



## Venezuela Economic Outlook

By Arca Análisis Económico

Here is our monthly summary of recent economic developments in Venezuela:

- The U.S. Department of the Treasury published on July 12, 2021, a General License 40, which authorizes for one year certain transactions related to the export or re-export of liquefied petroleum gas (LPG) to Venezuela. The license allows the sale of gas to the Venezuelan government, Petróleos de Venezuela, S.A. (PDVSA) and any other public entity, enabling the mitigation of the severe domestic gas crisis that the country is experiencing. However, the license does not allow payment in kind (exchange of crude oil for LPG), which could weaken the scope of the humanitarian relief that could be obtained from this measure if the buyers are unable to mobilize the necessary funds to pay for the gas.
- This license could be considered as a sign of an upcoming license that allows diesel imports. However, the political events that took place on the same day of the General License 40 issuance threaten further similar developments by the U.S. The diesel deficit has been affecting production and distribution activities, both through intermittent supply and costs since April. In June, there was a slight improvement in the diesel supply, which was considered ephemeral, attributable to the arrival of the vessel Bueno at the end of May with 500,000 barrels of low sulfur diesel.
- On the oil front, oil exports rose for the second consecutive month to 713,097 barrels per day (bpd) in July as PDVSA offset cargo delays at its main port by boosting ship-to-ship transfers, according to tracking data and documents reviewed by Reuters. With that, July marks the highest level of Venezuelan crude exports since February. "A growing number of mostly unknown customers with no background in oil trading has helped PDVSA increase shipments, most of which now go to Asia," Reuters said.
- Corporación Venezolana de Petróleo (CVP), a subsidiary of PDVSA, assumed 100 percent of the capital stock of the joint venture Petrocedefío. French oil company TotalEnergies and Norwegian Equinor ASA left Venezuela's key joint venture as the country's energy industry has been weakening. According to two sources with direct knowledge of the decision, Bloomberg reported, the companies transferred their capital stock to the upgraded oil production joint venture Petrocedefío to state-owned PDVSA. TotalEnergies and Equinor, which held 30 percent and 10 percent of the capital stock, respectively, had been significant partners of PDVSA since the 1990s. PDVSA will now exercise full control of Petrocedefío. This company operates one of the heavy crude upgraders in the Orinoco Oil Belt, which has a capacity of 200,000 bpd of crude oil that is commercially viable in the international market.
- Citibank also joins the entities that will cease their operations in the country. Citi and Banco Nacional de Crédito (BNC) officially announced that they have entered into a definitive agreement whereby BNC will acquire Citi's operations in Venezuela. The closing of the sale received regulatory approval on July 7, 2021. Citi has been in Venezuela for more than 100 years, and the acquisition of its operations and personnel in the country will enable BNC to create business opportunities for multinational corporations and Venezuelan companies,



as well as individuals, by offering them an attractive portfolio of products and services and a nationwide commercial network.

- The Organization of American States (OAS) warned that Venezuelan migration could reach 7 million people by the end of 2021 or early 2022, surpassing the exodus from Syria, considered the largest in the world, with 6.7 million refugees who have left that country. According to a report released by the OAS Working Group on the Venezuelan Migrant and Refugee Crisis, "if there is no political, economic and social solution in the short term, it is estimated that there could be more Venezuelan refugees than Syrians."
- Recently, *The Economist* published its well-known Big Mac index, a benchmark indicator. It compares the purchasing power of several countries to the sum of dollars required to buy the famous McDonald's hamburger. Unfortunately, the magazine had excluded Venezuela from such indicator in 2018 because of the hyperinflationary spiral, which led the publication to argue that the index would probably underestimate price increases and devaluation given the complex economic scenario. However, the monitoring carried out on July 20, 2021, considered the Big Mac price in Venezuela, the country where the highest dollar price is required to purchase it (US\$8.35), a figure that reflects a significantly higher price than the hamburger's original price, which is \$5.65 in the United States.
- Tiziana Polesel, the president of the Venezuela's National Council of Commerce and Services (Consecomercio), commented to EFE news agency that there is "unfair competition" between imports and national production because "while this tax is not charged for a product to be marketed in Venezuela ... the national manufacturer of the same product is charged all the taxes to import the inputs needed to manufacture." Polesel clarified that "before they had to pay taxes to nationalize those products and today they are exempt," which "benefits a sector that has been able to import" with "competitive prices." Indeed, in 2018, President Nicolás Maduro signed a decree with which he exempted the import of intermediate and finished products from taxes in order to "accelerate the country's growth." Although the exoneration was for one year, the decree has been maintained with extensions since then. The Venezuelan manufacturing industry association has since requested that products manufactured in Venezuela enjoy the same benefits granted to imported products.

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## Venezuela Publishes Disciplinary Regulation for Statute of the Investigative Police Role

By Holland & Knight

The presidency of the Republic of Venezuela published on July 21, 2021, Decree No. 4,541, in *Official Gazette* No. 42,173 (Decree), a partially regulated Decree with the Status, Validity and Force of Law of the Statute of the Investigative Police Role (hereinafter Statute of the Investigation Function of the Police), which is the main foundation for police investigation in Venezuela.

The purpose of the Decree is to partially regulate and draft the disciplinary rules and guiding principles established in the Statute of the Investigative Police Role to which the investigative police officers who serve in the scientific, criminal and criminal investigation units, as well as criminal investigation experts who are part of these units, will be subject.

The Decree is also intended to strengthen the disciplinary system as a fundamental aspect for the performance and correct development of disciplinary procedures carried out by criminal investigation officials and experts. Likewise, it should be noted that the Decree indicated that the National Executive Branch would act as the governing body of the investigative police service.

The Decree established the procedures, actions and formalities required when investigative officials and experts are subject to a disciplinary investigation.

It is also important to mention that the Decree expressly repealed in its entirety the Disciplinary Regulations of the scientific, criminal and criminalistic investigative units published on June 13, 2003, in the *Official Gazette* No. 37,711, except for a transitory article (First Transitory Provision).

The Decree establishes that the officials and experts must, within the framework of their actions, implement and adhere to the fundamental principles of legality, due process, remedial action, order, discipline, transparency and honesty; as well as to the public administration principles of orality, urgency, immediacy, efficiency, human rights, interpellation, procedural defense, inhibitions and independence of disciplinary responsibility. Likewise, the Decree states that officials and experts must act under strict adherence to moral, ethical and professional principles and guarantee the rights of the officials subject to disciplinary proceedings.

It should also be noted that the Decree established the system of preventive measures and absolute, temporary and accidental misdemeanors, as well as the grounds for recusal and inhibition that may be incurred by officials and experts undergoing disciplinary investigation.

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## SUNAVAL Issues Rules Related to Good Corporate Governance in the Securities Market

By Tinoco Travieso Planchart & Nuñez

The National Superintendency of Securities (SUNAVAL) issued on Jan. 13, 2021, Ruling No. 001, hereinafter referred to as "The Ruling," in the *Official Gazette* No. 42,171 dated July 19, 2021, whereby the "Norms Related to the Good Corporate Governance of the Securities Market" were established.

**Purpose:** To guarantee the implementation of best practices of good corporate governance on behalf of entities regulated by SUNAVAL, as well as by other participants in the securities market. Corporate governance is understood as the set of principles and rules that regulate the corporate governance agencies, based on the principles of equitable treatment, transparency, control, responsibility and values.

**Obligated Parties:** Issuing companies, securities brokerage firms, brokers, investment advisors (legal entities), certified public accounting firms, collective investment entities and their management companies, securities clearinghouses, stock exchanges, securities exchanges and agricultural products, risk-rating entities and other persons that directly or indirectly participate in the Venezuelan securities market, as established by SUNAVAL.

**Good Corporate Governance:** Refers to globally recognized corporate governance best practices, including the equitable treatment shareholder principles, responsibilities and securities of the board of directors and other governmental, control environment and transparency agencies, which allow the resolution of conflicts of interest among an organization's stakeholders, understood as shareholders, management, employees, suppliers, customers, community and environment.

**Corporate Governance Structures or Instances:** The Ruling indicates that a good corporate governance structure must be led by the shareholders' or partners' meeting, the board of directors, supervisory agencies, the provisional common representative and the definitive common representative, establishing the respective powers for each of these agencies.

**Shareholder Equitable Treatment Practices:** The shareholders' meeting must guarantee and provide equitable treatment to shareholders, which includes, among other things:

- the establishment and dissolution of the company must be approved by the majority of the shareholders, considering the opinions of the minority shareholders
- meet regularly, at least once a year, ensuring the presence of the majority of the shareholders
- execute extraordinary sessions to deal with matters outside the regular or ordinary sessions
- ensure the presence of the majority of shareholders at each of the shareholders' meetings, with a particular emphasis on the presence of minority shareholders, as well as make extraordinary efforts to call meetings through digital media, publications on the company's websites or digital portals, electronic media, individual shareholder emails, telephone messages, social networks, telephone calls and others



- ensure equitable treatment of all shareholders
- appoint and revoke the board of directors or group of directors that will be in charge of the corporation's administration
- ensure that the appointed directors meet with the suitability, ethics, morals, personal skills, technical skills and professional trajectory to lead the company
- approve and guarantee the existence of policies for the fair distribution of dividends among all shareholders
- ensure that all discussions, decisions and approvals executed at ordinary and extraordinary shareholders' meetings are documented, recorded and traceable in an easily accessible public place
- ensure supervisory agencies' existence through the appointment of at least one statutory auditor to guarantee the validity and truthfulness of the financial statements. If the company is not required by law or its bylaws to have a statutory auditor, it may create an internal comptroller's office and process, independent of the board of directors or officers, to ensure the validity and accuracy of the financial statements before the shareholders' meeting approves them
- require and approve the appointment of external auditors in charge of the audit process, if applicable. If external auditing is not required by law or regulation, it shall be mandatory to require the constitution of a control environment, including risk assessment, compliance and internal auditing, reviewing the results periodically, as part of the board of directors' report to all shareholders.

**Execution of Resolutions of Shareholders' Meetings:** The companies regulated by these rules must equally execute the resolutions and orders established in the shareholders' meetings, as the highest instance of corporate governance and supervision of the company, listening and adhering to the resolutions, as well as the decisions and votes of all shareholders.

**Resolution of Shareholder Requests:** The companies regulated by this rule must implement and monitor the shareholders' requests through functioning institutions to equally resolve requests from all shareholders.

**Chairman of the Board of Directors, Executive Chairman, General Manager or Chief Executive Officer:** A chairman of the board of directors must be appointed from the boards of directors of the companies regulated by these rules, as well as an executive chairman, general manager, or chief executive officer.

**Structure of Board of Directors:** The board of directors may be constituted by directors who are shareholders, related or connected directors (part of management or related to the owners from a corporate or family point of view) and independent directors (not related to the shareholders, management or family members of the corporation). It is recommended that independent directors are also included. The number of members of the board of directors may not be less than three or more than nine.



**Diversity of Members of Corporate Governance Bodies:** The companies regulated by these standards must consider diversity, both among the members of the board of directors and among the corporate governance agencies in general, understanding by this concept: diversity of gender, religious beliefs, ethnicity, differentiated abilities and professionalism, which will confer a broader understanding and vision in the implementation of its corporate governance.

**Adequate Control Environment:** Regulated companies must ensure a fair control environment, guaranteeing the operational entities and government authorities to which they will delegate aspects related to integrated risk management, internal and external auditing (if applicable), and compliance in terms of control and administration of money laundering crimes, financing of terrorism, financing of the proliferation of weapons of mass destruction, as well as regulatory, normative, ethical and behavioral compliance.

**Delegate Governance Bodies:** In order to avoid centralization, bureaucracy and deferral in decision-making and management control, the board of directors should establish and promote delegate government agencies, called steering committees, with the power to make decisions on different matters on behalf of the board of directors, limited to specific issues and with administrative and operational autonomies that delimit the scope of decisions that can be carried out and executed by such agencies. According to their policies, they shall be established by the minimum and the adequate number of principal members of the board of directors and management members.

**Executive Committees:** Upon the invitation of the board of directors and management, the chairman, general manager or chief executive officer may create these committees. These executive committees shall have the power to make decisions and execute them on behalf of the management. They shall be constituted by the minimum and appropriate number of members of management.

**Term of Office of Members of Board of Directors and Delegated Governing Bodies:** They shall not hold office for a term of more than five years.

**Adequate Control Environment:** It is suggested that the implementation and execution of policies, rules, regulations and procedures related to regulatory compliance, comply with the ethics and conduct code, and internal and external auditing procedures.

**Transparency:** Regulated companies must include on the website, social networks or other means of communicating financial information: information related to the activities and business carried out by the company, products and services, capabilities, infrastructure and processes, geographic location, contact data and any other relevant information; of the corporate governance and its members, control environment and corporate social responsibility toward employees and the community in general, as well as digital attention spaces and contacts.

**Mandatory Nature of Practices and Principles Established in Rules:** The good corporate governance practices and principles will be mandatory as long as they are established and enforced in the Code of Commerce, securities market laws and regulations, laws and sector-specific regulations to which the companies are subject, as well as in any other applicable laws, rules and codes, and are not contrary to the principles outlined in the Constitution of the Bolivarian Republic of Venezuela. Any nonbinding laws, rules and codes should be implemented and, as such, will be considered when preparing risk ratings and when SUNAVAL requires authorizations and renewals.



**Good Corporate Governance Report:** The companies regulated by SUNAVAL must submit an annual report to SUNAVAL, including a diagnosis of their corporate governance structures and the degree of implementation and compliance with the principles. This report is mandatory, and its noncompliance will result in 1) warning and extension of the term by SUNAVAL, 2) initiation and substantiation of an administrative proceeding by SUNAVAL, and 3) temporary or definitive suspension of the activity authorized by SUNAVAL.

**Transitory Provision:** The companies regulated by these rules have six months to adapt to these rules, i.e., until Jan. 18, 2022.

**Effective Date:** The Ruling became effective as soon as it was published in the *Official Gazette*.

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