Investors Facing More Challenges with New Price Control Law in Venezuela

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On January 23, a new "Law of Fair Prices" came into force in Venezuela. This new price control law sets a maximum profit of 30 percent and creates a price enforcement agency, which will be responsible for issuing "fair price certificates" required to access dollars through the country's currency control mechanism. It also compiles a series of measures that the Venezuelan government has been implementing in recent months to overcome last year's 56 percent inflation rate, among the highest in the world.

At first glance, the new price control law is a more rigorous and bureaucratic version of the "Law of Fair Costs and Prices" of 2011. Among other aspects, the new law creates the Superintendence for Defense of Socioeconomic Rights, replacing two consumer protection agencies that were carrying similar functions under the previous law (*Indepabis* and *Sundecop*). However, while the law of 2011 only regulated food and household items, the law of 2014 applies to all sectors of the economy. Moreover, it establishes higher penalties for crimes of hoarding or over-charging, including prison terms of up to 14 years.

Since last November, the government has been sending state officials to hundreds of businesses, forcing them to lower their prices. Recently, state inspectors visited McDonald's subsidiary offices, and the company agreed to cut the price of its Big Mac Combo in 7.5 percent. The government also inspected GM's subsidiary assembly plants in Carabobo, Venezuela, and as a result, the company was fined 535.000 *bolívares* (almost 85.000 dollars at the official exchange rate) for allegedly selling spare parts at "up to 500 percent more than cost." Days after this episode, the government signed a decree to control new and second-hand car prices.

The reason behind these measures comes from the government's strategy aimed at reducing the wide gap that currently exists between the official and parallel exchange rates in Venezuela. Under the currency control framework established since 2003, the current official values are 6.3 and 11.3 *bolívares* per dollar, while the parallel market rates are between 60 and 75 *bolívares* per dollar, *i.e.* almost ten times more. Furthermore, the lack of foreign exchange availability since 2003 has been the greatest obstacle for importers due to the government's complex and bureaucratic exchange control mechanism. As a result, importers' failure to access dollars at the official exchange rate forces them to turn to the parallel market, significantly increasing production costs.

In an attempt to eliminate the current exchange disparity, the government decided to decree the "Law of Fair Prices," putting the private sector up against the wall. Importers needing dollars access will now face an additional barrier by trying to obtain a "fair price certificate" from the new Superintendence, and the parallel market will no longer be a secondary resort. As long as the exchange control system continues to be as complex as it has been, those unable to obtain dollars at the official rate would be forced to either close their businesses or sell their products at a higher price, facing the risk of being fined for overcharging or even spending some prison time.

Nevertheless, despite Venezuela's current environment with respect to investment, the country still offers export opportunities for U.S. suppliers in certain sectors such as food processing ingredients. According to a recent report by the USDA's Foreign Agricultural Service, U.S. suppliers are seen by importers as "reliable sources in terms of volume, food, safety standards and quality," and the U.S. can provide both local and U.S. food products that are currently unavailable or insufficient in Venezuela.

For more information, contact: Eduardo J. Mathison

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