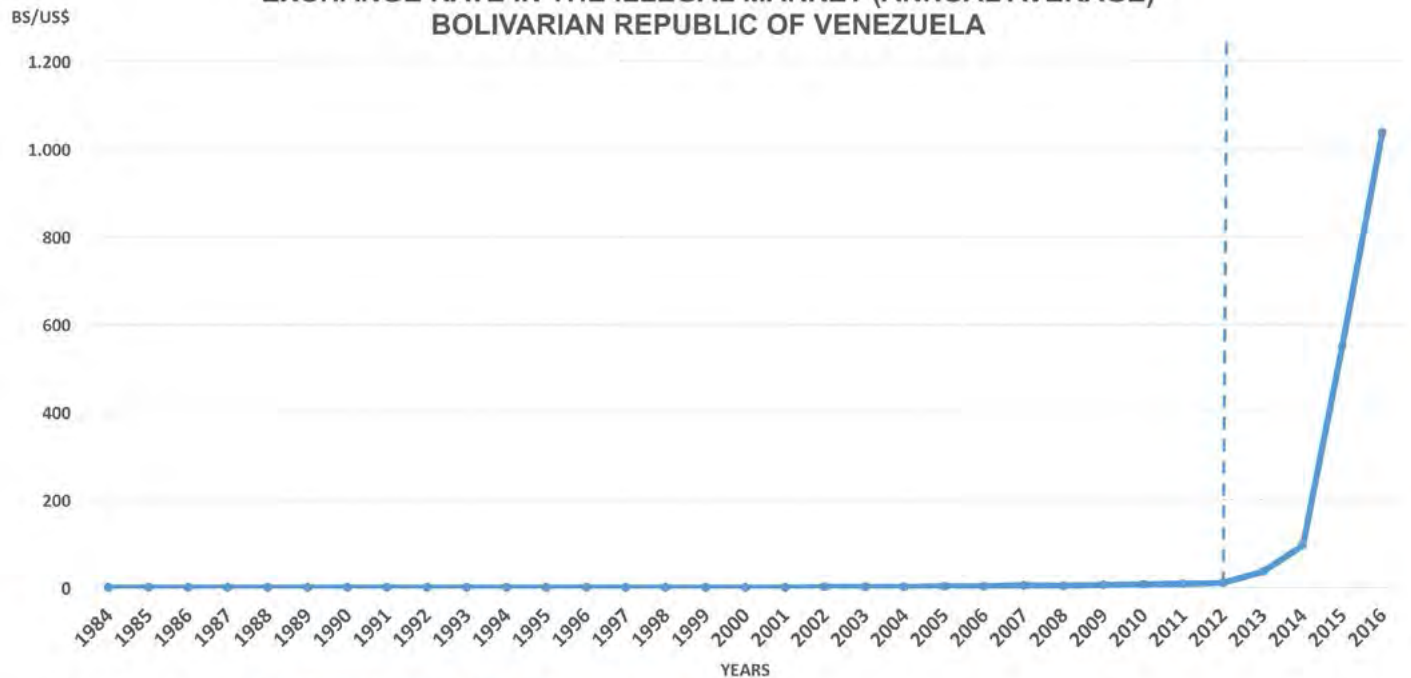
Source: National Institute of Statistics. Foreign Trade.

**CHART 14**  
**FOREIGN EXCHANGE AND DEPOSITS OF THE PRIVATE SECTOR ABROAD**  
**BOLIVARIAN REPUBLIC OF VENEZUELA**



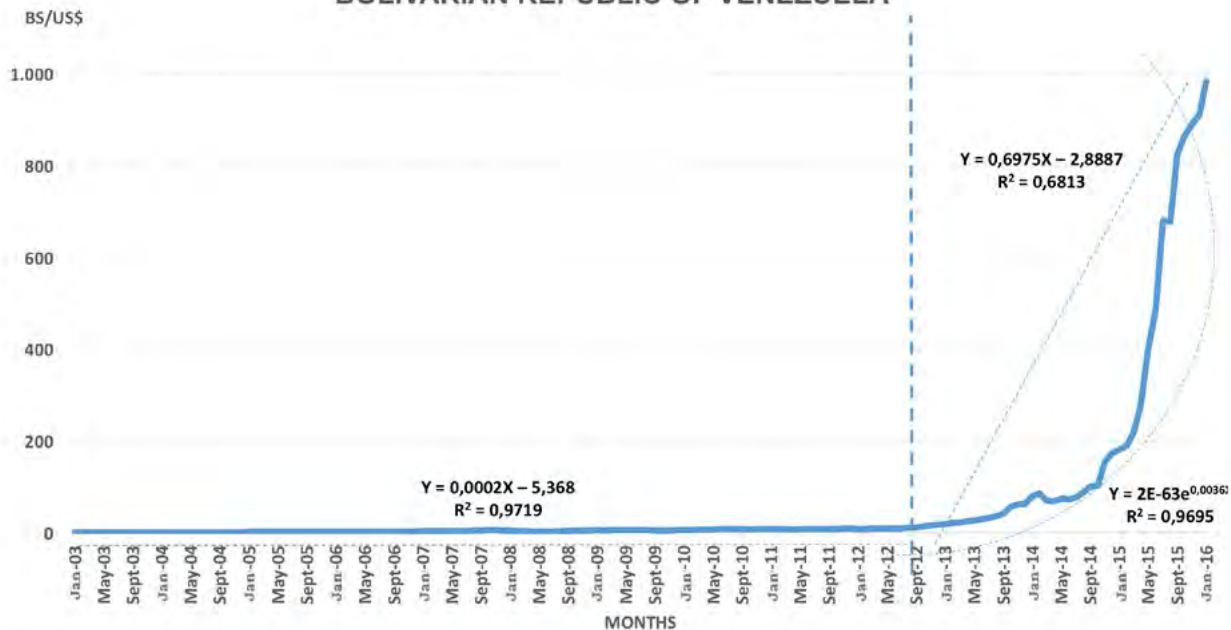
Source: Central Bank of Venezuela.

**CHART 15**  
**EXCHANGE RATE IN THE ILLEGAL MARKET (ANNUAL AVERAGE)**  
**BOLIVARIAN REPUBLIC OF VENEZUELA**



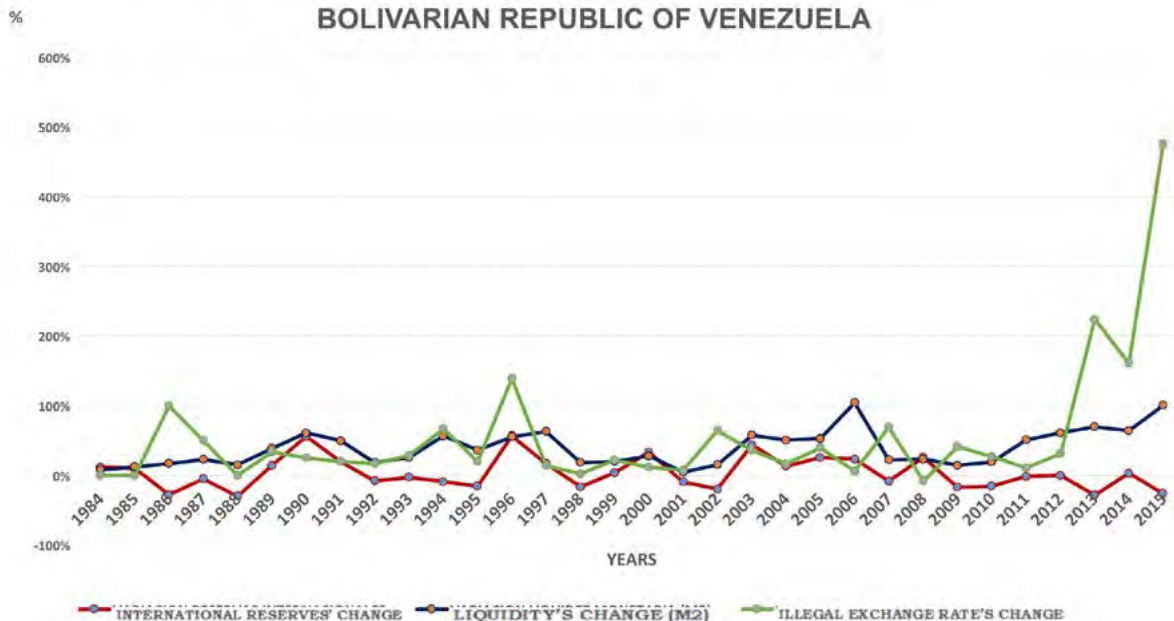
Source: Real estate sector <http://inmueblescaracas.com.ve/tips/bolivardolar.htm>

**CHART 16**  
**ILLEGAL EXCHANGE RATE (ANNUAL AVERAGE)**  
**BOLIVARIAN REPUBLIC OF VENEZUELA**



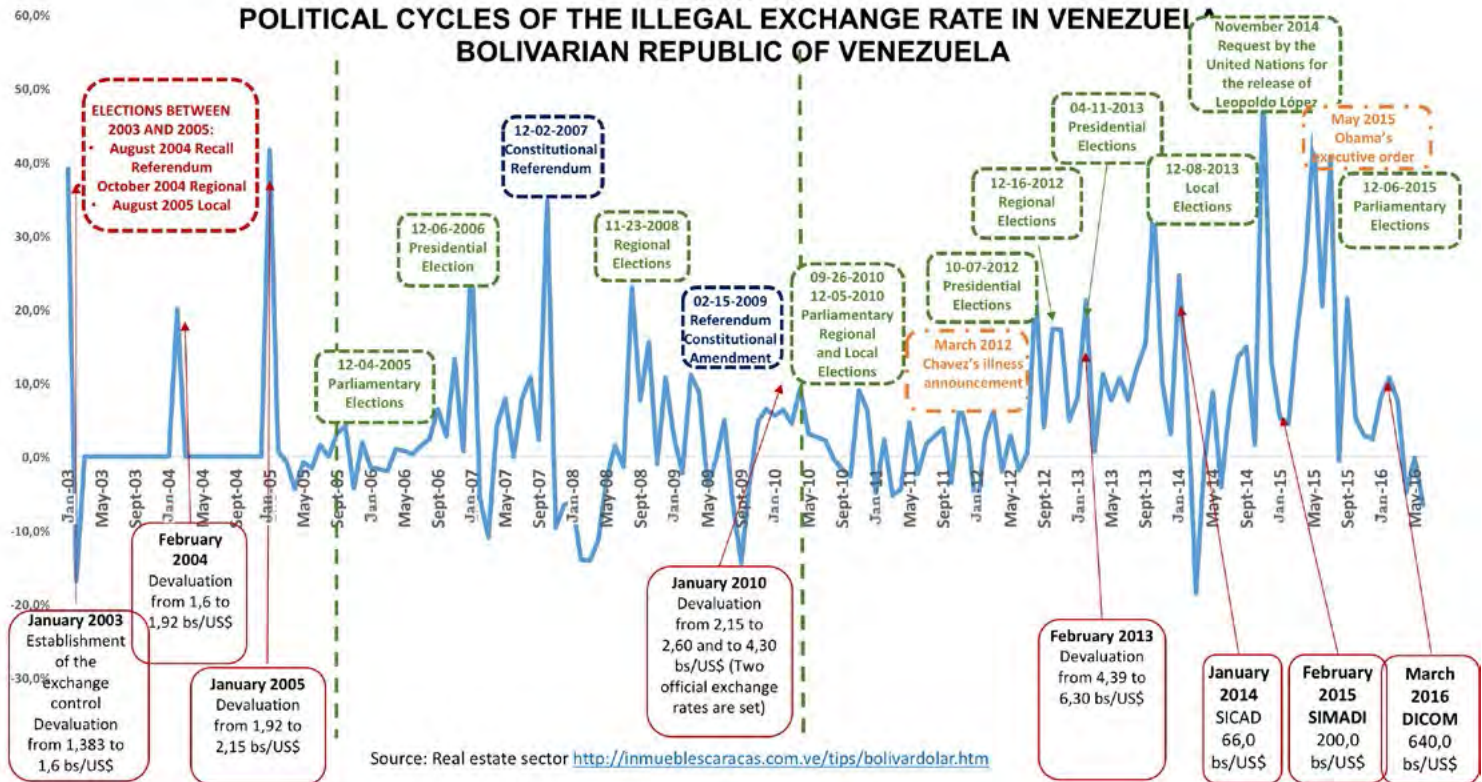
Source: Real estate sector <http://inmueblescaracas.com.ve/tips/bolivardolar.htm>

**CHART 17**  
**CHANGE IN INTERNATIONAL RESERVES, LIQUIDITY AND ILLEGAL**  
**EXCHANGE RATE**  
**BOLIVARIAN REPUBLIC OF VENEZUELA**



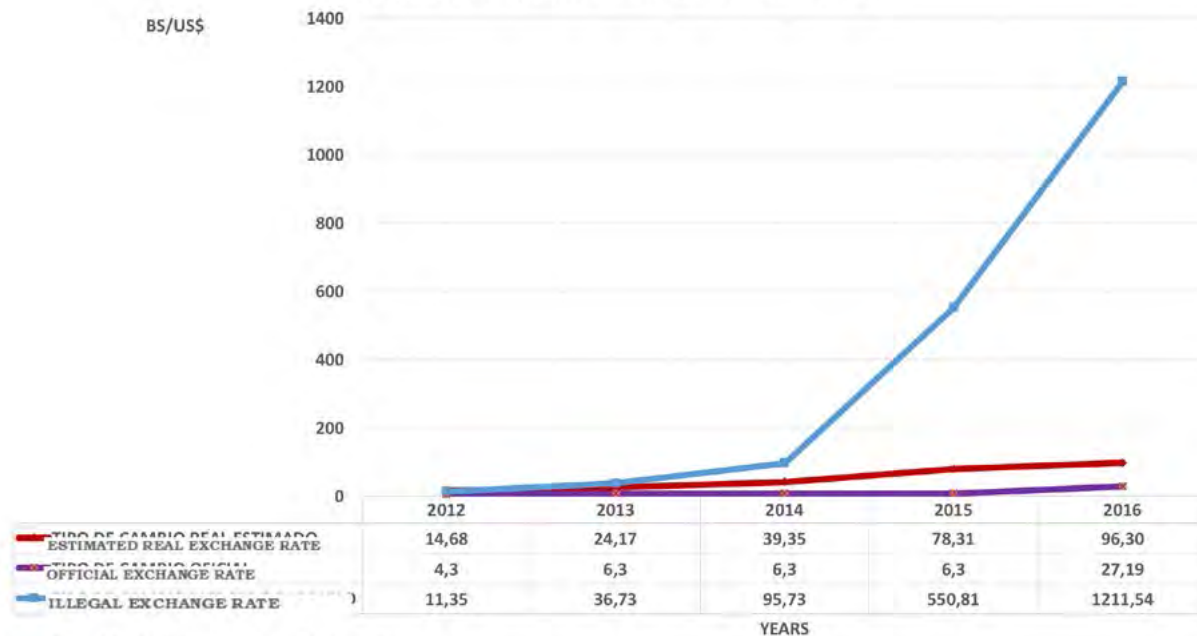
Source: Central Bank of Venezuela. Real estate sector <http://inmueblescaracas.com.ve/tips/bolivardolar.htm>, Dolar today

**CHART 18**  
**POLITICAL CYCLES OF THE ILLEGAL EXCHANGE RATE IN VENEZUELA**  
**BOLIVARIAN REPUBLIC OF VENEZUELA**





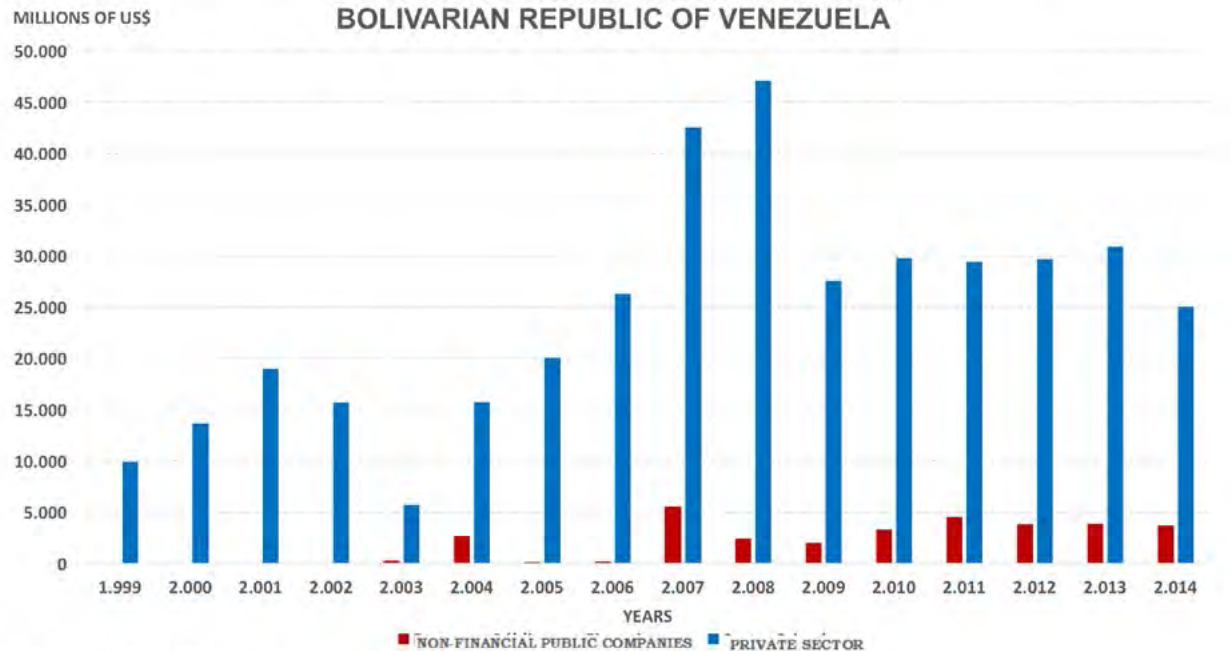
**CHART 19**  
**EXCHANGE RATES COMPARISON**  
**BOLIVARIAN REPUBLIC OF VENEZUELA**



Source: Central Bank of Venezuela. Dolar Today. In-house estimates

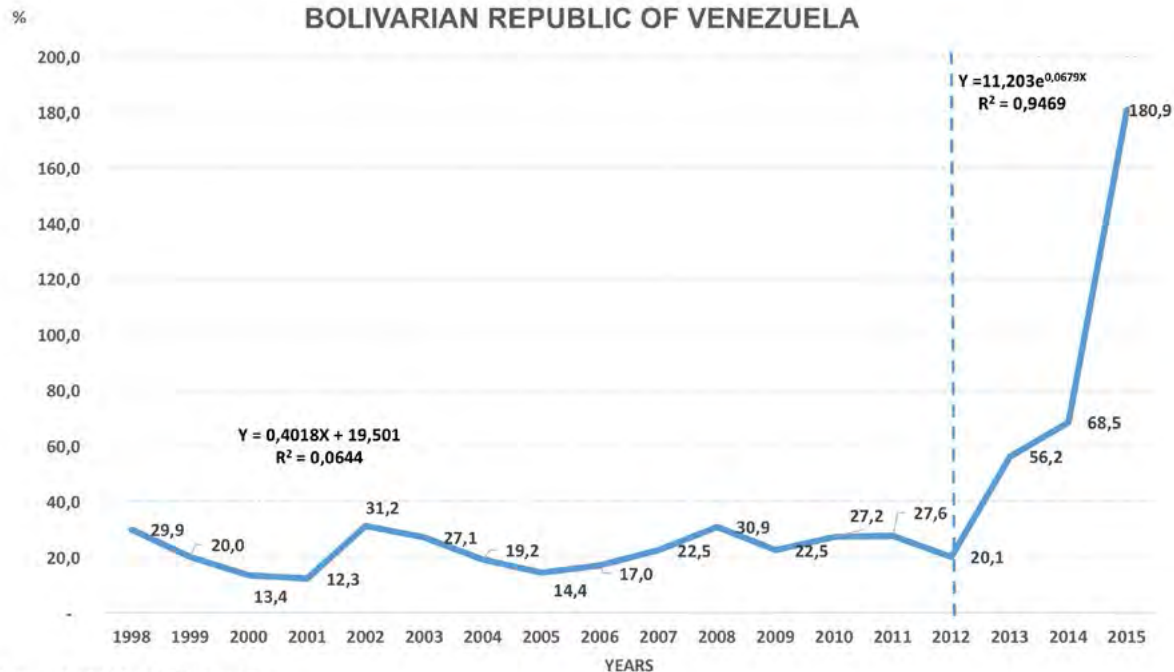


**CHART 20**  
**FOREIGN CURRENCY ALLOCATION TO THE PRIVATE SECTOR AND TO**  
**THE NON-FINANCIAL PUBLIC COMPANIES**  
**BOLIVARIAN REPUBLIC OF VENEZUELA**



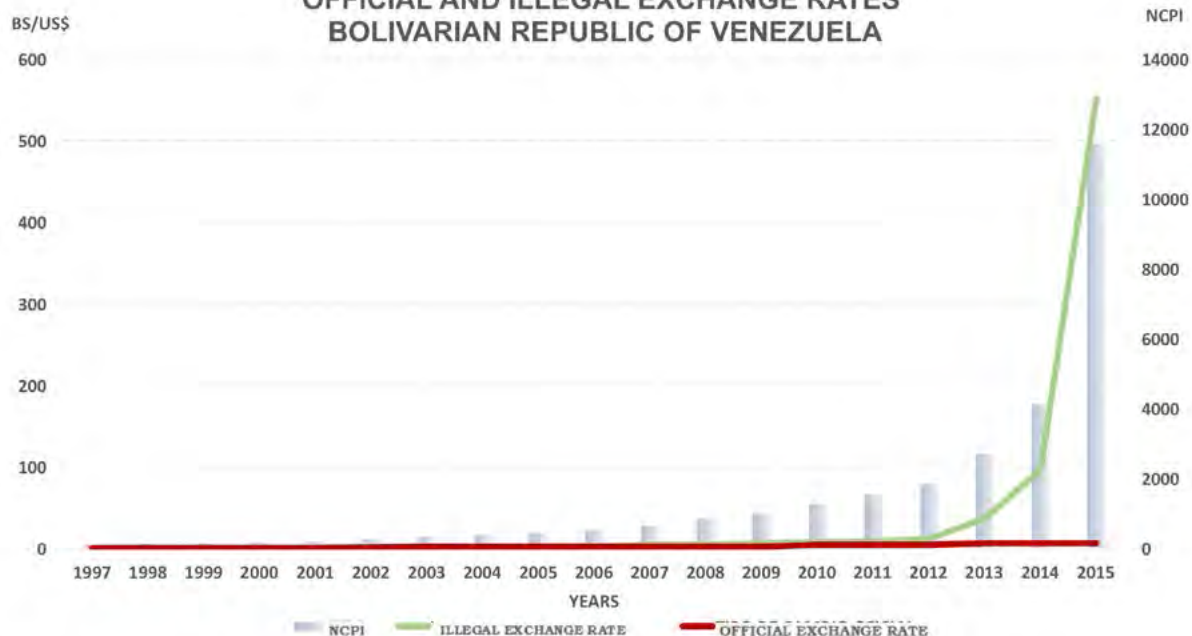
Source: Central Bank of Venezuela.

**CHART 21**  
**INFLATION**  
**BOLIVARIAN REPUBLIC OF VENEZUELA**



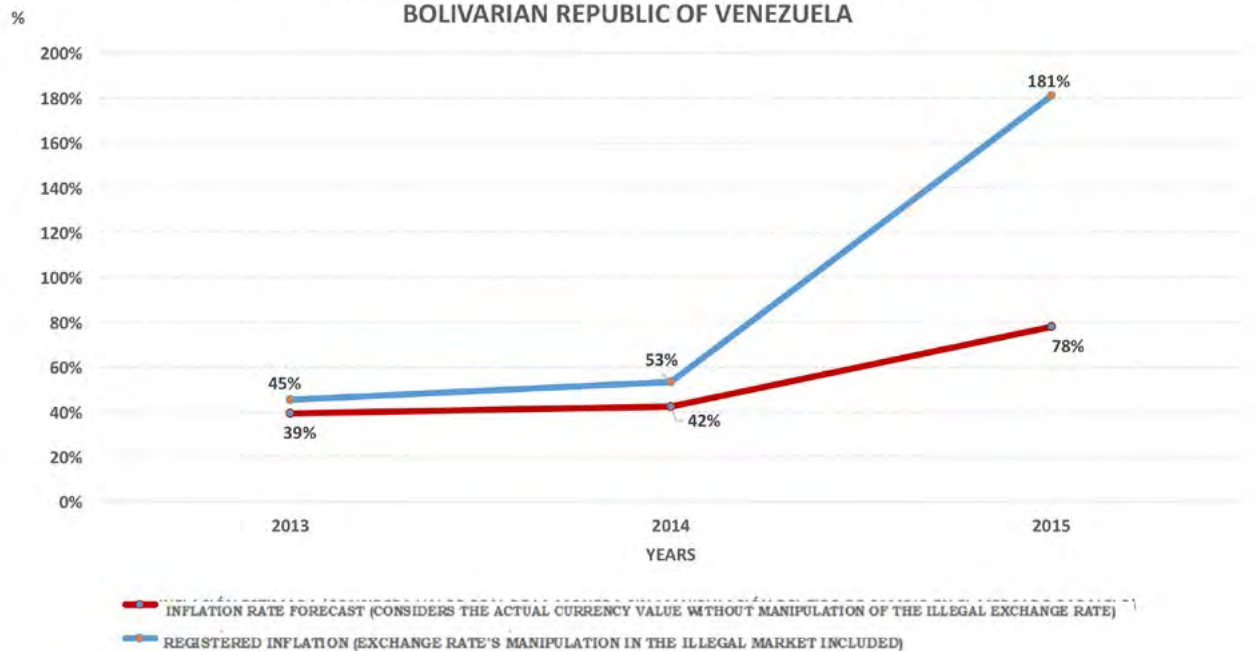
Source: Central Bank of Venezuela.

**CHART 22**  
**NATIONAL CONSUMER PRICE INDEX,**  
**OFFICIAL AND ILLEGAL EXCHANGE RATES**  
**BOLIVARIAN REPUBLIC OF VENEZUELA**



Source: Central Bank of Venezuela. Dolar Today. In-house estimates

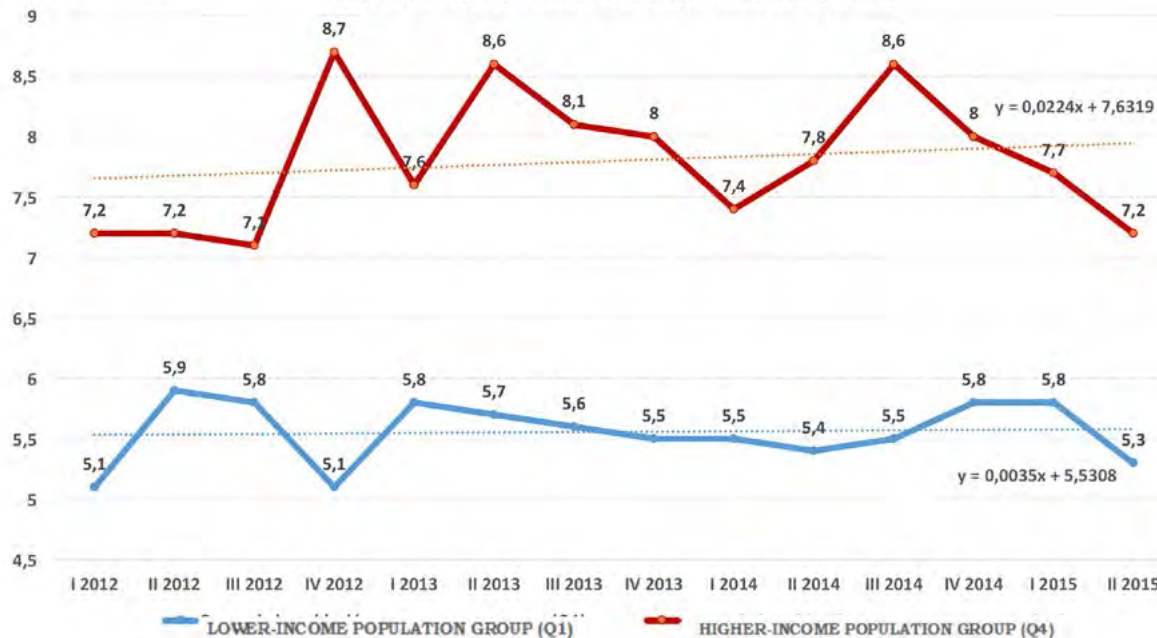
**CHART 23**  
**COMPARISON INFLATION RATE FORECAST AND REGISTERED INFLATION**  
**BOLIVARIAN REPUBLIC OF VENEZUELA**



Source: Central Bank of Venezuela. In-house estimates

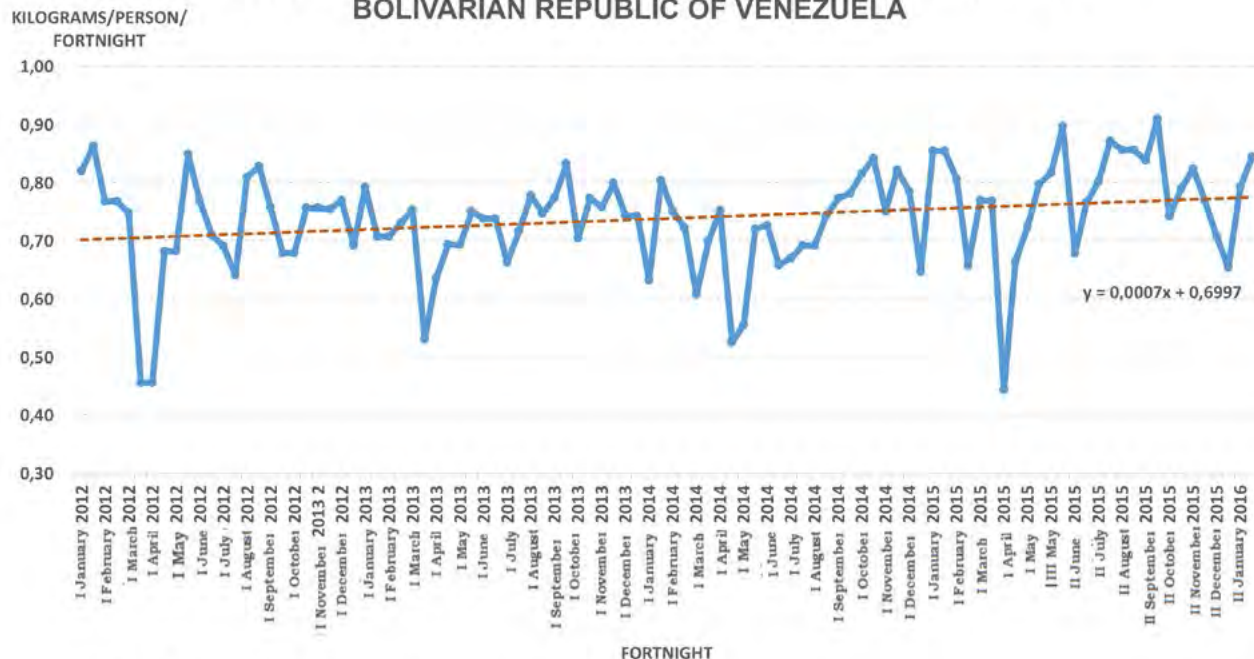
**CHART 24**  
**PRE-COOKED CORN FLOUR CONSUMPTION**  
**BOLIVARIAN REPUBLIC OF VENEZUELA**

KILOGRAM/PERSON/TRIMESTER



Source: Central Bank of Venezuela. In-house estimates

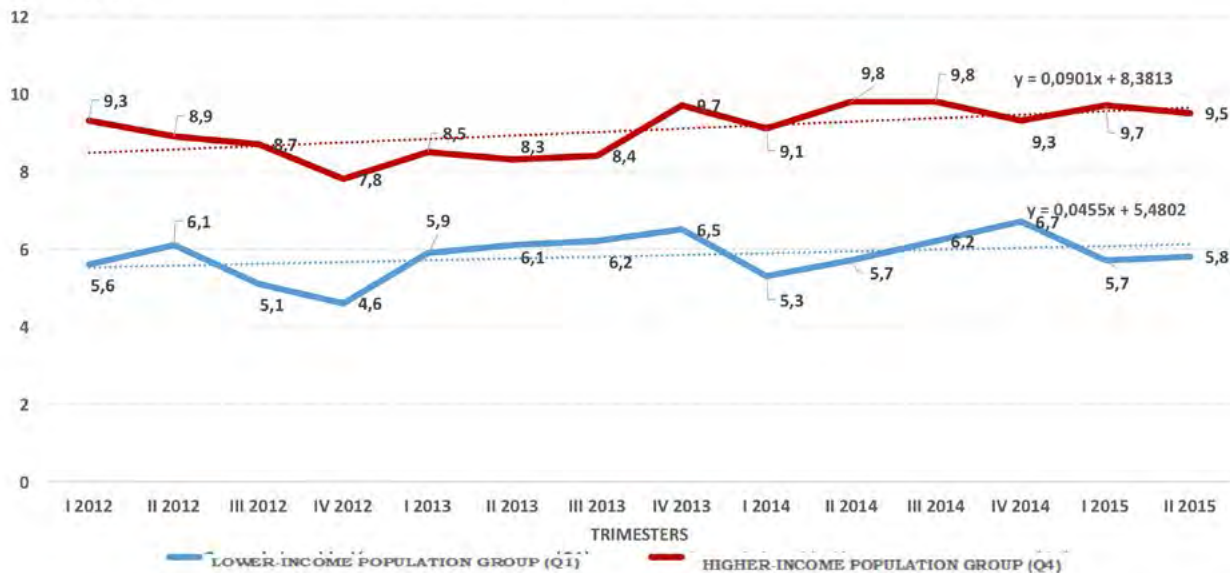
**CHART 25**  
**PRE-COOKED CORN FLOUR PRODUCTION BY ALIMENTOS POLAR**  
**BOLIVARIAN REPUBLIC OF VENEZUELA**



Source: Alimentos Polar. Fortnight report. Several years

**CHART 26**  
**CHICKEN CONSUMPTION**  
**BOLIVARIAN REPUBLIC OF VENEZUELA**

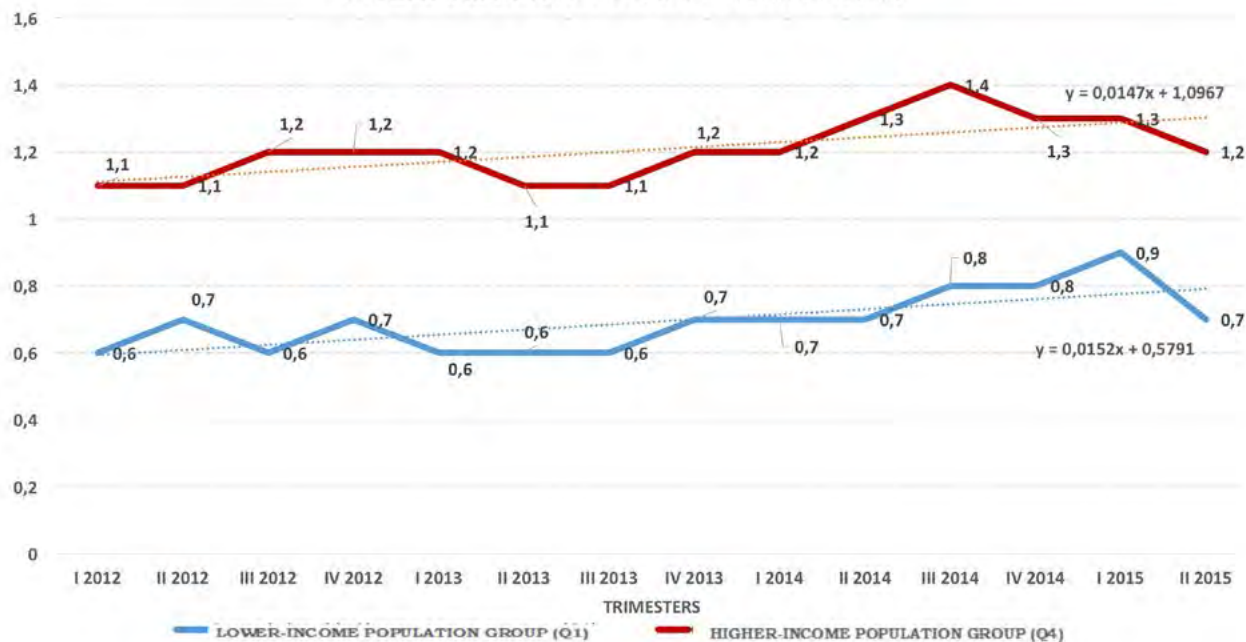
KILOGRAM/PERSON/  
TRIMESTER



Source: Central Bank of Venezuela. In-house estimates

KILOGRAM/PERSON/  
TRIMESTER

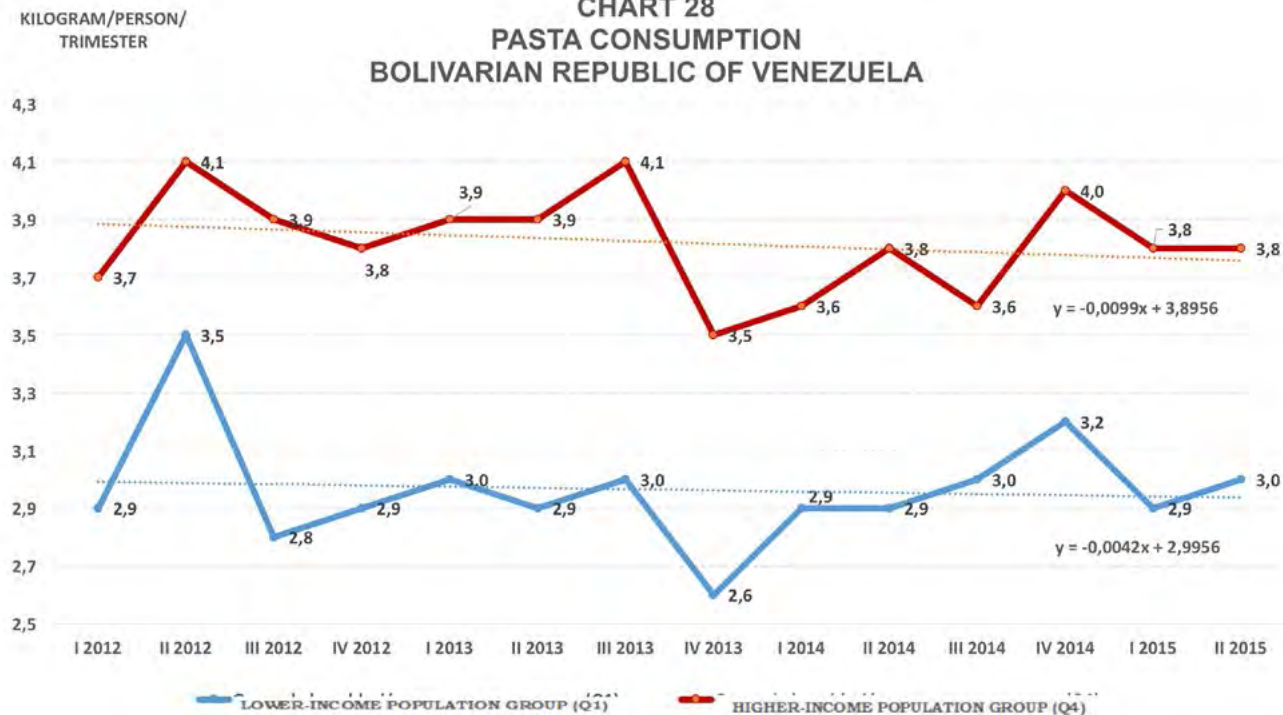
CHART 27  
COFFEE CONSUMPTION  
BOLIVARIAN REPUBLIC OF VENEZUELA



Source: Central Bank of Venezuela. In-house estimates



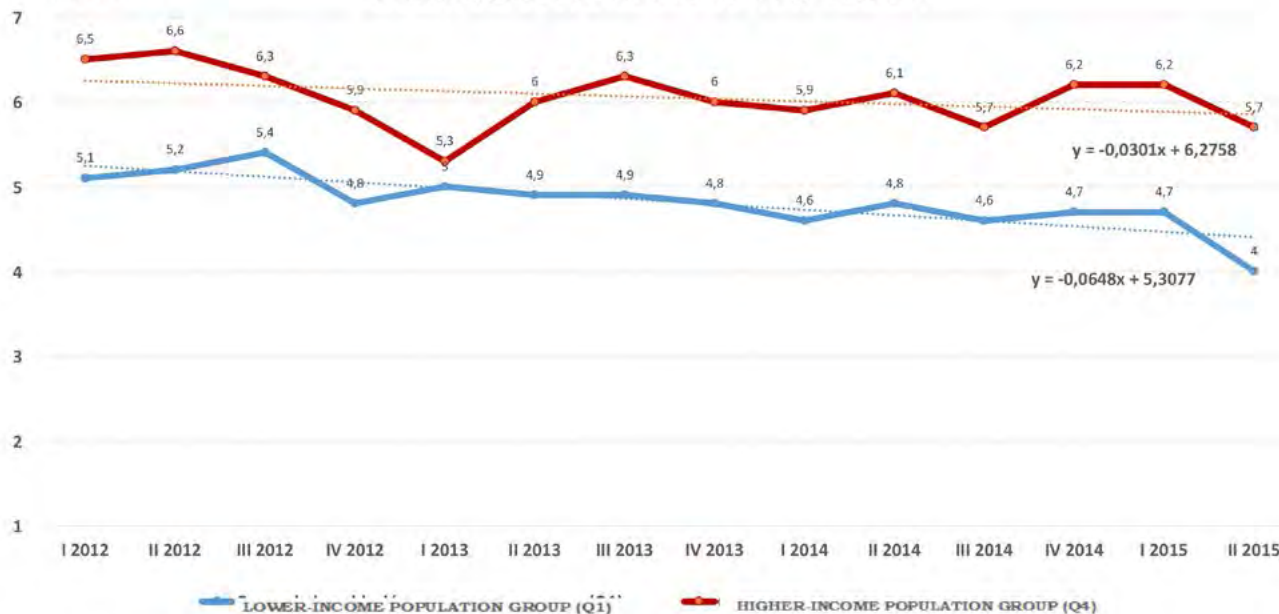
**CHART 28**  
**PASTA CONSUMPTION**  
**BOLIVARIAN REPUBLIC OF VENEZUELA**



Source: Central Bank of Venezuela. In-house estimates

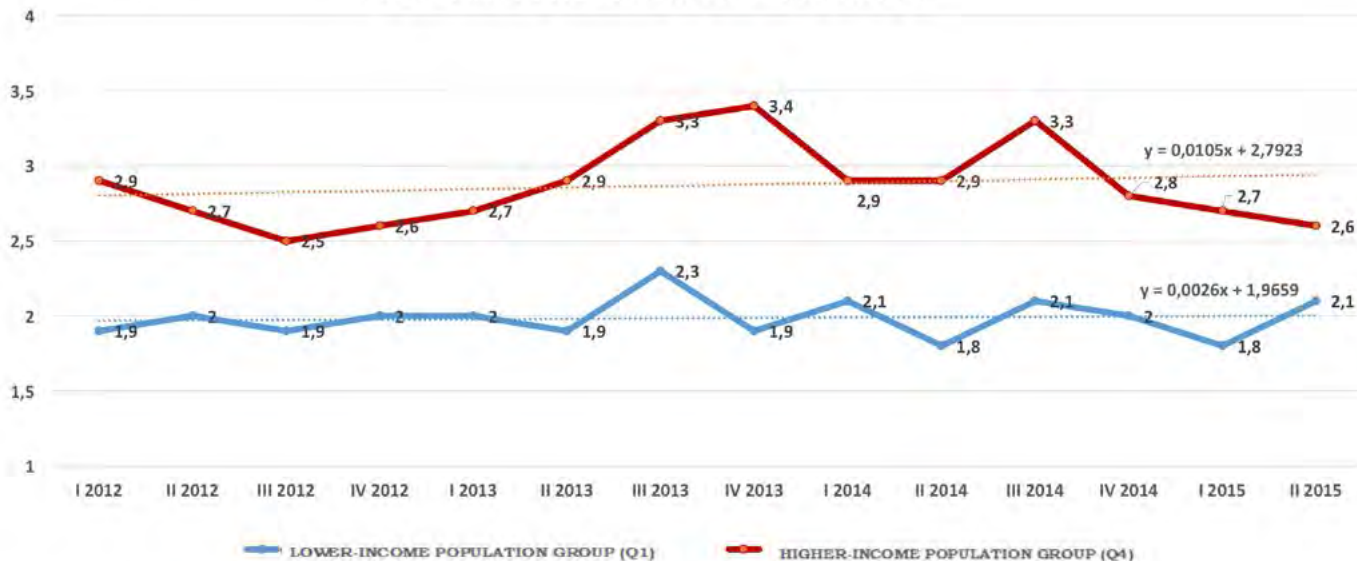
**CHART 29**  
**RICE CONSUMPTION**  
**BOLIVARIAN REPUBLIC OF VENEZUELA**

KILOGRAM/PERSON/  
TRIMESTER



Source: Central Bank of Venezuela. In-house estimates

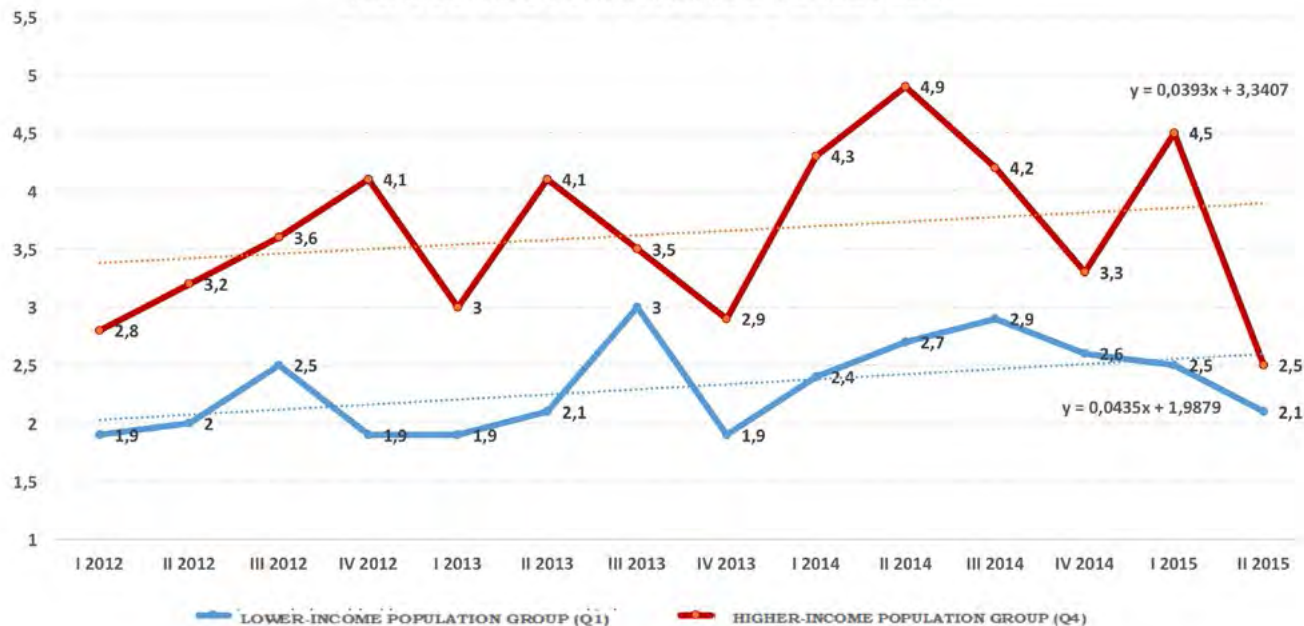
**CHART 30**  
**MILK POWDER CONSUMPTION**  
**BOLIVARIAN REPUBLIC OF VENEZUELA**



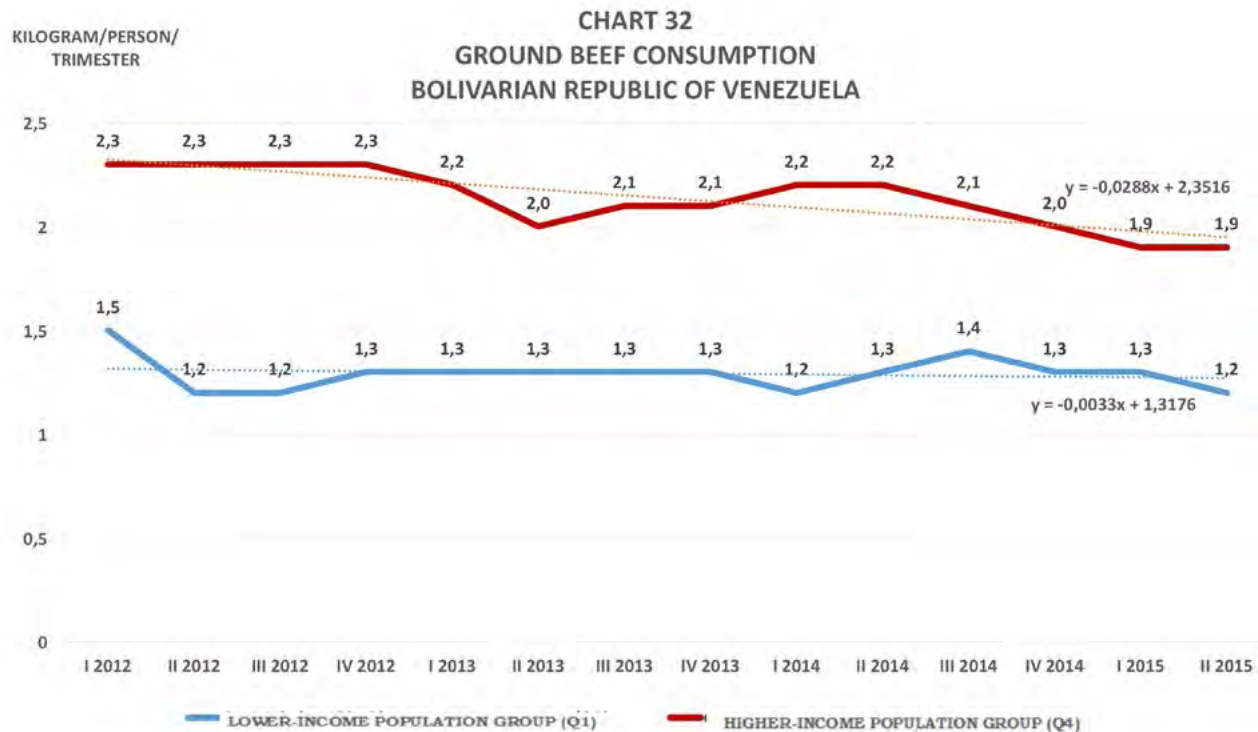
Source: Central Bank of Venezuela. In-house estimates

**CHART 31**  
**CORN OIL CONSUMPTION**  
**REPÚBLICA BOLIVARIANA DE VENEZUELA**

KILOGRAM/PERSON/  
 TRIMESTER

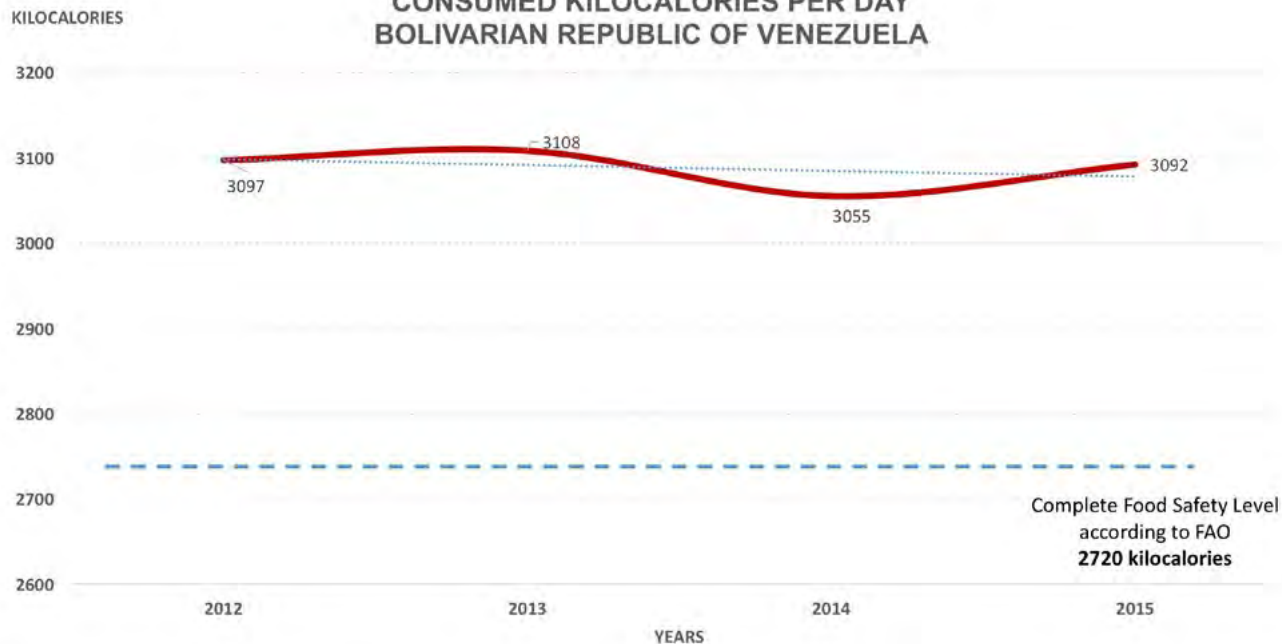


Source: Central Bank of Venezuela. In-house estimates



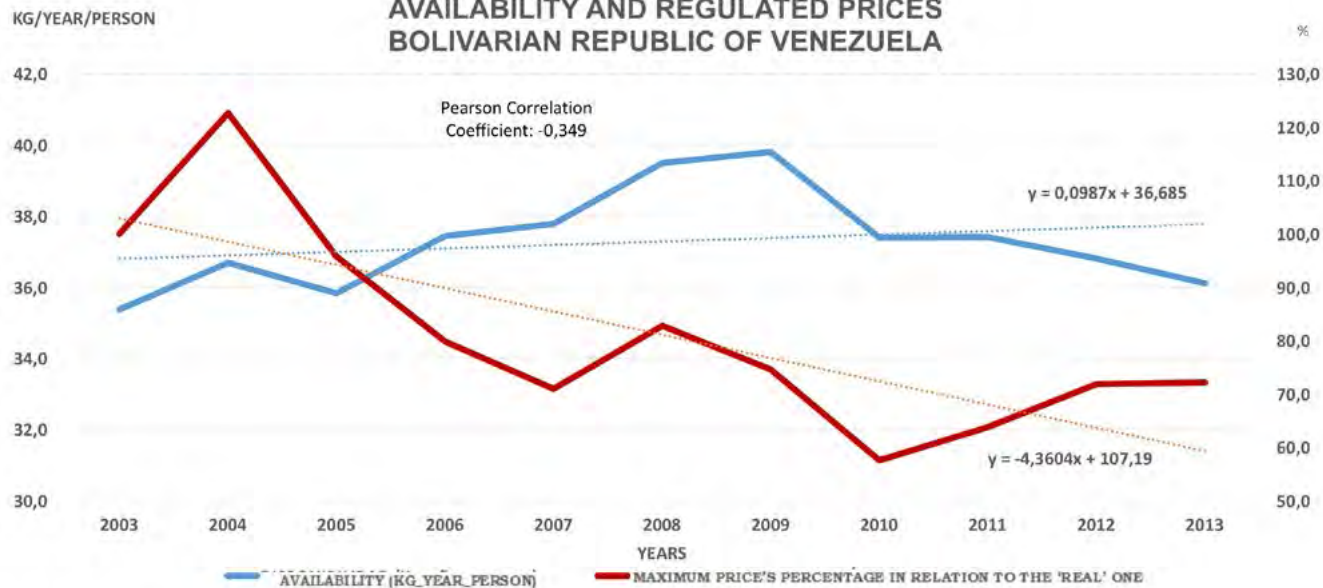
Source: Central Bank of Venezuela. In-house estimates

**CHART 33**  
**CONSUMED KILOCALORIES PER DAY**  
**BOLIVARIAN REPUBLIC OF VENEZUELA**



Source: People's Power Ministry for Food, Report and Accounts 2015. National Institute of Nutrition

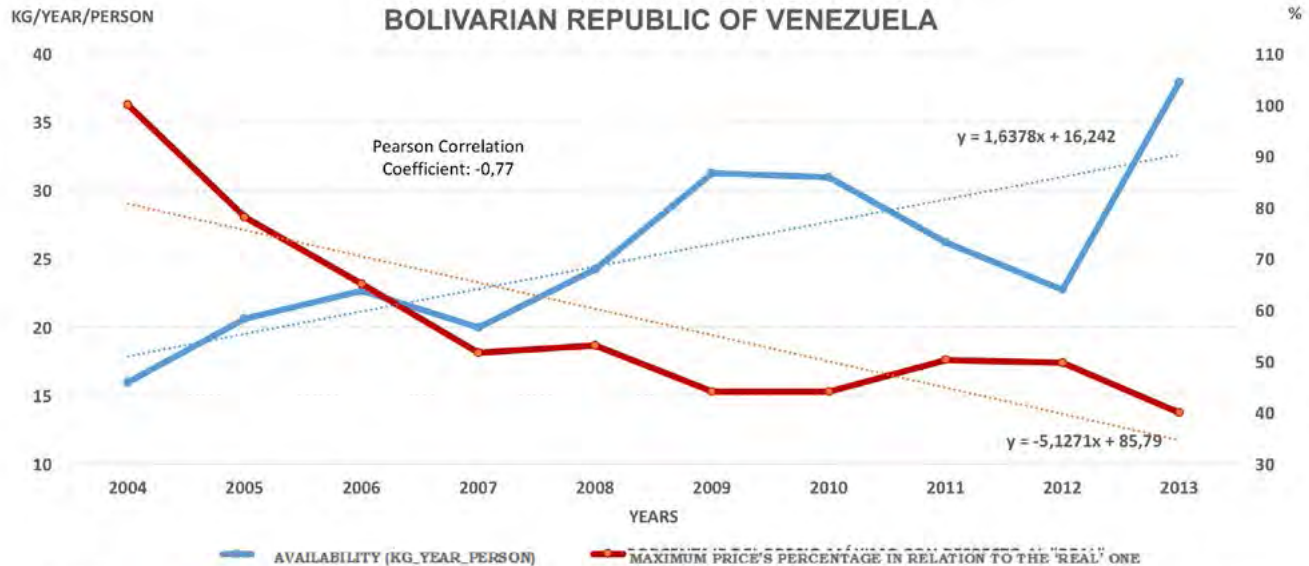
**CHART 34**  
**PRE-COOKED CORN FLOUR**  
**AVAILABILITY AND REGULATED PRICES**  
**BOLIVARIAN REPUBLIC OF VENEZUELA**



**Sources:**

- Availability: National Institute of Nutrition. Food Balance Sheet (2003-2013)
- Maximum Prices: Bolivarian Republic of Venezuela. Official Gazette (Several years)
- National Consumer Price Index of food and non-alcoholic beverages. Central Bank of Venezuela
- In-house estimates

**CHART 35**  
**POLISHED RICE**  
**AVAILABILITY AND REGULATED PRICES**  
**BOLIVARIAN REPUBLIC OF VENEZUELA**

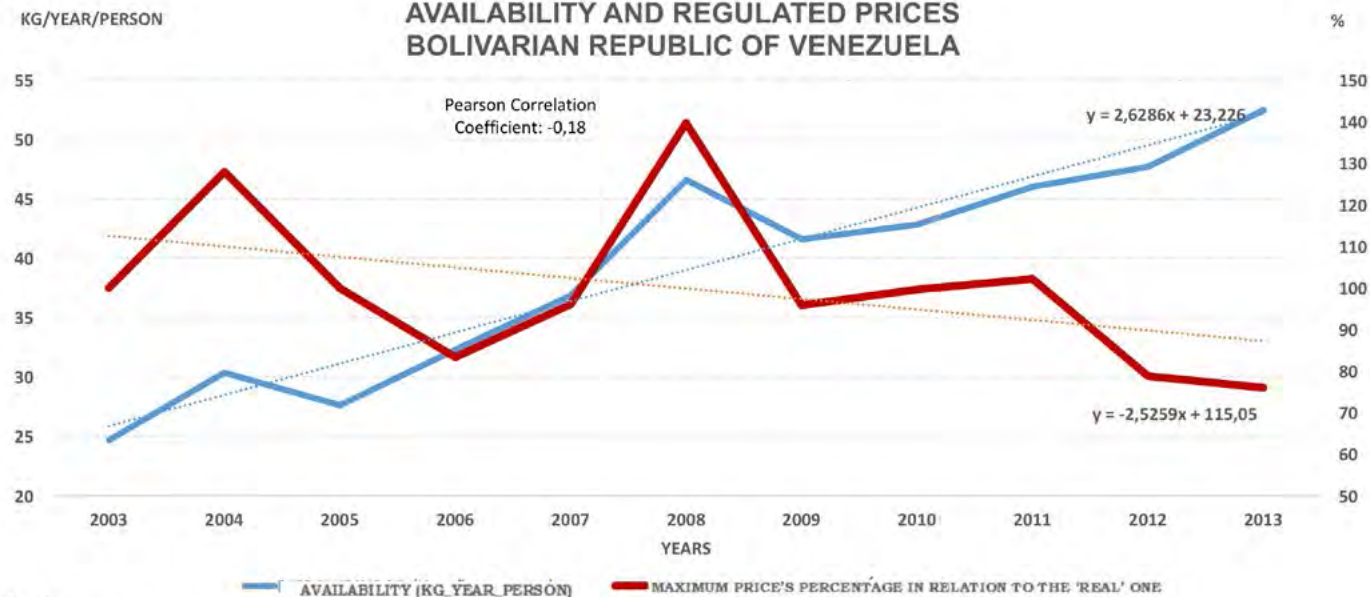


**Sources:**

- Availability: National Institute of Nutrition. Food Balance Sheet (2004-2013)
- Maximum Prices: Bolivarian Republic of Venezuela. Official Gazette (Several years)
- National Consumer Price Index of food and non-alcoholic beverages. Central Bank of Venezuela
- In-house estimates



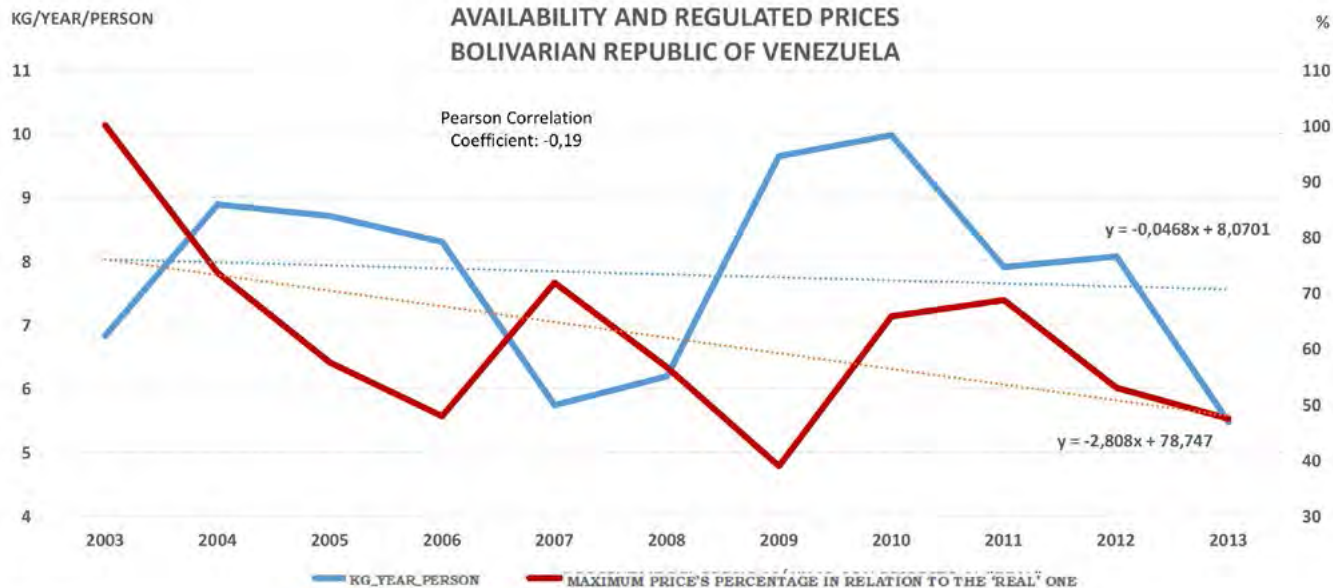
**CHART 36**  
**CHICKEN**  
**AVAILABILITY AND REGULATED PRICES**  
**BOLIVARIAN REPUBLIC OF VENEZUELA**



Fuentes:

- Availability: National Institute of Nutrition. Food Balance Sheet (2003-2013)
- Maximum Prices: Bolivarian Republic of Venezuela. Official Gazette (Several years)
- National Consumer Price Index of food and non-alcoholic beverages. Central Bank of Venezuela
- In-house estimates

**CHART 37**  
**PASTEURISED MILK**  
**AVAILABILITY AND REGULATED PRICES**  
**BOLIVARIAN REPUBLIC OF VENEZUELA**



**Sources:**

- Availability: National Institute of Nutrition. Food Balance Sheet (2003-2013)
- Maximum Prices: Bolivarian Republic of Venezuela. Official Gazette (Several years)
- National Consumer Price Index of food and non-alcoholic beverages. Central Bank of Venezuela
- In-house estimates

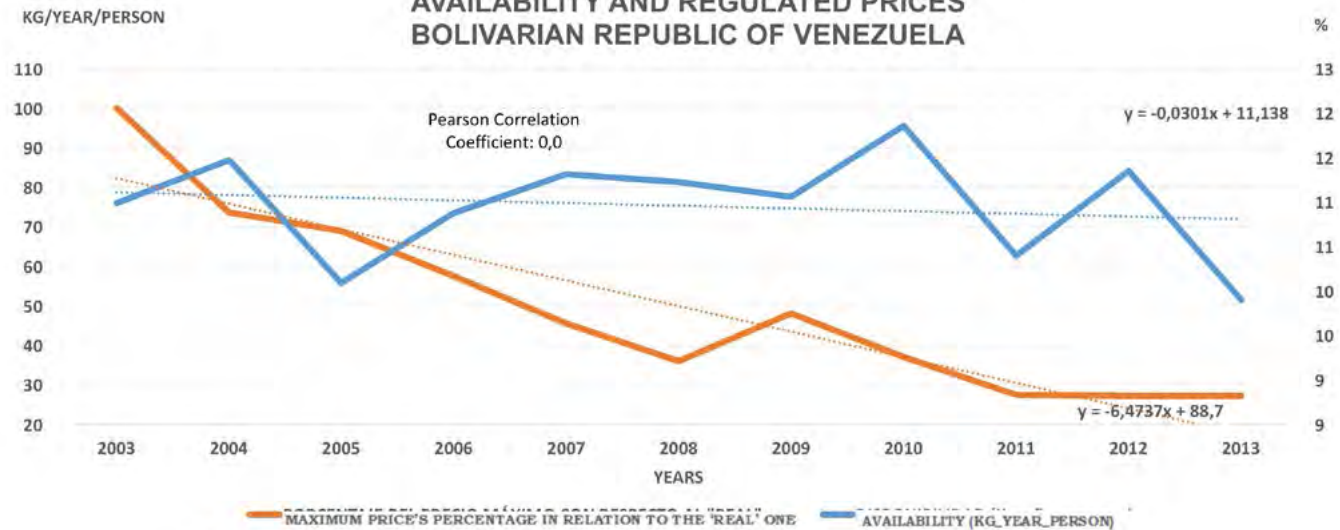
**CHART 38**  
**COFFEE**  
**AVAILABILITY AND REGULATED PRICES**  
**BOLIVARIAN REPUBLIC OF VENEZUELA**



**Sources:**

- Availability: National Institute of Nutrition. Food Balance Sheet (2003-2013)
- Maximum Prices: Bolivarian Republic of Venezuela. Official Gazette (Several years)
- National Consumer Price Index of food and non-alcoholic beverages. Central Bank of Venezuela
- In-house estimates

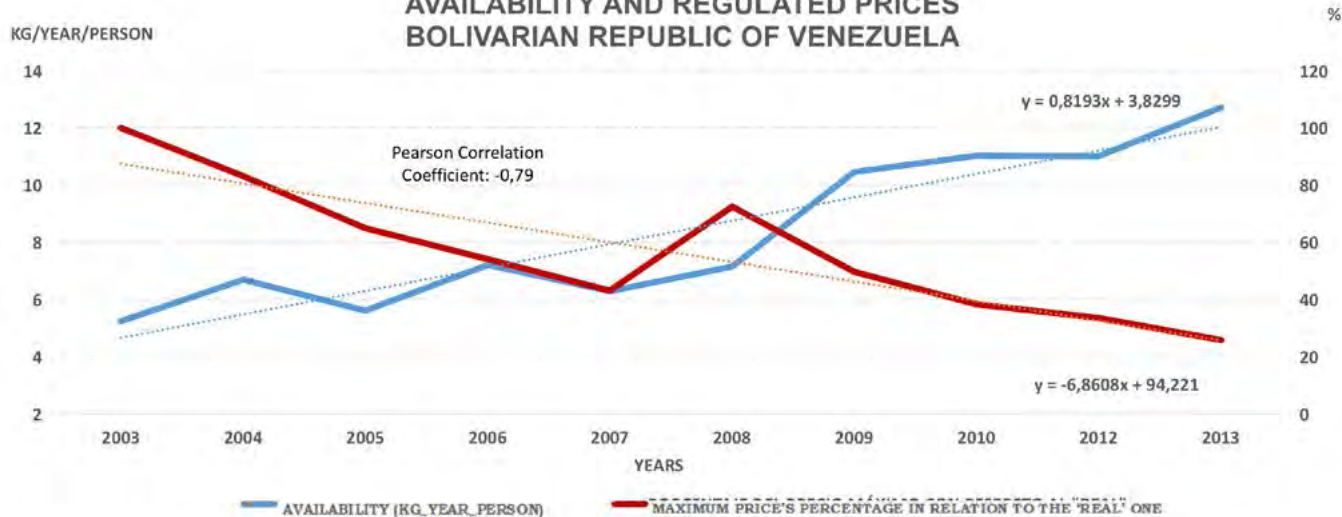
**CHART 39**  
**PASTA**  
**AVAILABILITY AND REGULATED PRICES**  
**BOLIVARIAN REPUBLIC OF VENEZUELA**



Sources:

- Availability: National Institute of Nutrition. Food Balance Sheet (2003-2013)
- Maximum Prices: Bolivarian Republic of Venezuela. Official Gazette (Several years)
- National Consumer Price Index of food and non-alcoholic beverages. Central Bank of Venezuela
- In-house estimates

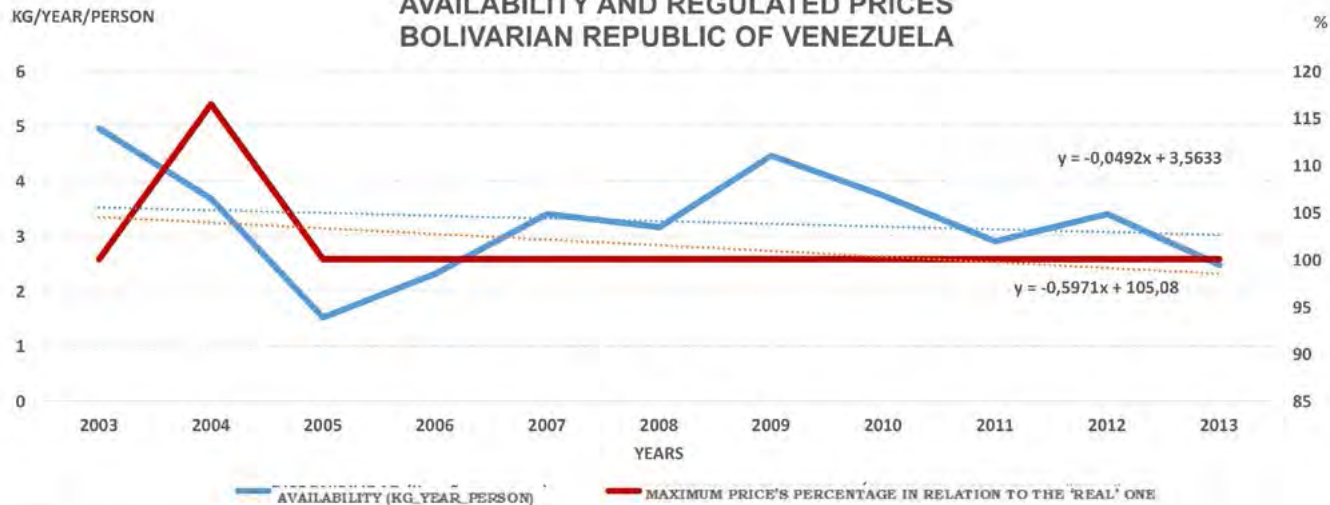
**CHART 40**  
**VEGETABLE OIL (BLEND)**  
**AVAILABILITY AND REGULATED PRICES**  
**BOLIVARIAN REPUBLIC OF VENEZUELA**



**Sources:**

- Availability: National Institute of Nutrition. Food Balance Sheet (2003-2013)
- Maximum Prices: Bolivarian Republic of Venezuela. Official Gazette (Several years)
- National Consumer Price Index of food and non-alcoholic beverages. Central Bank of Venezuela
- In-house estimates

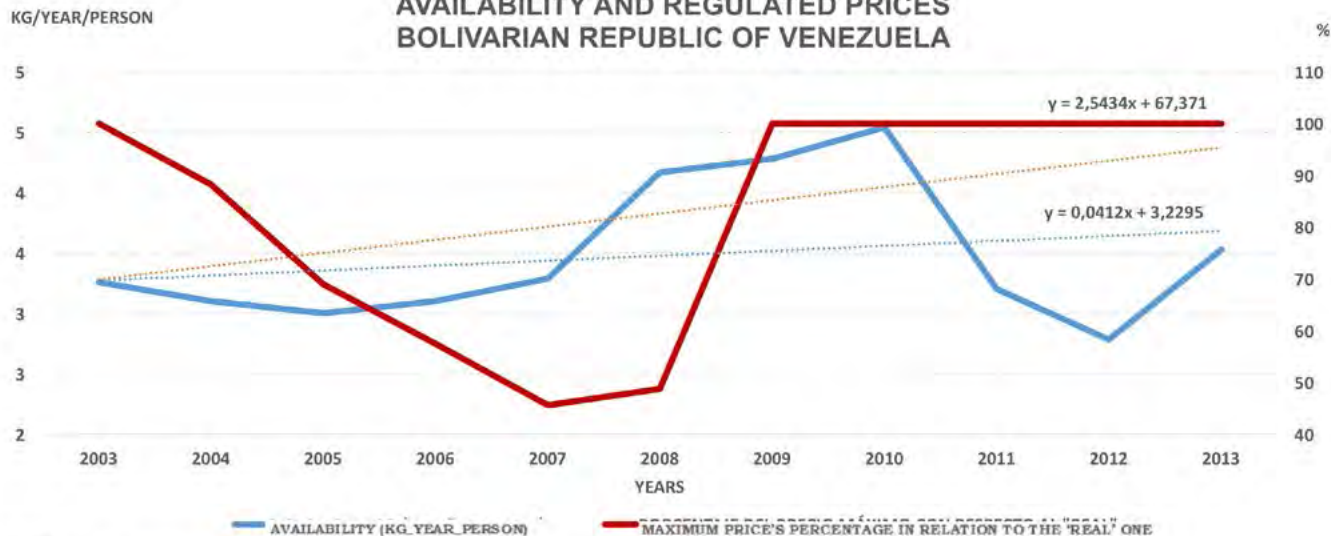
**CHART 41**  
**BLACK BEANS**  
**AVAILABILITY AND REGULATED PRICES**  
**BOLIVARIAN REPUBLIC OF VENEZUELA**



**Sources:**

- Availability: National Institute of Nutrition. Food Balance Sheet (2003-2013)
- Maximum Prices: Bolivarian Republic of Venezuela. Official Gazette (Several years)
- National Consumer Price Index of food and non-alcoholic beverages. Central Bank of Venezuela
- In-house estimates

**CHART 42**  
**MARGARINE**  
**AVAILABILITY AND REGULATED PRICES**  
**BOLIVARIAN REPUBLIC OF VENEZUELA**

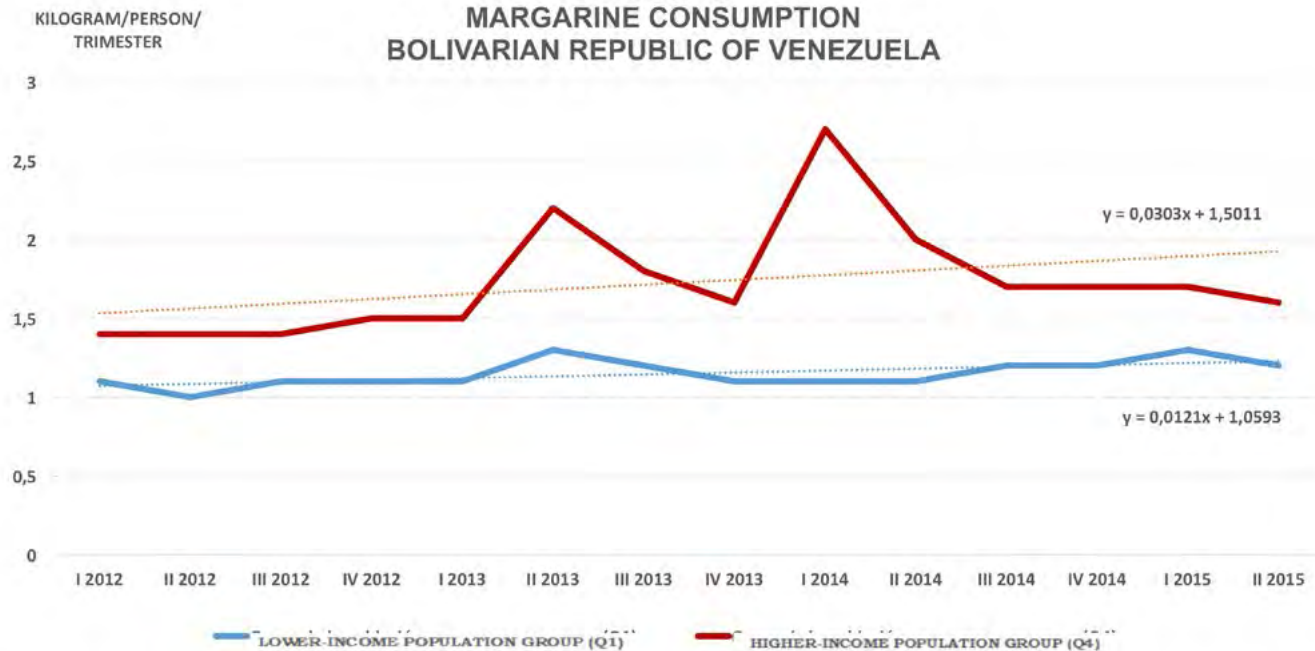


**Sources:**

- Availability: National Institute of Nutrition. Food Balance Sheet (2003-2013)
- Maximum Prices: Bolivarian Republic of Venezuela. Official Gazette (Several years)
- National Consumer Price Index of food and non-alcoholic beverages. Central Bank of Venezuela
- In-house estimates



**CHART 43**  
**MARGARINE CONSUMPTION**  
**BOLIVARIAN REPUBLIC OF VENEZUELA**

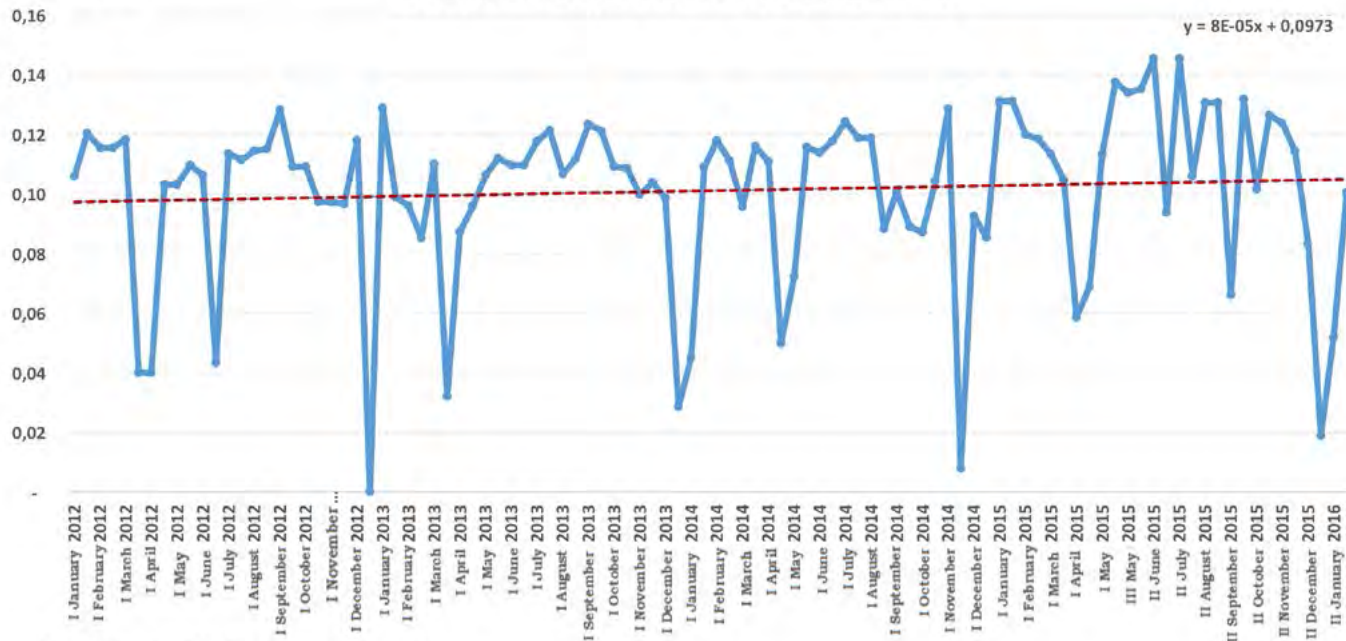


Source: Central Bank of Venezuela. In-house estimates



**CHART 44**  
**MARGARINE PRODUCTION BY ALIMENTOS POLAR**  
**BOLIVARIAN REPUBLIC OF VENEZUELA**

KILOGRAMS PER PERSON  
 FORTNIGHTLY



Source: Alimentos Polar. Fortnight report. Several years

TABLE 1

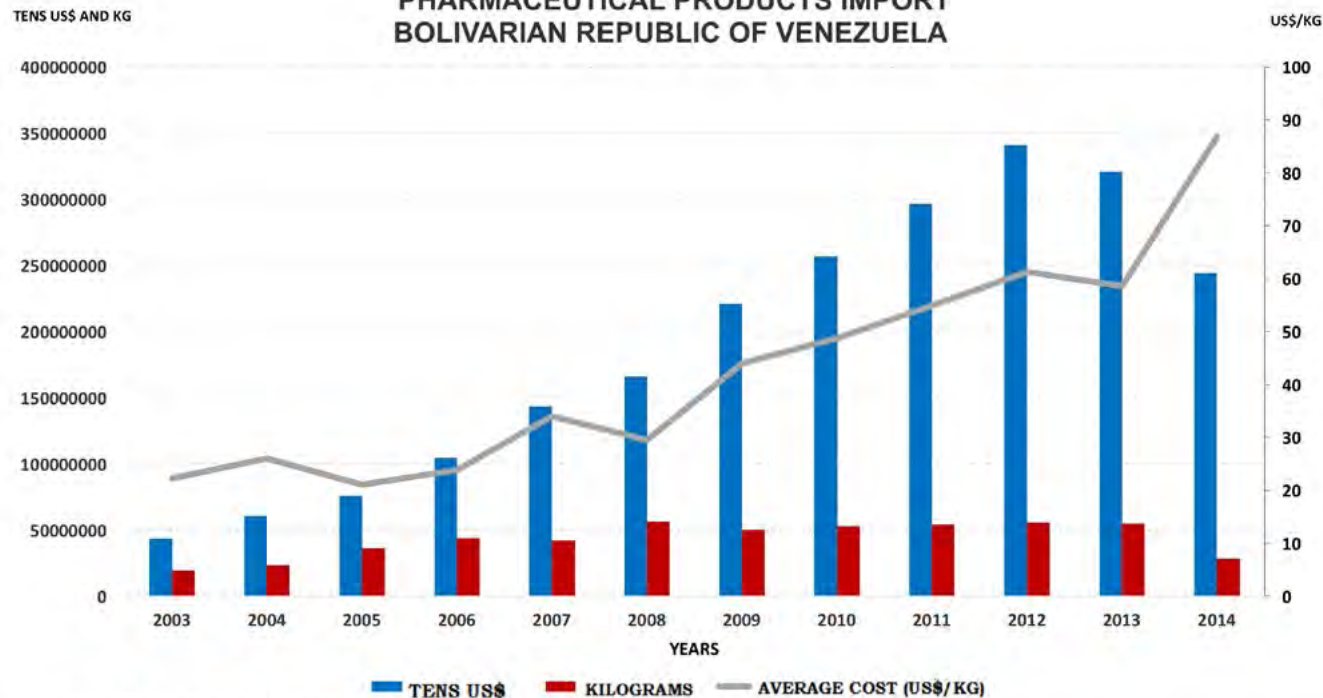
20 MAIN FOOD PRODUCTS CONSTITUENT THE CONSUMPTION PATTERN IN THE GENERAL POPULATION. BOLIVARIAN REPUBLIC OF VENEZUELA - 2013

No.	Support Order	Amount Intake	
		grams-cc/ person/day	%
1	Pre-cooked corn flour	115.7	11.4
2	Black coffee-Infusion	90.1	8.9
3	White rice	85.9	8.5
4	Carbonated drinks	66.8	6.6
5	Chicken meat	46.9	4.6
6	Plantains	38.4	3.8
7	Pasteurized Fruit Juice	38.1	3.8
8	Salty bread	34.4	3.4
9	Pasta	32.5	3.2
10	Melon	30.2	3.0
11	White sugar	29.6	2.9
12	Beef	29.5	2.9
13	Papaya	24.1	2.4
14	Chicken eggs	23.4	2.3
15	Hard white cheese	22.5	2.2
16	Liquid whole milk	18.3	1.8
17	Black beans	17.6	1.7
18	Vegetable oil	14.6	1.4
19	Orange juice	14.0	1.2
20	Guava	12.7	1.2
<b>Subtotal</b>		<b>782.2</b>	<b>77.0</b>
<b>Others</b>		<b>233.6</b>	<b>23.0</b>
<b>Total</b>		<b>1015.8</b>	<b>100</b>

a/ includes the hierarchization of the average consumption according to specific food products

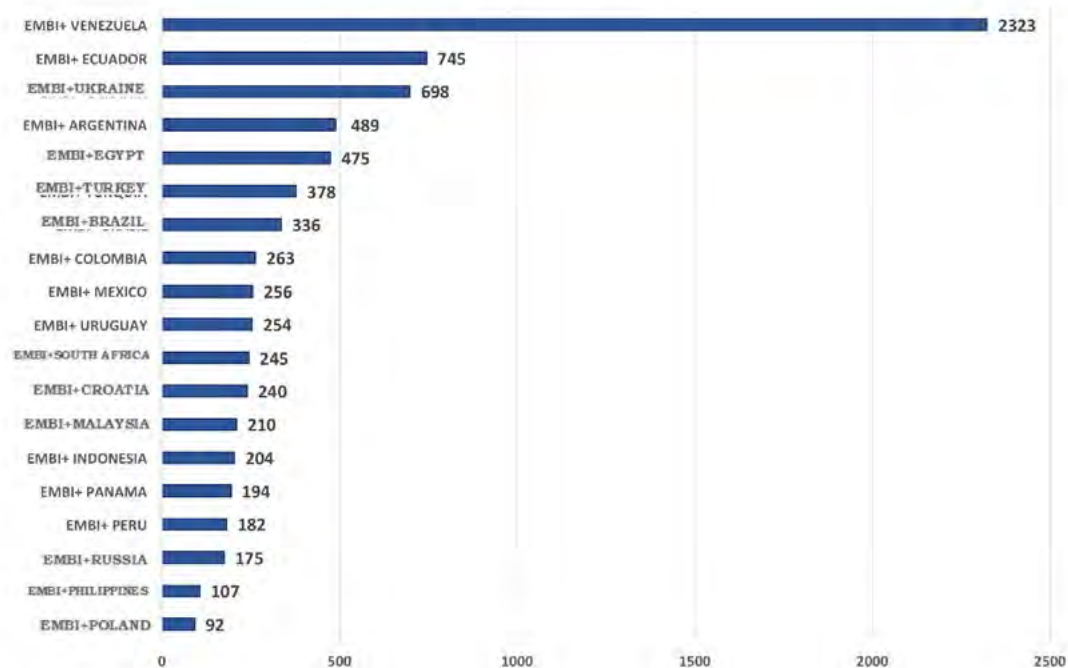
Source: National Institute of Statistics – National Food Consumption Survey

**CHART 45**  
**PHARMACEUTICAL PRODUCTS IMPORT**  
**BOLIVARIAN REPUBLIC OF VENEZUELA**



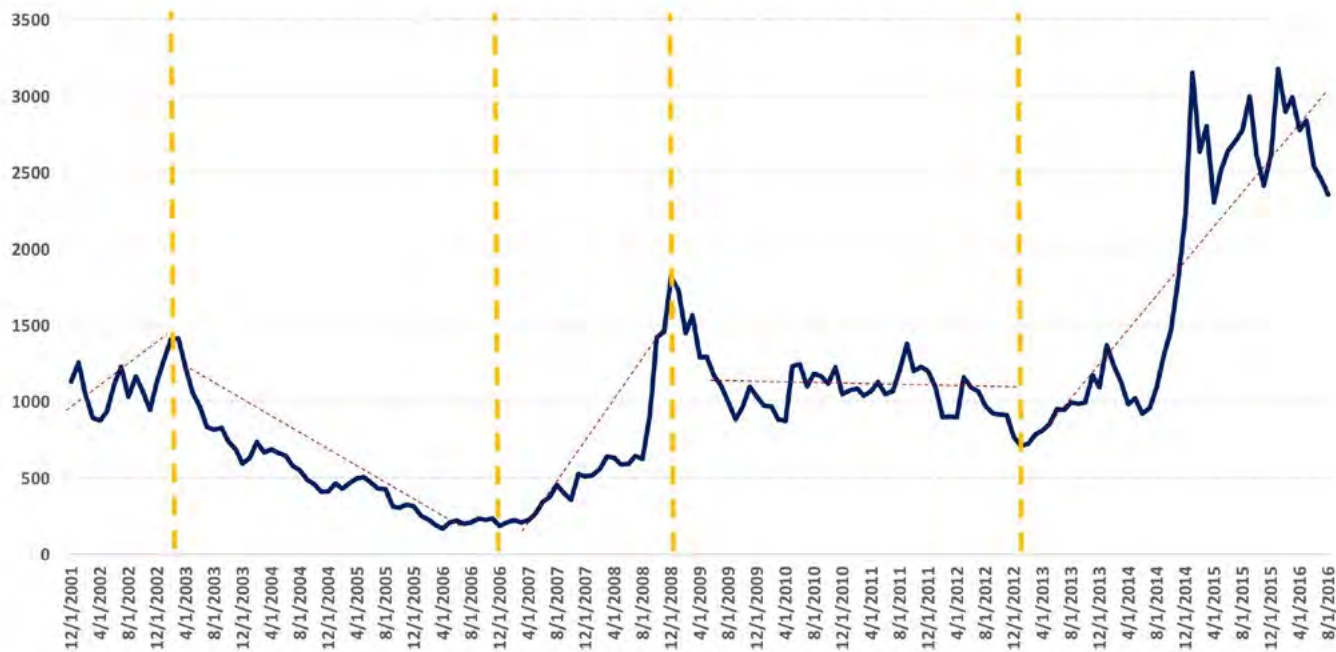
Source: National Institute of Statistics. Foreign Trade

CHART 46  
COUNTRY RISK



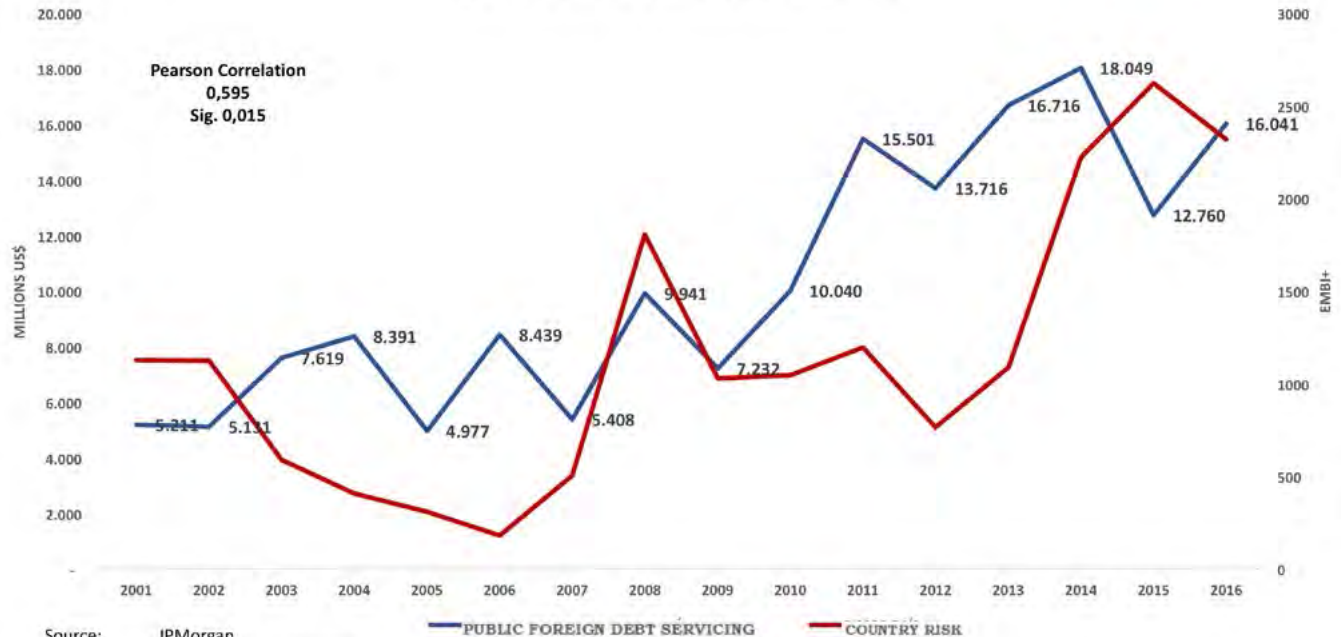
Source: JPMorgan.

CHART 47  
COUNTRY RISK  
BOLIVARIAN REPUBLIC OF VENEZUELA



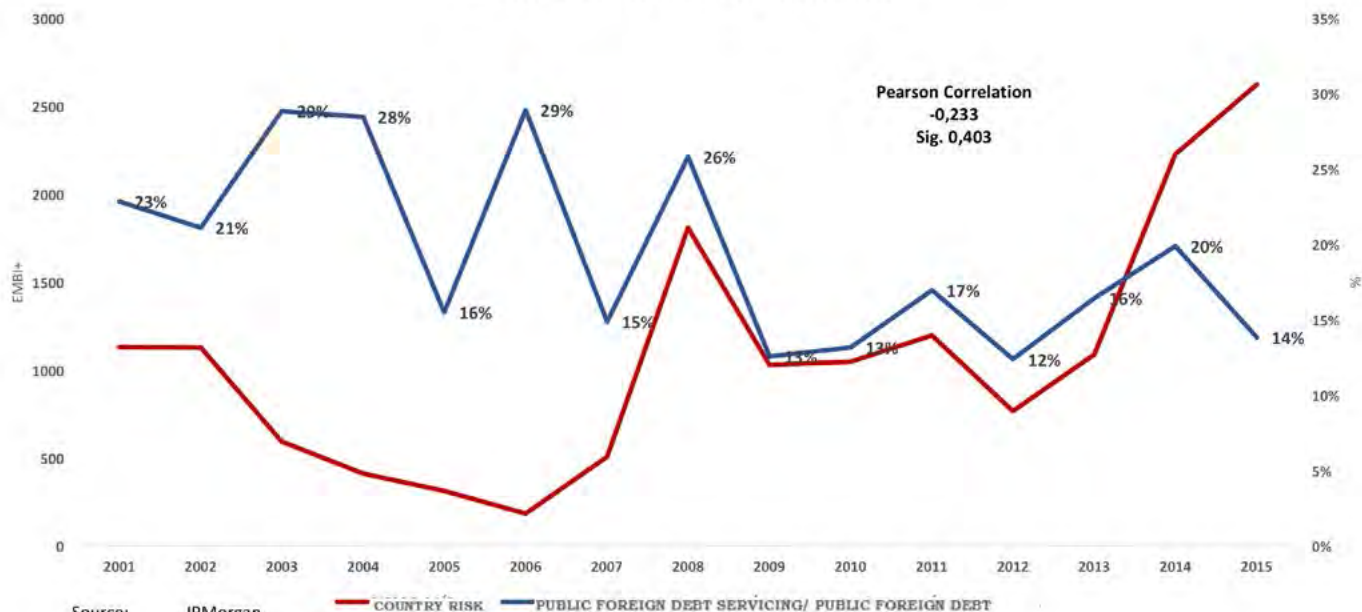
Source: JPMorgan

**CHART 48**  
**COUNTRY RISK AND PUBLIC FOREIGN DEBT SERVICING**  
**BOLIVARIAN REPUBLIC OF VENEZUELA**



Source: JPMorgan  
 Central Bank of Venezuela

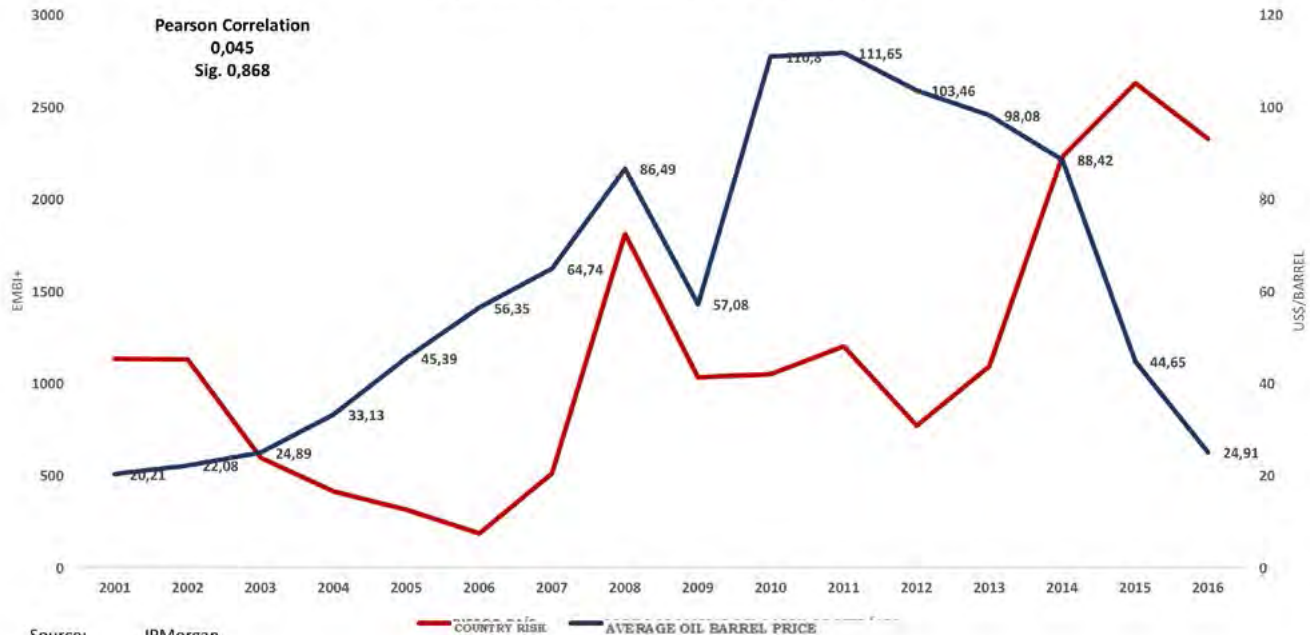
**CHART 49**  
**PUBLIC FOREIGN DEBT SERVICING WITH RESPECT TO THE**  
**TOTAL PUBLIC DEBT AND COUNTRY RISK**  
**BOLIVARIAN REPUBLIC OF VENEZUELA**



Source: JPMorgan  
 Central Bank of Venezuela

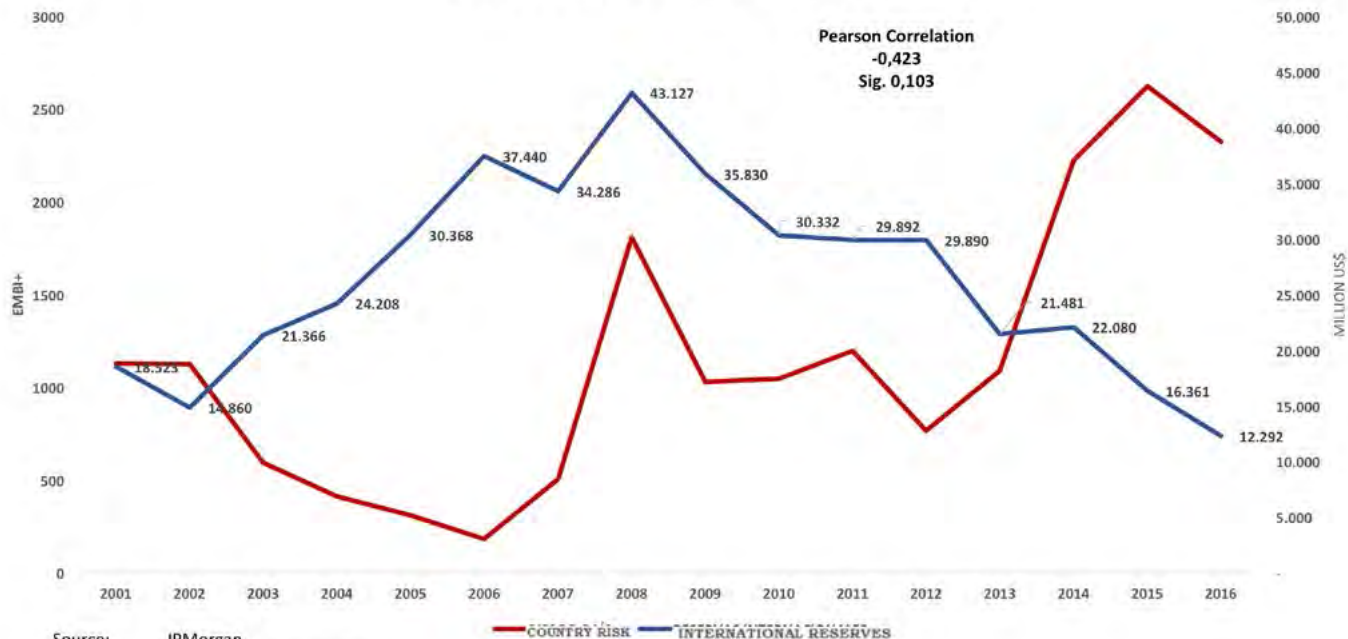


CHART 50  
COUNTRY RISK AND OIL BARREL PRICE  
BOLIVARIAN REPUBLIC OF VENEZUELA

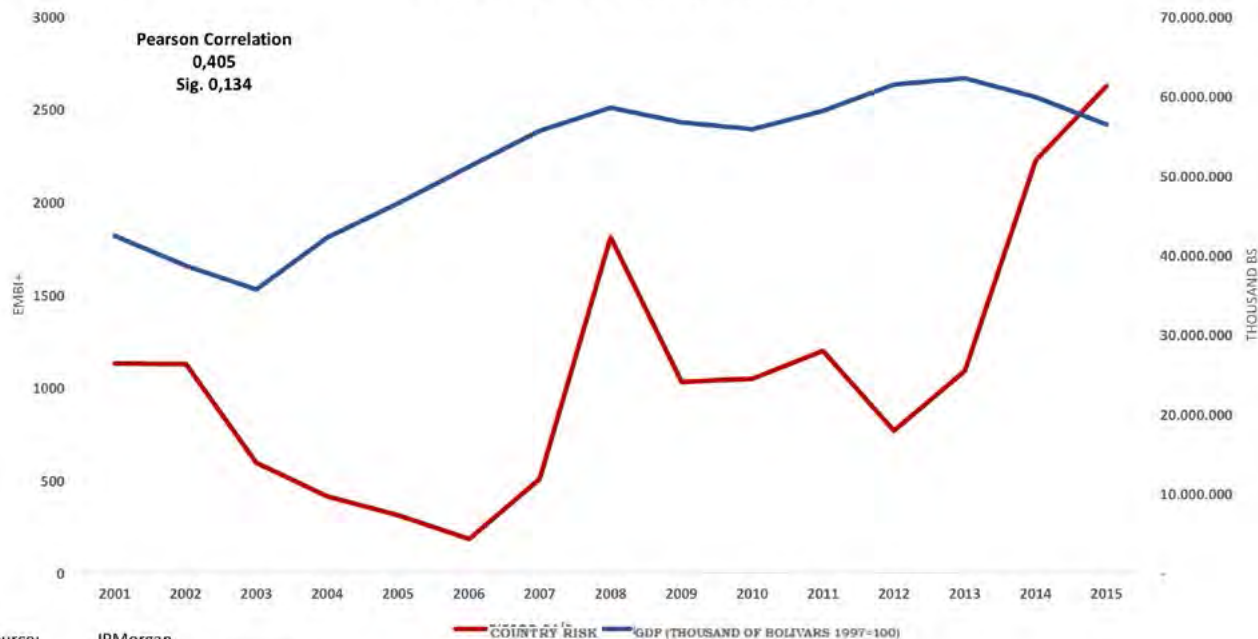




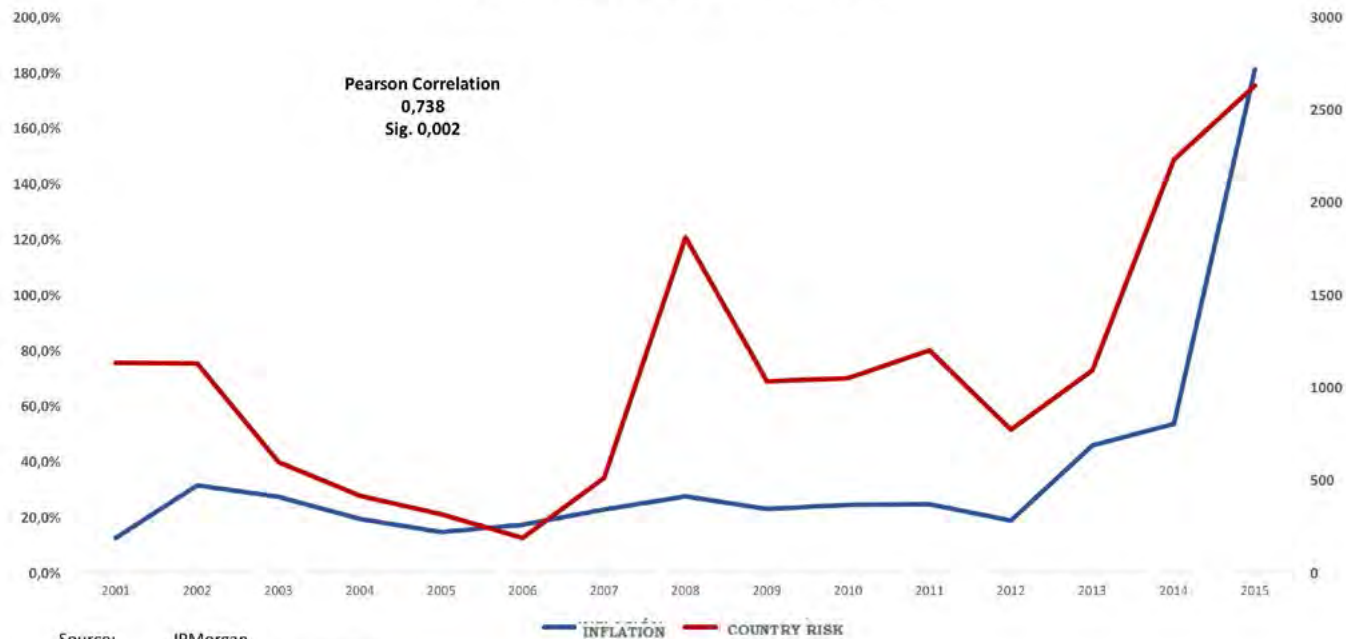
**CHART 51**  
**COUNTRY RISK AND INTERNATIONAL RESERVES**  
**BOLIVARIAN REPUBLIC OF VENEZUELA**



**CHART 52**  
**GROSS DOMESTIC PRODUCT AND COUNTRY RISK**  
**BOLIVARIAN REPUBLIC OF VENEZUELA**

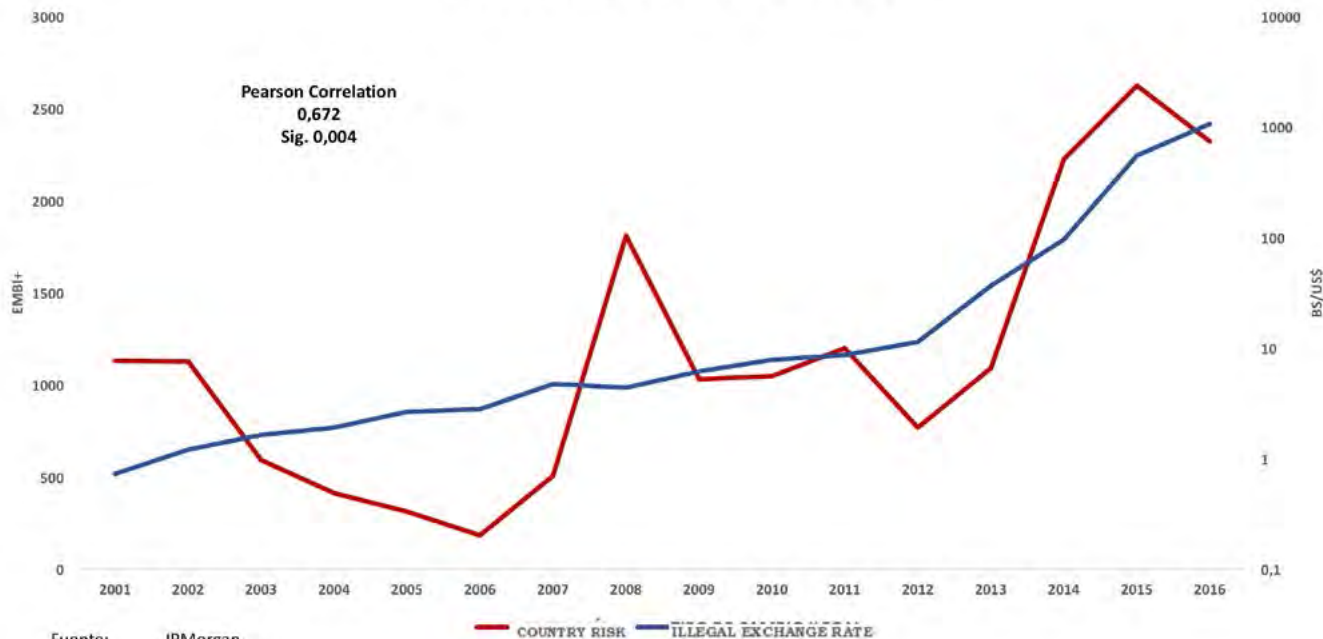


**CHART 53**  
**INFLATION AND COUNTRY RISK**  
**BOLIVARIAN REPUBLIC OF VENEZUELA**



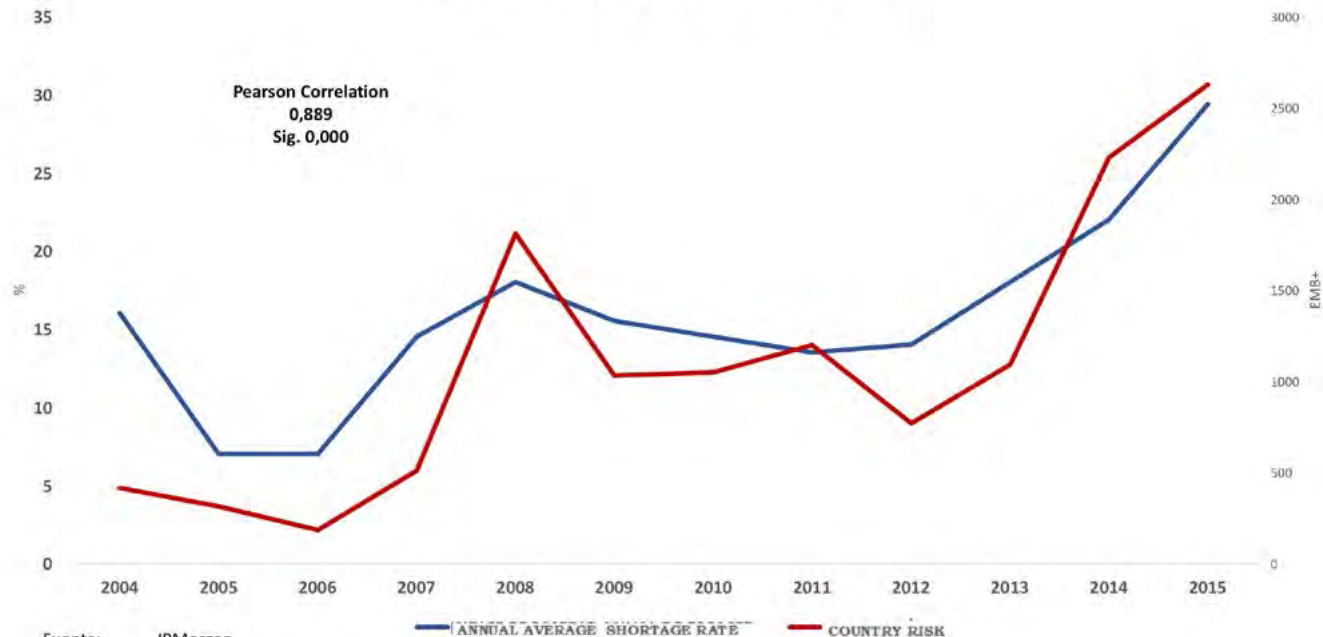
Source: JPMorgan  
 Central Bank of Venezuela

**CHART 54**  
**COUNTRY RISK AND ILLEGAL EXCHANGE RATE**  
**BOLIVARIAN REPUBLIC OF VENEZUELA**



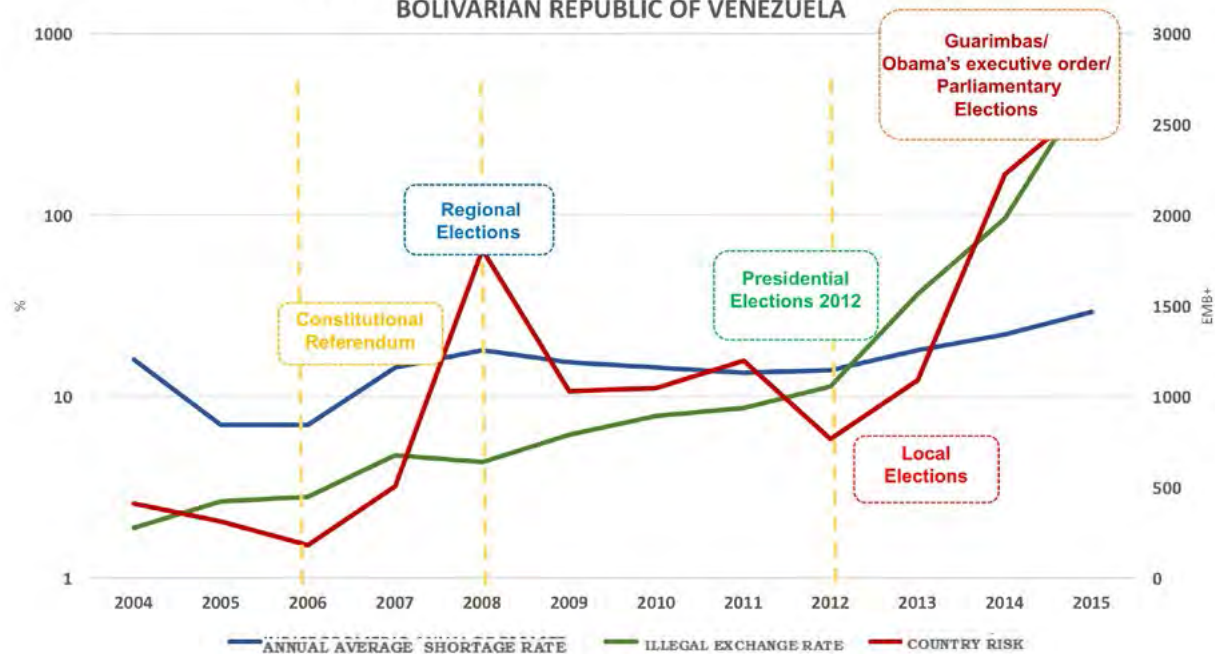
Fuente: JPMorgan  
DOLARTODAY

CHART 55  
COUNTRY RISK AND SHORTAGE LEVEL  
BOLIVARIAN REPUBLIC OF VENEZUELA



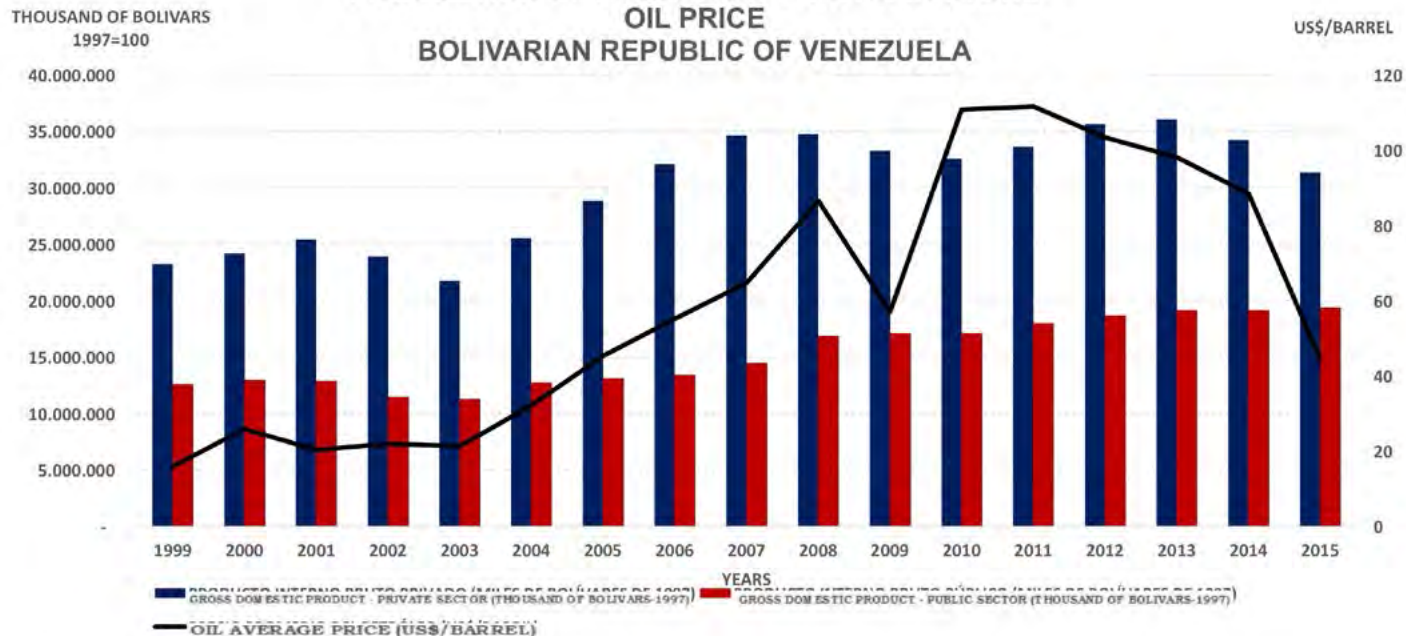
Fuente: JPMorgan  
Central Bank of Venezuela

## COUNTRY RISK, SHORTAGE AND ILLEGAL EXCHANGE RATE BOLIVARIAN REPUBLIC OF VENEZUELA



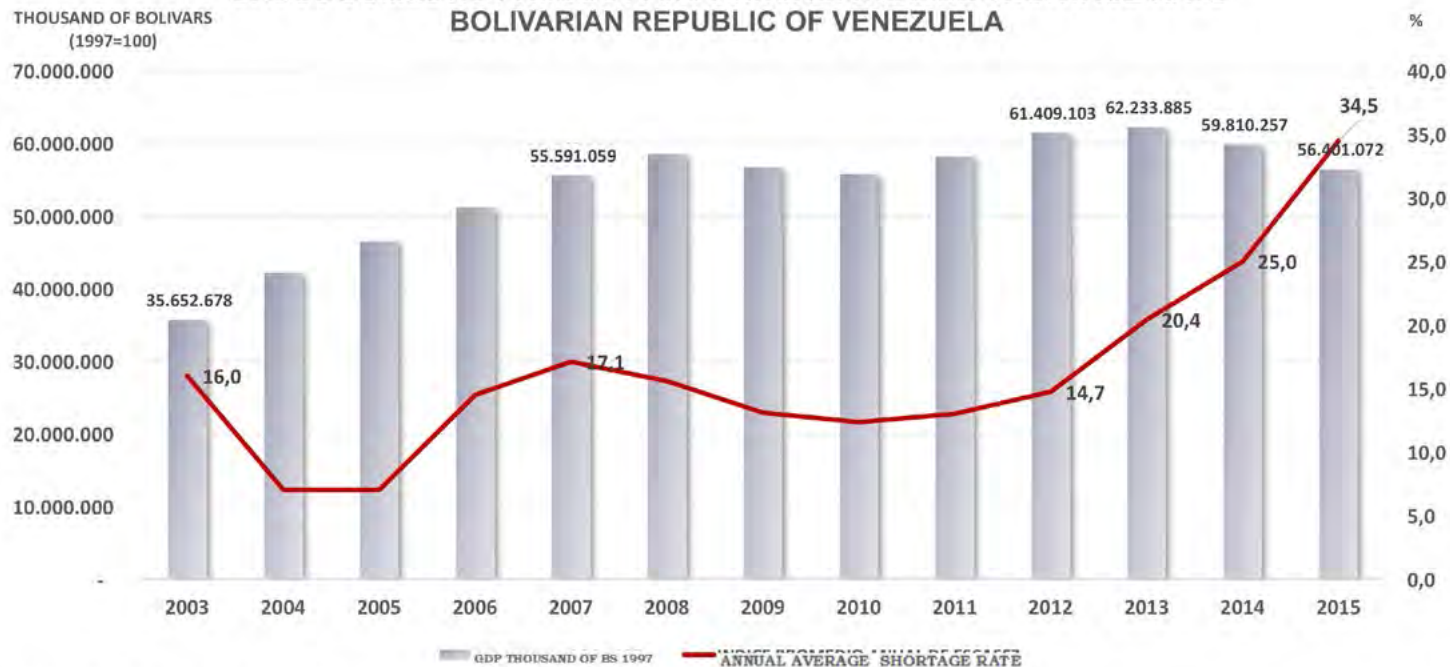
Fuente: JPMorgan  
Central Bank of Venezuela  
DOLARTODAY

**CHART 57**  
**PRODUCTION OF PUBLIC AND PRIVATE SECTORS**  
**OIL PRICE**  
**BOLIVARIAN REPUBLIC OF VENEZUELA**



Source: Central Bank of Venezuela, National Accounts. Several years.  
 Petróleos de Venezuela (PDVSA)

**CHART 58**  
**GROSS DOMESTIC PRODUCT AND ANNUAL AVERAGE SHORTAGE RATE**  
**BOLIVARIAN REPUBLIC OF VENEZUELA**

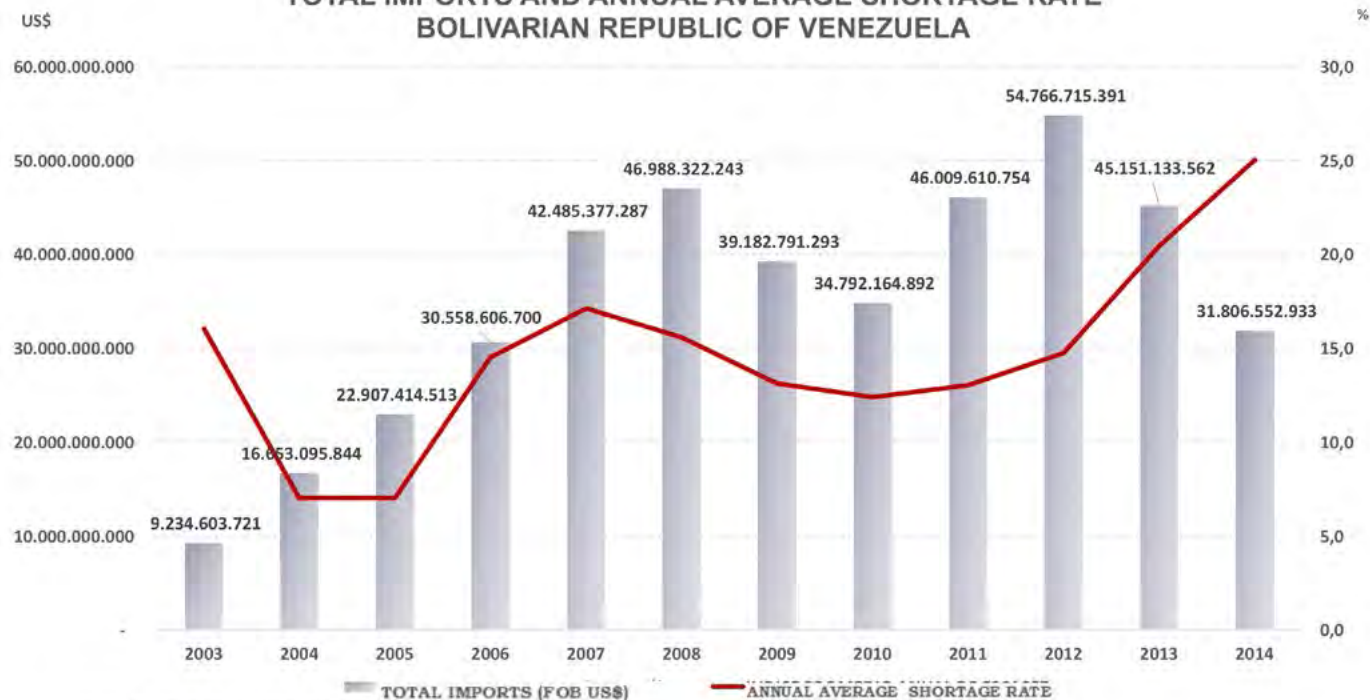


Source: GDP: Central Bank of Venezuela

Shortage levels: years 2014 and 2015: In-house estimates based on newspaper sources.



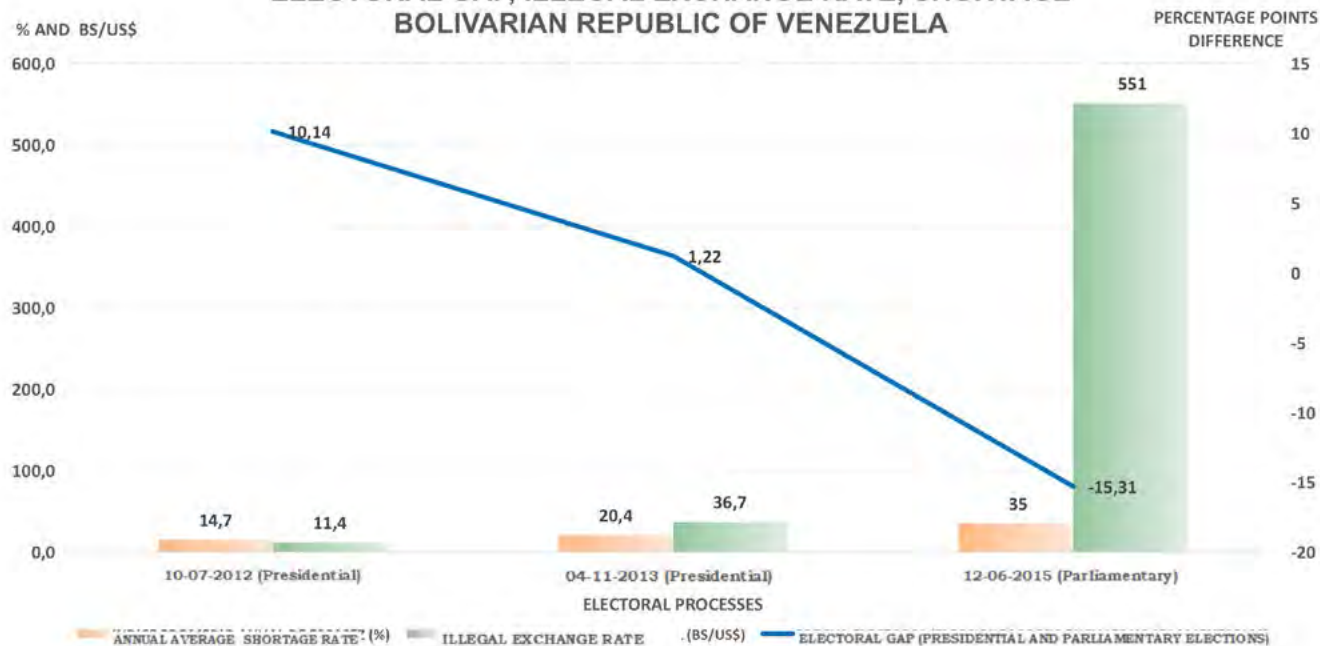
**CHART 59**  
**TOTAL IMPORTS AND ANNUAL AVERAGE SHORTAGE RATE**  
**BOLIVARIAN REPUBLIC OF VENEZUELA**



Source: Imports: National Institute of Statistics

Shortage levels : year 2014 : In-house estimates based on newspaper sources.

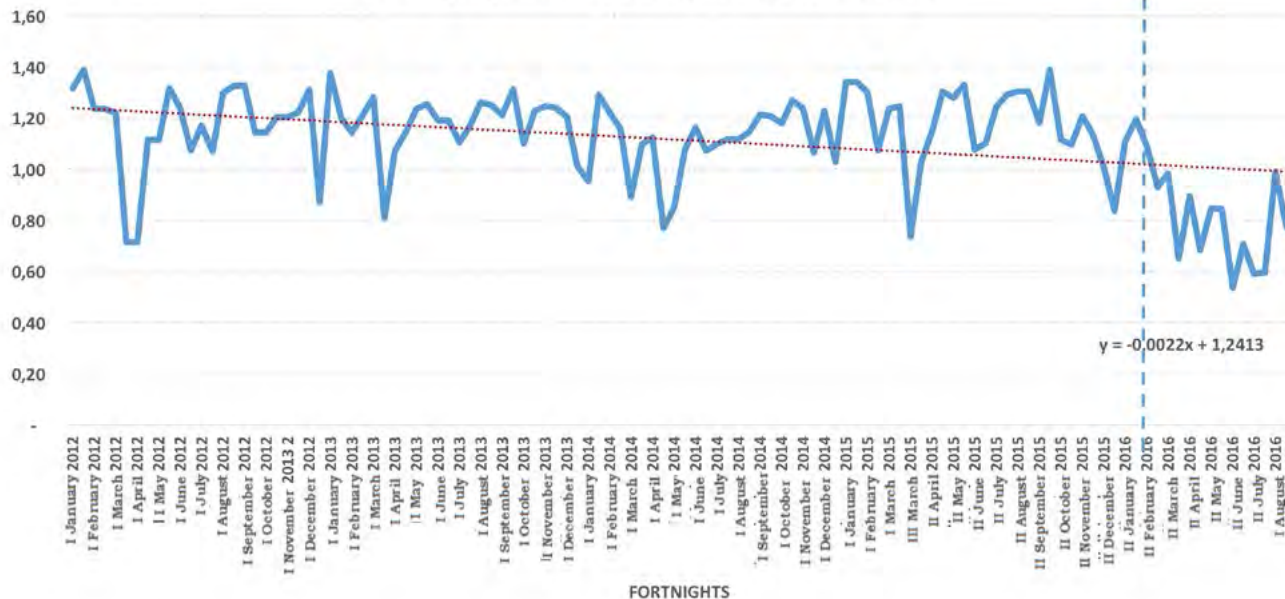
**CHART 60**  
**ELECTORAL GAP, ILLEGAL EXCHANGE RATE, SHORTAGE**  
**BOLIVARIAN REPUBLIC OF VENEZUELA**



Source: Electoral National Council  
 Shortage levels: Central Bank of Venezuela. Year 2014 : In-house estimates based on newspaper sources.  
 Central Bank of Venezuela

**CHART 61**  
**TOTAL PRODUCTION BY ALIMENTOS POLAR**  
**BOLIVARIAN REPUBLIC OF VENEZUELA**

KILOGRAMS/PERSON/  
 FORTNIGHT



Source: Alimentos Polar. Fortnight report. Several years

Digital edition  
march 2017  
Caracas - Venezuela

*The visible hand of the market, economic warfare in Venezuela* deconstructs, in its six chapters, the strategies employed by imperialism, embodied by monopolies and large corporations (the visible hand), to generate unconventional warfare in order to achieve the economic, social and political destabilization of the peoples.

The author –*Pasqualina Curcio*– uses a series of charts to explain the current complex economic situation of Venezuela and she points out five of the many weapons that cause it: Planned shortage of essential goods, induced inflation, boycott in the supply of basic goods, covert trade embargo, and international financial blockade. This book, with foreword by Luis Britto Garcia, is an essential material to understand the economic distortion that has triggered the unrest of the population with the purpose, according to *Curcio*, to weaken the people's support to the National Government, influence the voting intention and generate social chaos that might result in the overthrow of the current administration.

**Pasqualina Curcio Curcio** (Caracas, 1969)

Economist, graduate of the Universidad Central de Venezuela (UCV). Master's Degree in Public Policies from the Instituto de Estudios Superiores de Administracion (IESA), and PhD in Political Science from the Universidad Simon Bolivar (USB). Among many other duties, she has acted as: Coordinator of the National Admission Program in the Higher Education Institutions; Educational Coordinator of Post-Graduate studies in Political Science at USB and Viceminister for Collective Healthcare Networks from the People's Power Ministry for Health. She has co-authored the book titled: *El modelo electoral venezolano. Democrático, confiable, inclusivo y soberano* [The Venezuelan electoral model: Democratic, reliable, inclusive and sovereign]. Also, she has written several papers which were published in scientific journals: *Desigualdad en salud antes y durante la Revolución Bolivariana. Venezuela (1990-2010)* [Healthcare inequality before and during the Bolivarian Revolution. Venezuela (1990 – 2010)] and *Pobreza, desigualdad y salud en Venezuela* [Poverty, inequality and health in Venezuela] among others. Currently, she is professor of the Department of Economic and Administration Sciences and the Ph.D. programme in Political Science at USB.

