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I. Introduction / Presentation of the Firm

The Travieso Evans Arria Rengel & Paz law firm (Travieso) consists of 40 lawyers, with a general corporate practice and specialization in such areas as taxation, labor, environment, litigation and dispute resolution, energy, mining, administrative law, mergers and acquisitions, antitrust, foreign investments, exchange control, anti-dumping, aeronautical, financial, banking and capital market legislation.

The firm is the successor to that originally founded in Venezuela in the 1920s by Dr. Jose Maria Travieso Paul, and combined with the New York firm specializing in Latin American mining and petroleum law founded by Edward Schuster at the turn of the century.

The firm has offices in the cities of Maturin, Puerto La Cruz, Valencia and Maracaibo to assist its clients in those areas. In addition, the firm TEHAR S.C., affiliated to Travieso, provides clients with all the services related with Intellectual Property, trademarks, patents and copyrights. It is also associated with other law firms in Latin America, the United States and Europe.

The Firm distributes the Venezuelan Legal and Economic Newsletter on a monthly basis, a management alert newsletter to keep clients informed as to legal and economic developments within the country.

This is a general overview of certain aspects of Venezuelan law that are relevant for entities doing business in Venezuela, in the understanding that it is not intended to be an exhaustive coverage of all aspects of Venezuelan law. Please note that Venezuelan legislation changes constantly, often overnight by ministerial acts, and the reader should constantly review with counsel the rules stated herein.

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II. General View of the Country

Venezuela is located in the northeast corner of South America bordering on the Caribbean, with an area of 912,050 square kilometers and a population of slightly over 25 million. Its economy is primarily oil-based, with the largest proven petroleum reserves in the Western Hemisphere (64.9 billion barrels, not counting the estimated 1.2 trillion barrels in the Orinoco Heavy Oil Belt, currently subject to certification), in addition to substantial iron-ore, coal, bauxite and other mineral deposits. Oil production averages 2.5 million barrels per day, the majority of which is exported in the form of crude oil or products. The major purchaser of Venezuelan oil is the United States.

In addition to the country's abundant natural resources, Venezuela has a strong industrial base, producing and exporting steel, petrochemical, and aluminum products. It enjoys low energy costs due to its natural gas and its hydroelectric power plants, and is today primarily an urban nation, with over 83% of its population living in cities and towns. Historically an exporter of such agricultural products as coffee and cacao, the country now exports various varieties of fruit and processed foods as well.

III: Foreign Investments and Technology Transfer

Today, virtually all economic sectors are open to foreign investors on the same basis as nationals, with the exception of such reserved areas as Spanish-language publications, certain professions, shipping, radio and open television.

Technology and technical assistance transfer agreements must be registered with the Superintendence of Foreign Investments (SIEEX) or its counterparts in the Ministry of Energy & Petroleum or in other regulatory agencies, and these registrations are destined for statistical purposes and are required for the acquisition of foreign currency at the official exchange rate as per the current Foreign-Exchange Control regulations currently in force in Venezuela.

IV: Foreign Exchange

a) BASICS. The free trade of foreign currency was suspended in Venezuela on January 21, 2003. Since February 5, 2003 the purchase and sale of foreign currency in Venezuela at the official exchange rate (currently Bs. 2,150 per US\$ 1) is centralized in the Venezuelan Central Bank ("VCB") subject to the provisions of the Exchange Control Agreements Nos. 1 and 2 entered into between the National Executive and the VCB, and Decree N° 2.302 of the National Executive, all dated February 5, 2003, and of amendments thereto and resolutions issued thereafter ("The Regime.")

Purchase of foreign currency at the official rate requires the authorization of the Commission for Administration of Foreign Exchange (Comisión the Administración de Divisas - CADIVI in Spanish), which may only be granted for certain specifically allowed purposes, including among others, imports of goods and services, foreign private debt, dividends, royalties or technological fees, and certain

services, always subject to the availability of foreign currency and to the general guidelines approved by the President of the Republic in Council of Ministers.

- b) RUSAD. Anyone wishing to make use of The Regime, whether as purchaser or seller of foreign currency, must first register with the RUSAD (“Registro de Usuarios del Sistema de Administracion de Divisas” - Registry of Users of the Foreign Currency Administration System). This requires the presentation and permanent updating of a voluminous amount of corporate documents, financial statements, returns, tax and other clearances, etc.
- c) IMPORTATION OF GOODS AND SERVICES. The Ministry of Industry and Commerce periodically issues specific lists of imported goods and services which may qualify to obtain from CADIVI the authorization to purchase foreign currency (“AAD” in Spanish).

Importers of goods and services not included in said lists, who wish to have access to foreign currency from the VCB, may file a written request to the Ministry of Light Industries and Commerce asking for the inclusion in said lists of the products they wish to import.

The importation of goods and services from country members of the Latin American Association of Integration (ALADI) and certain other countries do require obtaining a previous authorization from CADIVI but the specific goods and services need not be included in the aforementioned lists for the obtainment of the previous authorization. Payment for such imports must be made through Payment and Mutual Credit Agreements entered into between the Central Banks of all member countries.

- d) DIVIDENDS. The previous authorization for the acquisition of foreign currency may be requested provided the local company has profits reflected in its inflation adjusted financial statements (“*estados financieros reexpresados*”), and has updated the foreign investment registration with the foreign investment authorities.
- e) ROYALTIES AND FEES. The Regime provides access to foreign exchange for payment of royalties and fees arising from the exploitation of trademarks, patents and rights of industrial and intellectual property, as well as technical assistance and technological services.
- f) FOREIGN PRIVATE DEBT. Local debtors of new financial debt (“FPD”) incurred for projects primarily intended for economic development, must register the same with CADIVI, as a condition precedent to be able to request the AAD for their payment at the official rate of exchange in effect on the date of the actual sale of the foreign currency.

The documentation and information required to be presented by the Foreign Debtor is very detailed and voluminous, and time consuming to gather. Also, prior to the execution of the credit agreements, the Foreign Debtor must submit to CADIVI for approval a letter of intent, and it is only after CADIVI has accepted the terms of the financing detailed in the letter of intent, the parties may execute the financing agreements and submit the documentation to CADIVI to complete the debt registration process.

g) USE OF CREDIT CARDS AND PURCHASE OF CASH OR TRAVELER CHECKS BY INDIVIDUAL LOCAL RESIDENTS. Holders of locally issued credit cards may use up to US\$ 5,000 per calendar year for travel related expenses outside of Venezuela. The cardholder must request authorization from CADIVI and provide proof that the credit card will be used abroad (i.e. copy of the travel ticket and passport must be submitted to CADIVI).

US\$ 3,000 per calendar year are allowed for the acquisition of goods and services through e-commerce transactions (purchases through Internet). The Regime also provides for an amount of up to US\$ 600 in cash or travelers checks per calendar year that travelers may acquire in Venezuela, also for travel expenses.

h) PARALLEL MARKET. In practice there are several vehicles which allow for so-called “parallel market” transactions. While the Regime does not expressly allow any parallel market mechanisms, the only prohibitive provision concerning trading of securities is contained in Article 35 of Exchange Agreement N° 1 which suspended the purchase-sale in Bolivars of public debt bonds denominated in foreign currency until such time as the VCB and the National Executive establish the rules under which such transactions may take place.

The following parallel market transactions are based on the trading or swap of securities, the slight variations being the type of securities used and the number of persons and steps involved in the transactions.

ADR programs: The ADR programs basically consist of securities issued by a foreign third party, usually a bank, and commonly denominated in US\$, each such security representing, as underlying assets, a number of shares, bonds or other securities issued by a publicly held Venezuelan company. Although the main purpose of such foreign securities is to be listed and traded on the foreign markets, they may also be listed and traded on the local market. They may also be converted into a given number of their underlying local shares, which could in turn be further negotiated in Bolivars on the Caracas Stock Exchange. Under this structure, a Venezuelan resident acquires shares listed on the Caracas Stock Exchange and converts them into ADRs, or acquires directly ADRs, of a Venezuelan company that has ADRs listed on a US stock exchange, paying their price in Bolivars, and then sells the ADRs on the US stock exchange in US\$.

Swap of securities: US\$ denominated Treasury Bills or Notes issued by the Government of the United States of America, are negotiated on the U.S. markets. The DPNs are public debt bonds denominated in Bolivars issued by the Republic of Venezuela, and negotiated on the Venezuelan market.

Under this structure, a Venezuelan resident acquires DPN in Bolivars and “swaps” the same for T-Bills at an agreed exchange rate. The T-Bills are then sold on the US market obtaining US\$ in cash.

Based on the above, trading of ADRs and securities swaps has become a customary channel to gain access to foreign currency requirements, for those entities that are either excluded from access to the official exchange market or for those which nominally have access to the official exchange market but do not choose to utilize the CADIVI process to obtain foreign currency from the VCB.

i) Criminal Exchange Law – (“CEL” – *Ley contra los Ilícitos Cambiarios*)

The CEL establishes administrative and criminal sanctions for the violation of The Regime, but does not establish per se other restrictions to foreign exchange transactions.

The CEL provides that any person who, for purposes other than those specifically allowed by law, in one or more transactions within a given calendar year, purchases, sells or in any manner transfers, exports or imports foreign currency in excess of US\$ 10,000, will be subject to a fine of twice the amount of the excess. If the transactions exceed US\$ 20,000 per annum, the person is subject to imprisonment for 2 to 6 years, plus the same aforementioned fine (this also could change). The CEL defines “foreign currency” as any monetary expression in metallic (coins), bank bills, bank checks, gold and silver in a currency other than the Bolivar.

In regard to the obligations to declare, the CEL imposes the obligation to declare any importation or exportation of foreign currency from or to Venezuela for an amount of US\$ 10,000 or more. This declaration requires the filing of a report to the Tax Authorities (“*Servicio Nacional Integrado de Administración Aduanera y Tributaria*” - “SENIAT”) indicating the amount and nature of the corresponding transaction. There is an exception to the above, the case of non-domiciled companies and tourists and persons in transit who acquire securities issued by the Republic.

The CEL provides that exporters of other goods or services must declare to the Venezuelan Central Bank their transactions for amounts higher than the equivalent to US\$ 10,000 in any foreign currency, besides the regular declarations provided by The Regime.

Regarding illegalities, the CEL states that those who for purposes other than those permitted by the Constitution of the Bolivarian Republic, the CEL, the Agreements executed by the Republic and any Law approved by the National Assembly, purchase, sell or otherwise alienate, transfer, receive, export or import foreign currency for an amount higher than the equivalent to US\$ 10,000 and up to US\$ 20,000 will be penalized with a fine of twice the amount of the excess of the transaction. In case that the transaction is higher than the equivalent to US\$ 20,000, the penalty will be imprisonment from two to six years and a monetary fine of twice the amount of excess of the transaction.

The CEL also imposes a penalty of imprisonment combined with the same monetary fine for those who obtain controlled foreign currency using fraudulent means, e.g. arguing false causes or any other fraudulent means. In this case, the imprisonment would be from three to seven years, and the monetary fine of twice the equivalent in Bolivars to the amount of the transaction. Those who give other uses to the controlled foreign currency legally acquired, will also be penalized with imprisonment from three to seven years and monetary fines of twice the amount of the transaction.

V. Price Controls

Price controls exist with respect to certain basic foodstuffs, products of personal use and some services, which have been considered of public interest. Rent for housing is frozen and a special provision has been included in the Consumer-Protection Law whereby rents stipulated in foreign currency (a common custom in Venezuela) may be paid in Bolivars at the official exchange rate.

VI. Taxation

a) Income Tax (“IT”):

The Venezuelan Income Tax Law (“ITL”) establishes a world-wide regime for those taxpayers considered to be domiciled in Venezuela. Notwithstanding, the ITL also indicates that all income considered to be of Venezuelan origin shall be taxable in Venezuela. The IT is paid annually.

Venezuelan IT is progressive in nature. For individuals the IT tariffs range from 6% on the first 1.000 Tax Units (TU) of taxable income to a cap of 34% on taxable income exceeding 6.000 TU. Corporations are also taxed on a progressive basis starting at 15% for the first 2.000 TU of taxable income, 22% between 2.000 and 3.000 TU, and 34% on the excess over 3.000 TU. Mining activities are taxed at 60%. Taxpayers engaged in the development, refining, transportation, purchase and export of petroleum and petroleum by-products are subject to IT at a 50% rate.

The ITL exonerates certain income from IT, e.g. interest earned by individuals on deposits in local banks.

Dividends paid out of the difference between the net financial income and the taxable income of the payer are subject to IT at a fixed rate of 34% to be withheld by the payer, and therefore, dividends are not to be included among the gross income of the taxpayer for IT purposes. Also, branches of foreign entities are subject to a presumed-dividends tax based on their yearly earnings; these presumed-dividend tax does not apply if the branch certifies (through its external auditors) that said earnings will be reinvested in Venezuela.

There are a number of trans-border activities which give rise to presumed Venezuelan-source income. These include international news services, international transportation, goods sold on consignment, foreign insurance premiums, professional fees paid to non-residents, and payments made abroad for technical assistance or technology rendered abroad but utilized in Venezuela. Deduction of such expenses by Venezuelan taxpayers is conditioned upon the timely withholding and payment to the Venezuelan tax authorities of the corresponding withholding tax. Interest is subject to taxation at normal rates, but when paid to a non-domiciled foreign financial institution, the rate of taxation is reduced to 4,95%.

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The deduction of many expenses within the country is conditioned upon the withholding of applicable taxes as determined in regulations modified from time to time. A careful consultation of the existing withholding rate schedule in effect as of a given date is recommended.

Since 1991, the Venezuelan IT regime has required that certain taxpayers make an annual inflation adjustment of non-monetary assets or liabilities; there was a “one-shot” initial adjustment for inflation since 1950 that had to be done in 1992 by taxpayers registered as of said date. These adjustments may generate taxable income. Certain devaluation adjustments are also permitted, e.g. increase in Bolivar indebtedness for accounts payable in dollars.

In calculating Venezuelan taxable income, it should be remembered that Venezuelan generally accepted accounting principles do not coincide with U.S. GAAP.

b) Value Added Tax (“VAT”).

The VAT or sales tax, affects virtually all local sales and import of goods and services other than articles considered to be of primary necessity. The VAT rate is currently set at 11% and will be reduced to 9% as from July 1, 2007. The rate rises an additional 10% on certain items classified as luxury goods or services. The rate applicable for export sales of goods and services is set at 0%.

The amount of tax is to be indicated as a separate item in all invoices, except that in the case of invoices to the final consumer, the tax is not to be separately stated but merely included in the final price to the consumer. The tax itself must be paid by the vendor on a monthly basis within 15 day following the close of each month: in the case of sales on open account or credit, the tax is applicable at the time the goods or services are delivered or the invoice rendered, whichever occurs first. In the case of imported goods or services, the tax must be paid by the importer.

c) Economic and Industrial Activities Tax (“EIAT”).

Municipalities throughout the country have various tax ordinances, the most relevant of which is the EIAT, which may range from less than 0.05% percent to up to 10% percent of the yearly gross income of the taxpayer, depending upon the classification of the business by the Municipality. Each Municipality sets its own EIAT ordinance where it regulates most aspects of this tax, while some of its general aspects are regulated by national legislation. The EIAT is to be paid on an annual basis, although usually the municipality use tri-monthly advance payments. “Municipality-shopping” is sometimes carried out when determining where to locate a company’s offices, plants, and warehouses.

d) Social Security Tax (“SST”).

The SST is a contribution made to the Social Security Institute based on each employee’s monthly salary. Payment of the SST is currently split into two separate accounts, where the employer pays 11%

of the employee salary, and 4% is withheld from the employee's salary. Payment of the SST, must be done on a monthly basis.

e) Training Tax ("TT").

The TT is a contribution made to the National Educational Cooperation Institute destined to sustain apprentice programs. The TT is based on all gross salaries, and its rate is currently set at 2% and a ½% is withheld from the employee's salary. It is also possible for companies to establish their own training programs which are deductible from the TT. The TT is to be paid on a quarterly basis.

f) Drug Tax ("DT").

The DT is a contribution that must be made by corporations to the Illicit Drug Use Commission, destined to help sustain anti-drug use campaign and programs. The DT is based on the companies net earnings, and its rate is currently set at 1%. The DT is to be paid annually.

g) Science and Technology Development Activities ("STDA").

The Science and Technology Development Law establishes that certain entities (Stock Company, Limited Liability Company, General Partnership, Limited Partnership with Shares, Communities and any other association of persons - including de facto associations or those which have not been formed pursuant to formal legal requirements - Association, Foundation, Corporation, and any juridical or economic entity, permanent establishment, center or fixed base located in the national territory) shall destine a percentage of their annual gross income generated within the national territory for investments or contributions in technological-development activities. The percentages of these investments or contributions are: 2% for entities engaged in Hydrocarbon activities; 1% for entities engaged in mining exploitation, mining processing and distribution, or generation, distribution, and transmission of electric power; and all other entities which qualify for these investments or contributions –including therein industrial activities- shall destine 0.5% of their annual gross income.

VII. Labor Legislation

Venezuela has extremely complex and highly protective labor laws. Workers are entitled to an important number of benefits and employers are bound to comply with numerous obligations derived from the working relationship.

One of the most characteristics principles of Venezuelan labor legislation is the principle of the "Primacy of Reality". According to this principle, regardless of any civil or commercial agreements that may be signed between the parties, in many instances a work relationship can be established between them when the compliance with the parameters established under the Organic Labor Law is present (the rendering of a personal service and direct remuneration), enabling the party referred as "the worker" to claim all labor related benefits.

It is also important to notice that under Venezuelan legislation, workers cannot freely waive their rights in order to reach an agreement with their employer, unless prior approval by the Labor Ministry or the Labor Courts is obtained.

The following is a list of the most important obligations employers are forced to comply when doing business in Venezuela:

a) Minimum Wage.

The Government has the authority to fix, from time to time, by Presidential Decree the National Minimum Wage. As of the date of this report, the minimum wage is Bs. 512.325,00; however, this amount is constantly changed.

b) Firing Freeze.

Also fixed by Presidential Decree. Firing Freeze is in effect for all workers earning under a monthly basic salary of three (3) monthly minimum salaries (presently, the amount of Bs. 1,536,975). The decree will be effective until December 31, 2007. However, it is most likely that another decree continuing the firing freeze will follow.

c) Seniority Benefits.

This benefit is applicable to all employees and is regulated by Article 108 of the Venezuelan Organic Labor Law. After the third continuous month of service, the employee is entitled to the payment or deposit of an indemnity for seniority equivalent to 5 days of salary per month. The first payment or deposit is made after the expiration of the fourth month of service.

In addition, an indemnity for seniority, equivalent to 2 days of salary, per year of service and limited to 30 days is also accrued, and if the employment relationship is not interrupted, such limit will be reached in the sixteenth year thereof and it will not vary for the following years. The first 2 additional days will be paid once the second year of employment relationship has elapsed, and in the event of termination of the employment relationship, the seniority fraction higher than six months will be deemed equivalent to 1 year.

d) Severance Payment.

An employee fired without prior notice or for reasons other than "just causes" (narrowly defined in the law and by the courts) is entitled to up to 150 days of severance pay.

e) Profit Sharing.

This benefit is regulated by Article 174 and the following articles of the Venezuelan Organic Labor Law. The companies must give out among its employees, at least 15% of the net profit obtained at the end of the fiscal year based on the declaration presented by the company to SENIAT. The employer has the obligation to pay each employee, as a minimum, an amount equivalent to 15 days of salary; and as a maximum, an amount equivalent to 4 months of salary. If the company has less than 50 employees, the maximum is 2 months of salary. This amount must be paid within 2 months following the date of the end of the company's fiscal year; however, the employer must pay, within the first 15 days of each year, an amount equivalent, at least, to 15 days of salary, which are imputable to the amount of the profit sharing. Without prejudice to the foregoing, the employer and the employee may agree on a conventional profit sharing, always provided that the same exceeds the legal minimum amount required.

f) Vacations.

When the employee renders services uninterruptedly during one year for the same employer, he/she will have the right to enjoy a period of remunerated vacation of 15 working days. The following years he/she will be entitled to one (1) additional remunerated day per year, up to a maximum of 15 additional days. All the days within the vacation period must be remunerated. Both parties may agree on a different system of vacation, always provided that the same is more favorable to the employee. Also, the employer may choose the figure of collective vacations. The payment of salary corresponding to the days of vacation must be made at the commencement of the same. All the vacations must be paid based on the salary received at the time of enjoyment of the same, even in the case of accumulated vacations.

g) Vacation Bonus.

At the time of payment of vacations, the employer must grant a special bonus of 7 days of salary for the first year, plus the payment of one (1) additional day for each consecutive year, up to a maximum of 21 days of salary.

h) Social Security Benefits.

All companies must be registered with the Social Security Institute (I.V.S.S) and by being registered, all the employees will be protected by the Social Security. The Venezuelan Social Security grants money benefits in case of temporary disability (disease), handicap or partial disability, old age, death of the employee and marriage; and medical assistance in case of common or occupational disease. The salary limit in order to contribute and receive money benefits is set in the amount equivalent to 5 minimum salaries in force (Bs.2,025,000.00 approximately) and if the employee earns a higher salary, the contribution must be based on the limit established. The company, upon paying the salary to the insured, must withhold the portion of the contribution that he/she must cover; in the case of employees of oil companies, it will be 4% of his/her salary and the employer will contribute the amount equivalent to 11% of the employee's salary.

i) Law of Unemployment Insurance and Labor Training.

Employers and workers shall pay the unemployment insurance contributions set forth in article 5 of the Law of Unemployment Insurance and Labor Training, (2.50% of the normal wage, with a contribution of 80% by the employer and 20% by the worker, up to a maximum of 20 minimum wages).

j) Public Holidays.

The Law includes Sundays and 10 other holidays per year within the category of Public Holidays. However, be noted that depending on the state or municipality where the employees will work, there may be another holiday declared as such by said locality.

k) National Institute of Educational Cooperation.

Every company which provides work for 5 or more employees at its premises must be registered before the National Institute of Educational Cooperation and is obliged to contribute with 2% of the wages, salaries, day's wages, and remuneration of any kind, paid to the personnel within 5 days after the expiration of each quarter. The employee's contribution is constituted by ½ % of the annual benefits paid to him/her by the company.

l) Law on Dwelling and Habitat Regime.

The mandatory contribution of employers is constituted by 2% of the amount of the remuneration of the employee and the mandatory contribution of employees is 1% of the same amount.

m) Regime of Benefits contained in the Organic Law on Prevention, Work Conditions and Environment (LOPCYMAT)

In order to set the rates of contribution (all payable by the employer) due to the Regime contained in the Organic Law on Prevention, Work Conditions and Environment (LOPCYMAT), the companies are grouped according to the degree of risk of their activities in companies of: Minimum Risk, Low Risk, Medium Risk, High Risk and Maximum Risk. In view of the degree of risk of the activities of a group of companies, the administrative entity will be in charge of categorizing such companies within one of the types of risks, assigning to each category contribution ranges between 0.75% and 10% of the salary earned by the employee.

n) Law on Employee Feeding.

This Law establishes the employer's obligation to provide the employee who earns no more than three minimum salaries with a help for food for each work day effectively accomplished, generally by

means of food coupons “Cesta Tickets” or Electronic Cards which may not be less than 0.25 T.U. nor higher than 0.50 T.U. In any case, the company may comply with this obligation by providing the employee with food through the installation of canteens for such purposes.

o) Administrative Obligations.

There are also a number of administrative obligations that are contained in the Organic Labor Law, Organic Labor Law Rulings and in administrative directives issued by the Labor Inspectors, and the Labor Ministry. If the employer does not comply with these obligations it will be subject of different fines.

VIII. Energy

Petroleum is the motor which drives the Venezuelan economy. Its ripple effect throughout all sectors of the economy is considerable.

In the 1990s the Ministry of Energy & Petroleum (formerly the Ministry of Energy and Mines) and PDVSA granted service contracts for the reactivation of some of its marginal oil fields to private companies, based upon the then-current Hydrocarbons Law (the 1975 Nationalization Law, which reserved to the Nation the ownership and development of hydrocarbons, but allowed for the participation of private parties through services agreements and strategic associations). The Ministry and PDVSA also promoted "strategic associations" with foreign oil-companies for the development of the Orinoco Heavy Oil Belt (which contains an estimated 1.2 trillion barrels of extra-heavy oil) and upgrading of extra heavy crude and Profit Sharing Agreements for the exploration of new reserves.

In 2002 a new Hydrocarbons Law entered into effect. This law restricts the participation of private entities in upstream activities to being shareholders of mixed companies where PDVSA and/or its affiliates must hold more than 50% of their corporate capital. In 2005, the Ministry of Energy and Petroleum instructed the migration of the service agreements for reactivation of marginal oilfields into mixed companies under the new Hydrocarbons Law. In February 2007, a Presidential Decree ordered the migration of the Orinoco Strategic Associations, the Profit Sharing Agreements and an Orimulsion Association into mixed companies where PDVSA and/or its affiliates will hold more than 60% of their corporate capital.

The Hydrocarbons Law increased the government take in upstream activities and limited the participation of private entities in said activities. Private participation in downstream activities is not limited but subject to permits and authorizations.

The Gas Law regulates the exploration for and exploitation of non-associated natural gas and allows for the participation of both state owned and private entities, subject to the obtaining of the required licenses and permits. Several international bidding processes have been held to grant licenses to private entities for such purposes (i.e. Plataforma Deltana, Gas Licenses 2000 and Rafael Urdaneta).

IX. Intellectual Property Protection

In order to guarantee national rights in the same extent as other countries protect the rights of foreigners in issues concerning technology and trademarks, the Bolivarian Republic of Venezuela has incorporated legal provisions to its legislation in order to adapt it to international regulations and has signed and ratified laws of general acceptance and application regarding the protection of intellectual property in the international community, such as Decision 486 of the Andean Community, the Paris Convention, the Nice Classification of Marks and the Bern Convention for the protection of literary and works of art, amongst others as well as the national Industrial Property Law, in force since 1955.

Venezuela protects the rights of authors over their creations, both national and foreign, regardless of their genre and form of expression, by the sole act of the creation of the work.

Notwithstanding the recent denounce on the part of Venezuela from the Cartagena Agreement and consequential withdrawal from the Andean Community, this does not imply that such provisions will not be applicable in Venezuela, since these may be still applied in as much as the Venezuelan authorities and institutions allow it and until other laws, regulations, decrees and resolutions be affirmed and substitute communitarian legislation for each issue.

X. Environmental Protection Legislation

Venezuela has adopted in recent years extremely harsh environmental protection laws providing for obligatory imprisonment for violations in many cases. Highly technical standards for such activities as handling and disposal of toxic wastes and radioactive substances, treatment of waste effluents, and control of emissions have been enacted. Contamination of ground waters, albeit involuntarily, can result in prison terms for perpetrators and supervisors. To date, there has been little experience in the application of these laws, but it should be noted that a penal action could be commenced before a criminal court by any interested party.

In addition, the Venezuelan National Assembly has ratified various international treaties in order to follow international rules and regulations for the protection and control of natural resources and their development. The last and one of the most important decrees was the ratification of the Basel Convention in December 1998. In 2002, new laws dealing with handling and disposal of substances, materials and hazardous waste were passed, radically changing the scenario about the management of these materials in Venezuela.

The most relevant laws and regulations controlling the activities that may affect the environment are:

- a) Venezuelan Constitution. Among other relevant provisions, the new Constitution specifically states that before performing any activity that is capable of degrading the environment an Environmental and Social-Cultural Impact Assessment must be carried out. In addition, it prohibits the importation

of hazardous waste and provides that in any agreement signed by the Republic in which natural resources may be affected, a clause stating that the natural equilibrium will be restored to its original condition will be considered as included.

b) Organic Environmental Law. According to the Organic Environmental Law, the main authority for the control and supervision of the environment is the Ministry of the Environment and Natural Resources (MARN). This Ministry controls and supervises polluting activities through its network of regional offices. The main functions of the MARNR are to:

- Coordinate environmental protection;
- Issue technical standards;
- Establish administrative procedures;
- Regulate compliance relative to applicable legislation;
- Promote conservation and protection policies;
- Authorize the occupation of areas for development;
- Authorize construction/site development; and
- Establish governmental policy for environmental matters.

c) Environmental Criminal Law. In 1992 the Venezuelan government enacted the Criminal Environmental Law (CEL). This law creates the regulatory framework for violations of environmental regulations that are considered to be criminal acts. Pursuant to the CEL, individuals and judicial entities (companies) that violate the norms established therein may incur criminal liability. This law became effective on January 3, 1992.

This law not only provides penal sanctions for individuals or judicial entities, but it also provides prison terms for management, directors and officers, depending on their degree of responsibility in relation to the violation.

d) Law on Hazardous Materials, Substances and Waste: This Law passed in 2002, substantially modified the legal framework related to the management of these materials. Its most relevant aspect is that it controls not only hazardous waste, but also substances and materials such as raw materials and inventory.

e) Technical Norms: These regulations set forth the technical standards handling and disposal of substances or materials that may affect the environment. The most relevant regulations are: Decrees 883 (Water Effluents), 2635 (Hazardous Waste) and 638 (Atmospheric Emissions).

In addition, the Venezuelan National Assembly has ratified various international treaties in order to follow international rules and regulations for the protection and control of natural resources and their development. The last and one of the most important decrees was the ratification of the Basel Convention in December 1998.

XI. Antitrust Legislation

In Venezuela, free competition is regulated by the Law to Promote and Protect the Exercise of Free Competition (“Procompetencia Law”) published on January 13, 1992, the object of which is to protect free competition and economic efficiency for the benefit of producers and consumers and to prohibit, in general, business practices that may hinder, restrict, distort or limit the enjoyment of economic freedom.

In accordance with the Procompetencia Law, free competition must be understood as the situation in which the conditions exist in order for any company, whether it be an offerer or a requester, to have complete freedom to enter or leave the market and the companies that are inside the market have no possibility, individually or in agreement with other companies, of imposing barriers to the entry of other companies into the market or of imposing conditions on the business relationships within the market.

The entity of the State in charge of supervising and controlling the practices that may prevent or restrict free competition is the Superintendency for the Promotion and Protection of Free Competition (“Procompetencia”) assigned to the Ministry of Light Industries and Trade.

Procompetencia has broad powers of control over the market. By means of a denunciation of any individual and inclusively by its own initiative, it may begin an investigation to verify if a company is committing practices that restrict free competition. If after the investigations, Procompetencia determines that there are sufficient proofs that a competitor in the market is committing practices prohibited by the Procompetencia Law, then an administrative proceeding may be filed against the same in order to verify if such practices are effectively contrary to free competition. Throughout such proceeding the company being investigated has the right to defend itself.

If by the end of the aforesaid proceeding, Procompetencia determines that the company has committed practices contrary to free competition, a penalty of up to 20% may be imposed on the sales of the company in the fiscal year immediately preceding the date on which the penalty is imposed, which percentage may increase up to 40% if such practice is repeated. In addition, Procompetencia may impose on the company any obligation to guarantee free competition in the market.

All individuals or corporations, whether public or private, that for profitable purposes or not carry out economic activities in the Venezuelan territory or group together those performing such activities, such as unions, associations, federations, cooperatives and any other groups of such individuals or companies are subject to the Procompetencia Law. Likewise, they are subject to the law of professional organizations.

Procompetencia has considered a foreign company the products of which are sold or distributed in Venezuela, even though it does not have a branch or commercial premises in the Venezuelan territory, to be subject to the application of the Procompetencia Law.

The Procompetencia Law prohibits, in general, behaviors, agreements, contracts or decisions that may hinder, restrict, distort or limit free competition.

XII. Public Tendering Processes

The Venezuelan Bidding Law (dated November 13, 2001) establishes that all public entities including state-owned corporations, must carry out tendering processes to proceed with the acquisition of goods and services. The Bidding Law establishes that in certain instances (i.e. public emergencies, acquisitions in which there is a “national interest” involved, professional services, military acquisitions, etc.) the public entity may proceed to contract directly for the acquisition of goods and services without previously carrying out a tender process. Please note that some of the instances in which these direct acquisition processes may be carried out are defined so broadly, that it de facto grants public entities the possibility to circumvent tender processes for a broad range of operations.

The Bidding Law allows for the National Government to issue guidelines granting in public bidding and direct-award processes a preferential treatment to those offers presented which have a higher “local content” and those presented by endogenous-development associative entities, such as cooperatives. Additionally, Decree N° 4.998 published on November 20, 2006 establishes temporary measures for the promotion and development of small and medium-sized industries and cooperatives, producers of goods and suppliers of services located in Venezuela through the establishment of advantages and preferences in the bidding and direct-award processes governed by the Bidding Law, that allow for the incorporation of procedures favoring the selection of contractors which include in their offers goods or services with a higher “Domestic Added Value (DVA)”. This Decree shall initially be in force for three (3) years, but it has been a consequent practice in Venezuela to have similar regulations in place, so it should be expected for these regulations –or very similar ones- to be ratified once they expire.

XIII. Arbitration

In 1998 the Commercial Arbitration Law entered into effect allowing for arbitration clauses to be included in virtually all commercial contracts. Arbitration awards are not subject to appeal and are fully enforceable. Only under exceptional causes expressly provided in the Law, the arbitration awards can be attacked under grounds of nullity, without examination of the merits of the case. Presently there are two major arbitration centers in Caracas, each of which has its own procedural rules: the Entrepreneurial Arbitration and Conciliation Center promoted by the Venezuelan-American Chamber of Industry and Commerce (Venamcham) and the Arbitration Center of the Caracas Chamber of Commerce.

Regarding international arbitration and recognition of foreign arbitration awards, Venezuela is also a party to the Inter-American Convention on International Commercial Arbitration (Panama Convention), the Interamerican Convention on Extraterritorial Efficiency of Foreign Arbitration Awards (Montevideo Convention), the United Nations Convention on Recognition and Execution of Foreign Arbitration Awards (New York Convention) and the Convention on the Settlement of Investment Disputes between States and Nationals of other States (ICSID Convention). Foreign arbitration awards are fully enforceable in Venezuela without previous exequatur. Enforceability of foreign arbitration awards can be rejected only on exceptional causes without going into the merits of the case.

XIV. Mortgages and Liens

Venezuelan legislation is generally considered somewhat deficient in so far as enforcement of security devices are concerned. Real estate and ship mortgages are readily recordable and enforceable, but Venezuela does not have the concept of a "floating charge". Pledge agreements are governed by the Venezuelan Commercial Code (dated 1955) but may not be self-executing; if the pledgor refuses to deliver the pledged property in the event of a default, the pledge must be executed by legal proceedings in the same manner that a mortgage would be foreclosed, with attendant delays.

Certain types of property may also be the subject of the so-called industrial pledge ("prenda sin desplazamiento de posesion"), following the rules of the Ley de Hipoteca Mobiliaria y Prenda sin Desplazamiento de Posesion of February 21, 1973, but the law prohibits the creditor-pledgee from levying upon the property pledged without the formality of a court action and a judicial sale of the property.

Chattel mortgages are permitted with respect to vehicles, aircraft, industrial machinery, and industrial property, as are conditional sales contracts with right to repossession in the event of non-payment.

XV. Doing Business in Venezuela

For the purpose of conducting business in Venezuela, two alternatives are available: (1) the organization of Venezuelan corporations, or (2) the registration of a Venezuelan branch of a foreign corporation.

For Venezuelan law purposes, there is comparatively little to choose from between the two alternatives indicated as, generally speaking and except for some specific regulations regarding income tax, the branch of a foreign corporation domiciled in Venezuela is treated in the same manner as a Venezuelan corporation. (Please refer to the section on Taxation of this report for further comments.)

In either case, governmental corporate supervision and control of corporations has traditionally being minimal, except for a few reporting requirements which remain as an aftermath of Venezuela's former foreign investment restrictions. Venezuelan laws do not require the publication of the annual balance sheet or profit and loss statement. The Commercial Code provides that the annual balance sheet shall be filed with the Mercantile Registry and added to the company's file. No direct penalty, however, is prescribed for failure to file, and consequently this requirement is often more honored in the breach than in the observance. Notwithstanding, please note that the lack of registration of the annual balance sheet may adversely affect certain operations of the entity, including the ability to acquire foreign currency at the official rate for the payment of dividends, etc. (Please refer to the section on Foreign-Exchange Control of this report for further comments)

As indicated hereinabove, Venezuelan corporations and branches of foreign companies domiciled in Venezuela must file certain information with the Venezuelan government primarily for statistical purposes.

We have briefly explained below the process of incorporating a Venezuelan company and domiciling a Venezuelan branch of a foreign corporation.

a) Venezuelan Corporations

The requirements for the formation of either a Venezuelan "*compañía anónima*" or "*sociedad anónima*" (the terms are used interchangeably) or a "*sociedad de responsabilidad limitada*" are simple and uncomplicated, and the organizers enjoy rather wide contractual liberty in the determination of the provisions of the "*Documento Constitutivo*" and the "*Estatutos*", which are the equivalent of "Articles of Incorporation" and "By-Laws", which are often combined into a single document. Regarding these entities, stockholder liability is limited to the payment of the stock subscription. With few exceptions in certain sectors of the economy, there are no limitations as to the nationality or residence of the incorporators, stockholders, directors, or officers. Likewise, there are no legal minimum requirements as to the initial capital, the Commercial Code providing simply that twenty percent (20%) of the capital subscribed must be paid-in upon incorporation, and the remainder paid in the manner and at such times as may be stipulated by the Articles. The initial capital must be fully subscribed.

The capital may be increased at any time at a duly held meeting of stockholders. The capitalization of the company, consequently, can and should be adapted to the needs of the business, but we would recommend that it be sufficient to absorb any anticipated start-up losses to avoid the technical insolvency of the company through loss of two-thirds of its paid-in capital, with consequent requirement of liquidation or capital restoration under Article 264 of the Venezuelan Commercial Code.

The shares of stock must be of a stated par value ("valor nominal"); such par value may be freely determined (in Bolivars) in the Articles. The rights thereunder are equal, unless the Articles provide otherwise by dividing capital into different classes of shares and assigning different rights as to each. Shares must be nominative (i.e., registered and transferable only upon notation in the stock registry of the company); bearer shares are not permitted.

The Articles of Incorporation and By-Laws of Venezuelan corporations are usually combined into a single document and contain provisions regarding corporate purposes, administration, stockholders' meetings, directors' meetings, powers of officers, the shares and the rights of stockholders, preparation of balance sheets, and the calculation and distribution of earnings, etc.

The Articles and By-Laws, signed by the incorporators, must be presented to the Mercantile Registry, together with documentary evidence (usually a bank deposit slip and letter issued by the relevant

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bank) evidencing payment of the portion of the subscribed capital with which the corporation is to commence operations. Upon presentation of the corporate documents to the Mercantile Registrar, a filing fee equivalent to one percent (1%) of the corporate capital must be paid (the same fee is applicable to capital increases). If the Registrar finds that these documents comply with the requirements of the Commercial Code, he/she orders the registration of the Articles and their publication in a local periodical, and also the opening of the corporate file in the Registry.

Stockholders' meetings must be held annually. Special meetings may be called at any time. Stockholders may be represented at such meetings by proxy. The By-Laws may provide for representation by a letter-proxy, as a matter of simplicity. Stockholders' meetings must also be called by publication of notice in the press, at least five (5) days in advance (such notice to the stockholders may be waived if all shareholders are present at the meeting, and this waiver is contemplated in the bylaws of the corporation). The stockholders may legally act only at duly called and held stockholders' meetings. Waivers and consents executed by all the stockholders may obviate the necessity of publication of the above-mentioned notice.

Venezuelan corporations are required to maintain, in addition to the accounting books prescribed by the Commercial Code for all merchants and commercial enterprises, a Stock Registry Book and Corporate Minute Books.

The organizers, in the Articles of Incorporation and Bylaws may provide such safeguards regarding the management of the company as they deem necessary or convenient, restricting the powers of the Board of Directors, subjecting its acts to ratification of the stockholders, or by requiring express authorization of the stockholders. Unless otherwise provided, (1) the sale of the major corporate assets, (2) modification of the Articles and By-Laws, (3) increase or decrease of capital, (4) change of the corporate purposes, (5) merger, (6) dissolution, or (7) modification of the corporate duration may only be effected by resolution of a stockholders' meeting, specially called for the purpose, with three-quarters of the capital present or represented, and adopted by a favorable vote of at least one-half of the capital.

Corporate purposes of a Venezuelan company are usually concise, referring only to the core business of the entity.

At the time the company is formed, the initial officers, directors, alternate directors, and *Comisarios* must be named. As an aftermath of the Andean Pact foreign investment restrictions, the Mercantile Registrar still requires that the individuals named to such posts be identified as to nationality and, if Venezuelan residents, by their "*cédula de identidad*" (identification card) numbers as well; in the case of nonresident foreigners, their passport numbers should be stated.

Although Venezuelan law permits Board meetings to be held outside Venezuela, and it would therefore be possible to form a Venezuelan company without any local directors or "*suplentes*", we recommend that at least a majority of the directors or alternate directors be Venezuelan residents, so

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that there can be a local quorum for directors' meetings. Minute books in Venezuela are bound and, in order to be of evidentiary value vis-à-vis third parties, must be stamped by the local Mercantile Registrar. Minute books are supposed to be shown to the local Notarial authorities in connection with the issuance of such Board-authorized documents as a judicial power of attorney, for example. Accordingly, the Minute Books should preferably be kept physically in Venezuela, so that they are available for such purposes. It is advisable to have a local quorum of directors or alternate directors (who would only act in the absence of the principal directors) so that minutes can be entered in the bound Minutes Books and signed locally.

b) Branches of Foreign Companies in Venezuela

In order for a foreign company to do business in Venezuela, it is required that such company domicile a branch in the country. Pursuant to Decree 2095 of February 13, 1992, branches of foreign corporations that are domiciled in Venezuela must also present a statement as to the amount of branch capital allocated to the Venezuelan branch. Such statement should normally be in the form of a Board resolution which also authorizes the establishment of the Venezuelan branch and should be certified by the Secretary of the foreign company. Such capital will form the basis for the assessment of the one percent (1%) Mercantile Registry filing fee.

In order for a foreign corporation to domicile a branch in Venezuela such foreign corporation must register in the Mercantile Registry of the locality where its office, place of business or agency is to be established and publish in a periodical of that locality the Articles of Incorporation and those other documents essential to the organization of the company pursuant to the laws of the jurisdiction under which it was organized or created, including a certified copy of the pertinent provisions of the corporation law of the jurisdiction.

All documents must be legalized by the Venezuelan Consul having jurisdiction or be stamped with the Apostille of the 1961 Hague Convention.

Subsequently these documents must be translated into Spanish by a duly registered Venezuelan Public Interpreter and filed with the Mercantile Registry having jurisdiction in the locality where the company establishes its office, business or branch.

c) Annual Requirements

Venezuelan companies must carry out the following on an annual basis:

- Annual Shareholders' Meeting approving the balance and electing the Directors and Examiners
- Elections of the officers of the Company
- Filing of the balance, Examiner's Report and elections with the Mercantile Registry
- Notification to Tax Authorities of changes in the Directors

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DOING BUSINESS IN VENEZUELA

APRIL 2007

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MEMBERS

OFFICES

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Petroriente (CCP), Nivel
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Oficinas 02-N19 y 02-N20,
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Avenida Alirio Ugarte
Pelayo.

El Tigre

Avenida Peñalver. Centro
Comercial Plaza Medina
Piso 1. Oficina P-69.

- Updating of Annual Foreign Investment Registration with foreign investment authorities.
- Annual Report to foreign investment authorities on payments for technological assistance, patent license, trademark royalties, etc.

Venezuelan branches of foreign companies must carry out the following on an annual basis:

- Annual update of the registered foreign investment and filing of the audited financial statements for the past year, together with a copy of the annual income tax return of the branch with foreign investment authorities.
- Any change in the legal representative appointed under Article 355 of the Venezuelan Commercial Code must be filed in the Mercantile Registry and notified to the tax authorities.
- Annual Report to foreign investment authorities on payments for technological assistance, patent license, trademark royalties, etc.

NOTE: This brochure should not be construed as legal advice on any specific matter, and its contents are intended as a general overview of the Venezuelan legal system. Any specific legal questions regarding the possible application of existing, new or proposed legislation to particular situations or request for legal assistance should be addressed to TRAVIESO EVANS ARRIA RENGEL & PAZ.

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