

MARKET SURVEY

MACHINERY



Caracas, July, 2016
Bolivarian Republic of Venezuela





July, 2016

Survey by **AL&C** Consulting Group
for the Embassy of India in Caracas- Venezuela

Contact email:

Alfredo Ordoñez: alfordonez@gmail.com

Carlos Longa: clonga@hotmail.com

Luis Angarita: luisangarital@gmail.com



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PART I

ECONOMIC SITUATION OF THE BOLIVARIAN REPUBLIC OF VENEZUELA

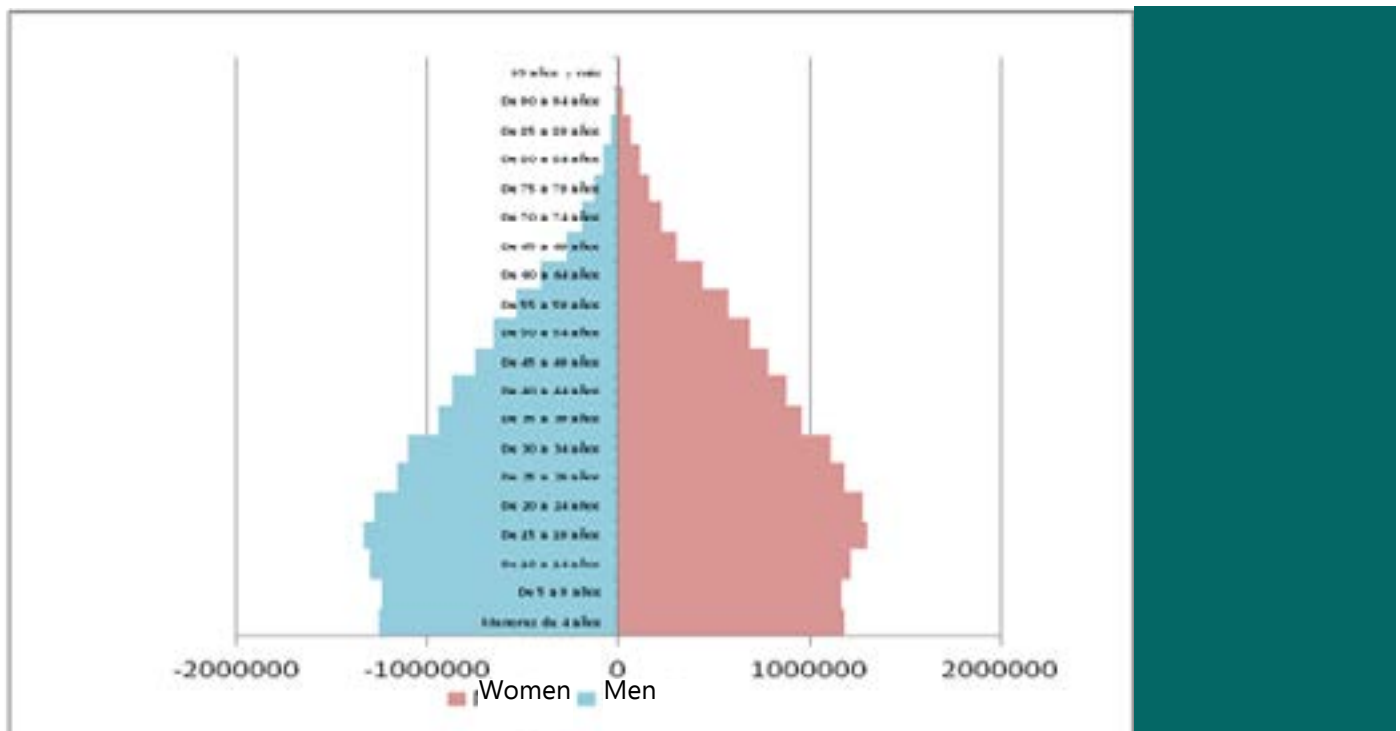
Bolivarian Republic of Venezuela

Country profile	Bolivarian Republic of Venezuela
Official language	Spanish
Population (2016)	30,851,343 inhabitants
Form of Government	Federal Presidential Republic
Head of State	President, Nicolás Maduro Moros
GDP Per cápita (2016)	US\$ 12,820
Foreign Direct Investment (FDI) (% of GDP) (2015)	1.6 (UN)
Gross Fixed Capital Formation (% GDP) (2015)	20.3
Public expenditure on education (2015)(% GDP)	6.9
Public expenditure on health (2015)(% GDP)	3.4
Currency	The official currency is the Bolívar (VEF), with a system of foreign exchange control which has two rates: DIPRO (type: protected change) for essential products 10 Bs/\$ and DICOM (type: complementary change) for all transactions not contained in DIPRO. The floating rate is controlled by the BCV and starts at US\$1=206.92 Bs

Demography

Venezuelan population pyramid

Venezuelan population pyramid shows that the bulk of the Venezuelan population is between the ages of 10-24 years old, which results in a young population with aspirations to enter the labor market, after an average of 8.9 years of studies, representing an educated population that almost finish high school and that can become labor for any growing industry or development, also the Venezuelan population has a life expectancy at birth of 74.2 years .



Life expectancy at birth

74.2 years

HDI (adjusted for inequality)

0.612 (UN)

Population density (2015)

33.34 inhabitants per Km²

Mortality at birth

110 (deaths per 100,000 live births) (2015)

Expected years of schooling

14.2 years

Average years of schooling

8.9 years

Geography

Location:

Venezuela is a country located at the most northern point of South America, with coasts on the Caribbean Sea and the Atlantic Ocean. It has a land area of 916,445 km². Its borders are: Brazil and Guyana to the East, Colombia and Brazil to the South, Colombia to the West, and the Caribbean Sea and the Atlantic Ocean to the North. Because of its location, Venezuela enjoys a tropical climate with two seasons a rainy one and drought one, with temperatures ranging between 28 ° C.

Venezuela has four well defined regions:

1.- Central-coastal Region: Where the capital city, Caracas, is located. It is a region consisting

of coasts and is the seat of major cities that have international ports and industrial cities.

2.- Andes Region: Formed by Táchira, Mérida and Trujillo states; defined as the country's mountainous zone with agricultural settlements with banana, potatoes and coffee plantations.

3.- Los Llanos Region (Plain region): Consisting of plains and rivers and formed by Guárico, Apure, Barinas and Portuguesa states, it is the fertile land of the country for agricultural industry.

4.- Guyanese massif: In geological terms, it is the oldest part of the country, consists of large plateaus, and is the region with the largest mineral reserves.



Attractiveness

There are regulations affecting business efficiency in the country, such as exchange control, which puts the country in the position 182 in the world ranking. In terms of labor freedoms, Venezuela occupies position 181 in the world ranking and in the post 169 worldwide about freedom of business .

Doing Business 2016 classification puts the Venezuelan economy at No. 186 among 189 eco-

nomies, taking into account aspects such as: operational aspects regarding the opening of a business, dealing with construction permits, getting electricity, registering property, obtaining credit, protecting minority investors, paying taxes, trading across borders, enforcing contracts and resolving insolvency.

Venezuelan market is constituted by 30 million inhabitants, is the fifth largest GDP in Latin America, owns the largest proven reserves of crude oil in the world. Regarding to gas reserves, Venezuela possesses the eighth worldwide. Never-

theless, there is need for renewal the national infrastructure (roads, rails, ports), industries and machinery.

Happiness Index

In addition to the basic economic indices it is important to know how does work the subjective well-being of the population of a country and evaluates the human being's ultimate goal: happiness. Because economic policies should enhance the usefulness of the population defined as the amount of pleasure, satisfaction or happiness of individuals ; to carry out the survey, people's opinion is asked by a series of questions. In this survey, Venezuelan people perceived themselves as a people with high levels of happiness. Venezuela in ranked in the 44th place, above El Salvador, Ecuador and Japan, but below countries such as France, UK, Colombia, Germany, Chile, Uruguay, among others .

Profitability

According to ECLAC, FDI decreased in 2014 by 80%, from US\$ 2.68 billion to US\$ 320 million. In previous years had happened the opposite, because of the difficulty of repatriation of capital due to exchange controls, foreign companies tried to reinvest in the country in real estate sector. However, it is possible that because of the economic contraction in 2014, foreign companies have decided to back their investment because of reduced profits .

Marketing Channels

In Venezuela there are six commercial ports, whose customs are authorized to import, export and transit, as well as to provide services of transshipment, cabotage and postal packages :

1.- Port of Puerto Cabello: It is Venezuela's main port, located in Carabobo state. It is the sixth largest port in Latin America and the Caribbean. In terms of capacity, has a total regional foreland of 75%: to United States and Canada (20%), the Caribbean (17%), Colombia and Trinidad (15 %), South America East Coast (10%), Central America (8%) and South America West Coast (3%); to other ports in Venezuela, this port foreland is 15% and to the rest of the world 10%.

2.- Port of La Guaira: An artificial port located in Vargas state. It has a total of 26 docks, some of them are not operational, and its maximum depth of water is of 9,7 m.

3.- Port of Guanta: Located in Anzoátegui state, has 6 docks, and a maximum depth of water of 10,5 m.

4.- Port of Maracaibo: Located in Zulia state, has 12 docks, 8 of them remain operational and have a maximum depth of water of 10,97 m.

5.- Port of Sucre-Cumaná: Located in Sucre state, has two floating docks for general cargo and vehicles, its maximum depth of water is of 10,4 m.

6.- Port of Guaranao: Located in Falcón state. Currently, this port is operating only for refinery and industrial zone products import.

Regional agreements and trade blocs

• **ALADI (Latin American Integration Association):** Signed by Argentina, Brazil, Bolivia, Colombia, Chile, Cuba, Ecuador, Uruguay, Mexico, Panama, Paraguay, Peru and Venezuela, in which Venezuela signed a Regional Tariff Preference agreement, which decreases the proportion of ad-valorem duties stipulated to the tariff schedule.

• **MERCOSUR (Southern Common Market):** Signed by Argentina, Brazil, Uruguay, Paraguay and Venezuela, where the total elimination of taxes is agreed through the signing of three agreements: "Treaty of Asuncion", "Protocol of Ouro Preto" and "Olivos Protocol for the settlement of MERCOSUR disputes".

• **ALBA-TCP (Bolivarian Alliance for the Peoples of America- Treaty of the Peoples):** Signed by Venezuela, Cuba, Bolivia, Antigua and Barbuda, Dominica, Ecuador, Granada, Nicaragua, Saint Kitts and Nevis, Saint Lucia, Saint Vincent and the Grenadines, Suriname and as observers: Haiti, Iran and Syria. It is based on the use of hedge funds to reduce socioeconomic differences among its member countries.

Economic situation in Venezuela

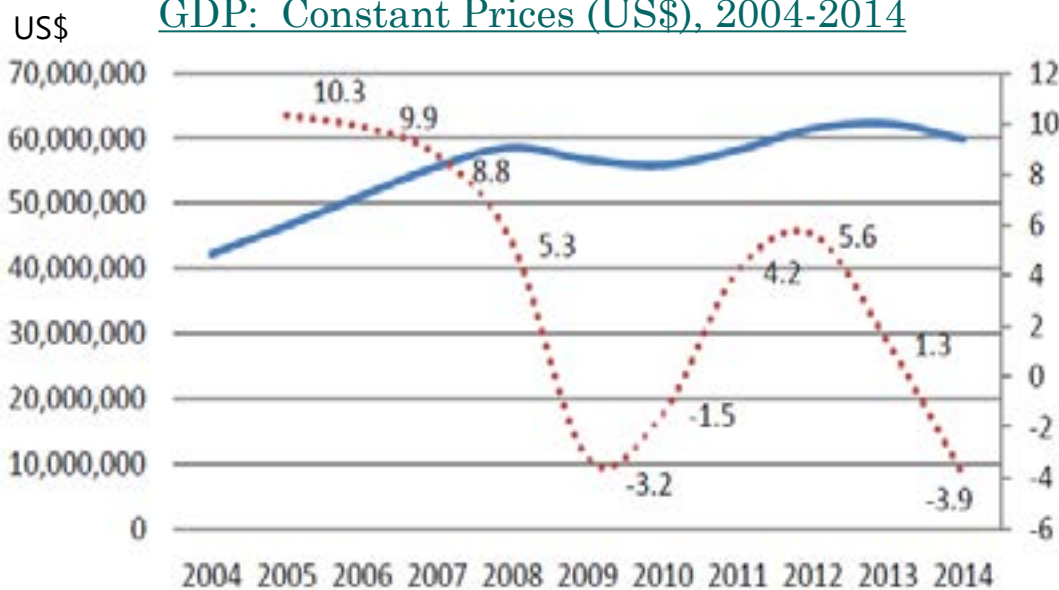
According to the data submitted by the Venezuelan National Bank (or Banco Central de Venezuela - BCV), Venezuelan economy shows very unstable levels of economic growth, with high rates (8% and 10%) in 2005 and 2007, while a sharp drop occurred in 2010, 2014 and 2015, with levels around -4%. (Chart 1.1)

Despite being an oil economy, the contribution of the oil sector in the country's economy is decreasing, representing only 11% of the Gross Do-

mestic Product (GDP), which is a worrying situation because this is the only productive sector participating in international trade, and which contributes 98% of income in foreign currency. (Chart 1.2)

Chart 1.1

GDP: Constant Prices (US\$), 2004-2014

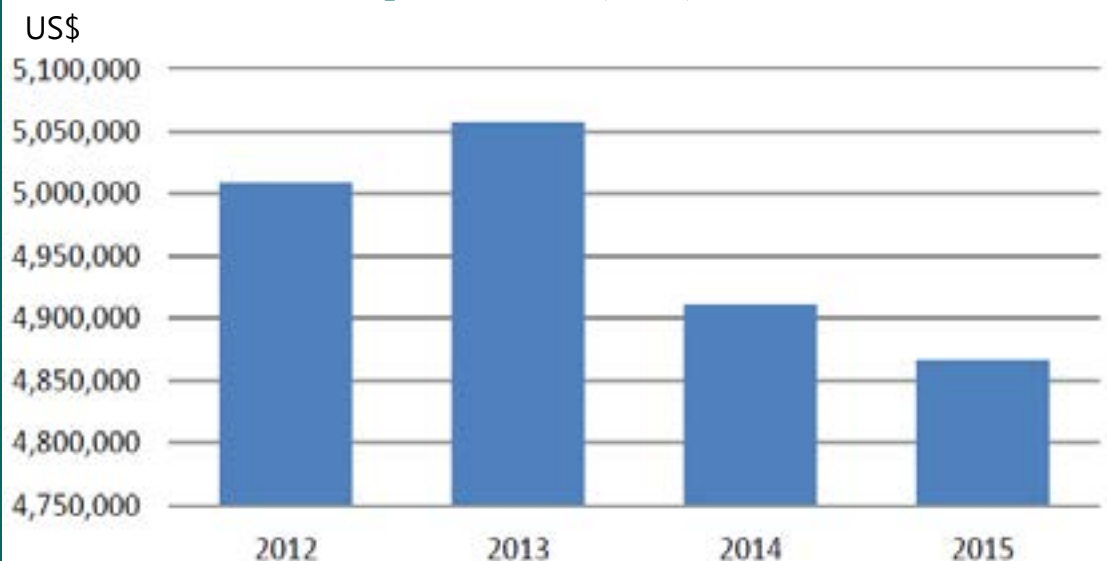


Venezuelan economy shows very unstable levels of economic growth, with high rates in 2005 and 2007, while a sharp drop occurred in 2010, 2014 and 2015, with levels around -4%.

Percent variation

Chart 1.2

Oil sector production (US\$), 2012-2015

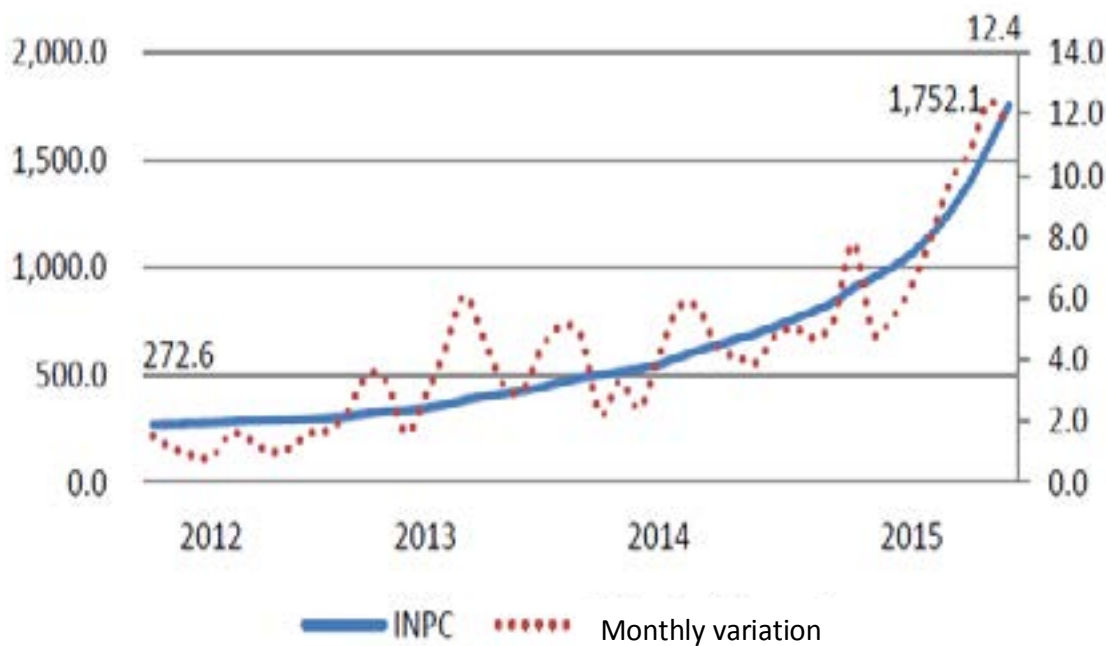


Despite being an oil economy, the contribution of the oil sector is becoming less to the national productive apparatus, representing only 11% of the Gross Domestic Product

The variation of prices is changing exponentially: prices are six times higher in the period between 2012 and 2015. Inflation in 2015 was 200%. In 2016, inflation rate is projected 600%. A month-on-month variation of 10% will represent an annual inflation rate of 313%. (Chart 1.3)

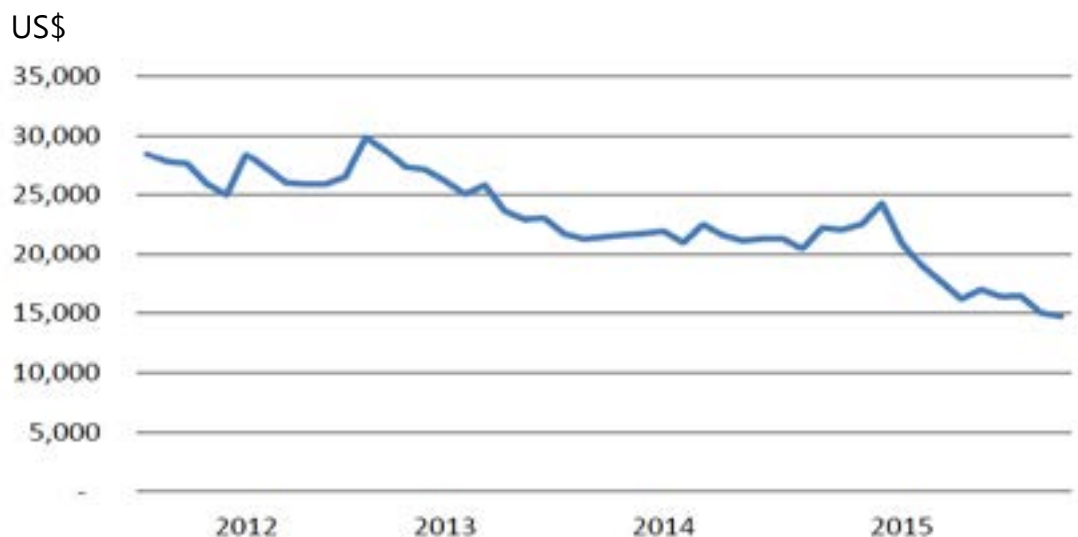
In the same period, international reserves have fallen to less than half, reaching levels as low as those of 12 years ago. This creates a strong pressure on their external balances. (Chart 1.4)

Chart 1.3
Price index, 2012-2015



The variation of prices is changing exponentially: prices are six times higher in the period between 2012 and 2015.

Chart 1.4
International Reserves (US\$), 2012-2015



International reserves have fallen to less than half, reaching levels as low as those of 12 years ago

The growth of external debt adds to the drop in international reserves, makes that the current coverage be less than 10%. That means the amount of the international reserves only pays 10% of the total external debt. By beginning of 2016, the country already had a trade deficit of US\$ 24 billion. (Chart 1.5)

Venezuelan external debt is divided in two sectors: government owes 83%, and private sector owes the remaining 17%. At the same time, this is related to 25% of short term debts (less than

a year) and 75% of long term debts. Public and private commercial credits represent 19% of the external debt, while most are concentrated in bonds and other forms of loans.

As to the position of the reserve assets, Venezuela has decided to concentrate 70% in monetary gold, and this assets has had the same behavior as of international reserves. It has fallen almost by half: from US\$ 21 billion in 2011 to US\$ 11.5 billion in 2015. Although public operations regarding monetary gold have not been made. The fall is evident in the Venezuelan

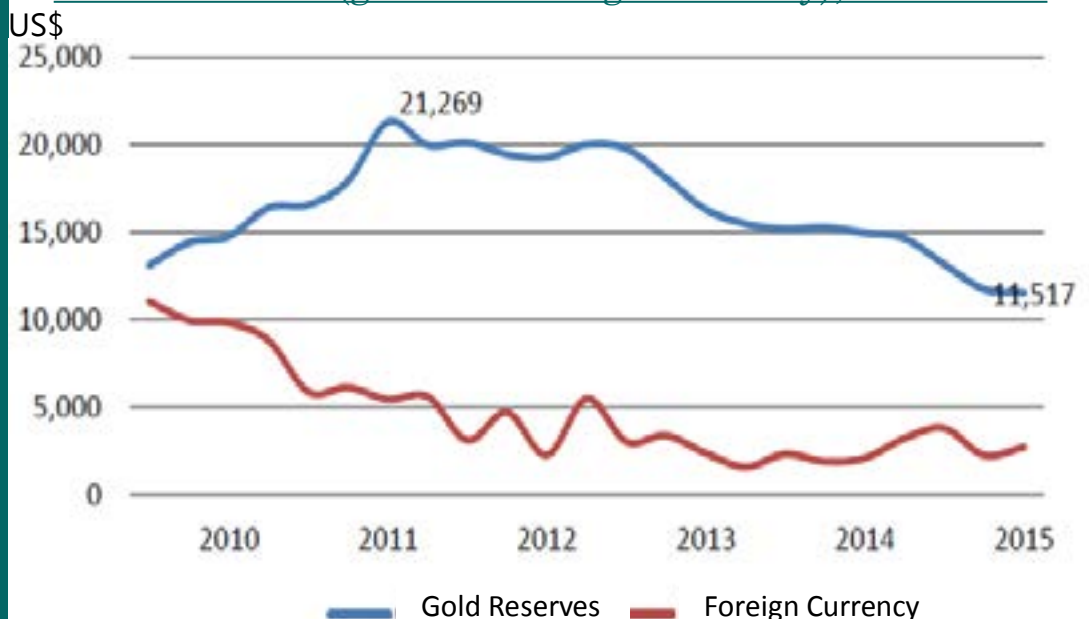
Chart 1.5

Relation between external debt and International Reserves, 2012-2015



Chart 1.6

Reserve assets (gold and foreign currency), 2010-2015



The behavior of the balance of payments remains negative during the last six years, with the characteristic feature of maintaining positive trade balances, but capital outflows exceeding this

surplus. By 2015, for the first time in 20 years, quarters are shown with negative trade balance, mainly due to the fall in oil prices.

Chart 1.7

International Investment Balance (US\$), 2010-2015

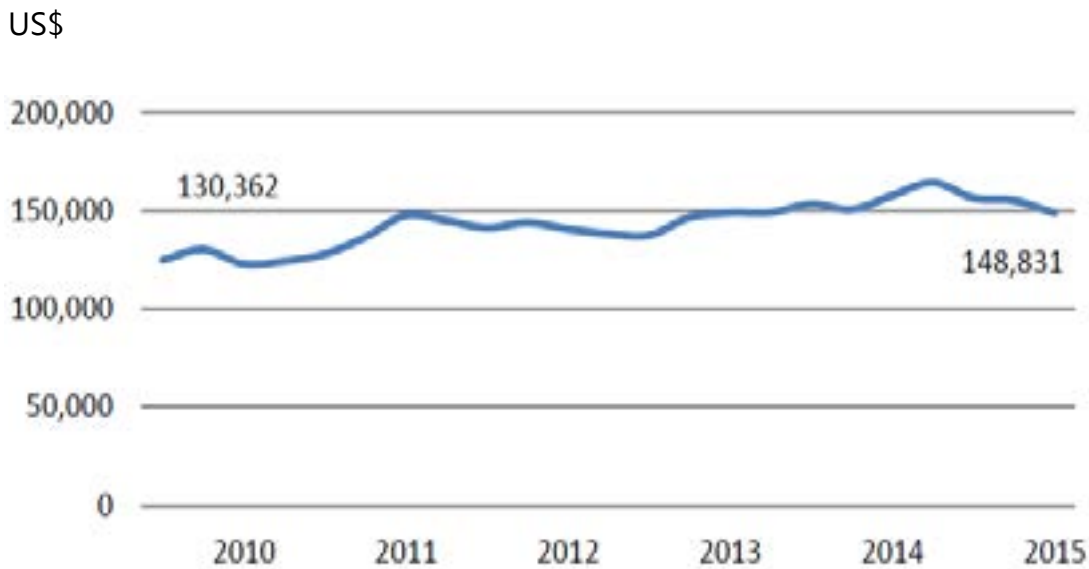
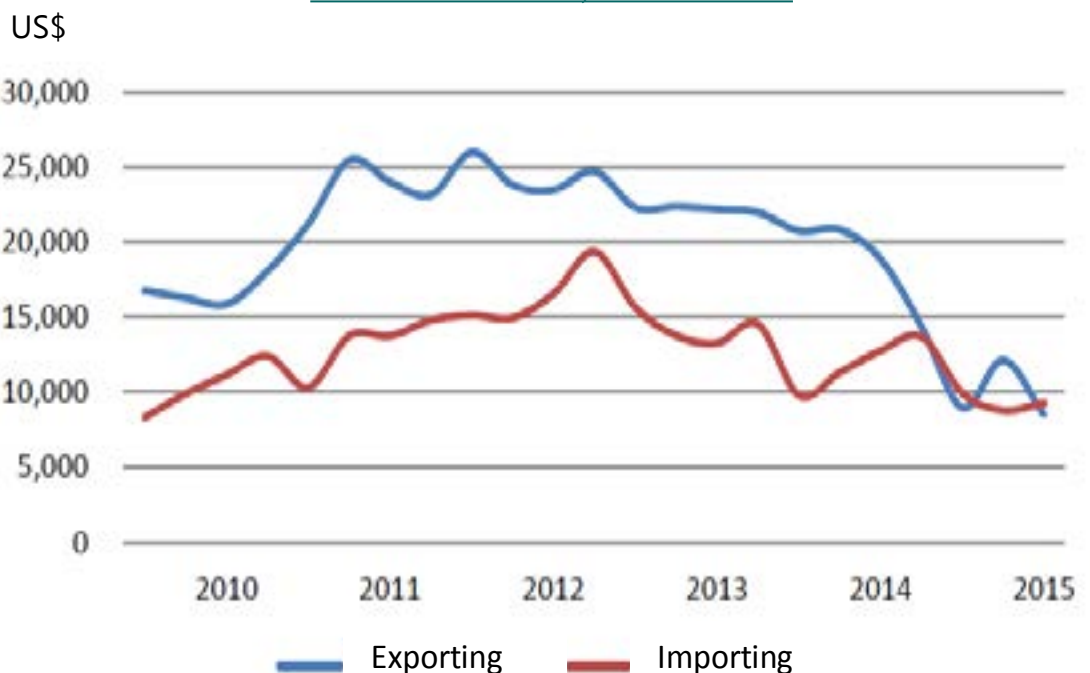


Chart 1.8

Trade Balance, 2010-2015



By 2015, for the first time in 20 years, quarters are shown with negative trade balance, mainly due to the fall in oil prices.

PART II

MACHINERY INDUSTRY IN THE BOLIVARIAN REPUBLIC OF VENEZUELA

Machinery market in Venezuela

Heavy machinery and equipment sector in Venezuela is going through one of the most difficult times, especially due to the outdated stock machinery and equipment existing in the country and the failure of industrial supplies to carry out works in housing plants, public works, agricultural development, agro-industrial production, metallurgy, among other subsectors.

Machinery sector are represented by owners of machinery and equipment and sellers and suppliers of spare parts. In order to accomplish the increase of production and construction in the country, every part that makes up this sector must maintain a continuous recapitalization and thus, guarantee the performance of their works and services.

The main demand for the machinery industry comes from building, especially from the State, for the construction of single-family social housing, basic schools, roads, highways, urban roads and railways.

Moreover, private sector demands heavy machinery for construction of single-family houses for low, middle and high social status, tourist buildings, sheds for industries, hotels, etc. This sector

is more linked to the construction industry, and in the medium term, can finance the purchase of machinery.

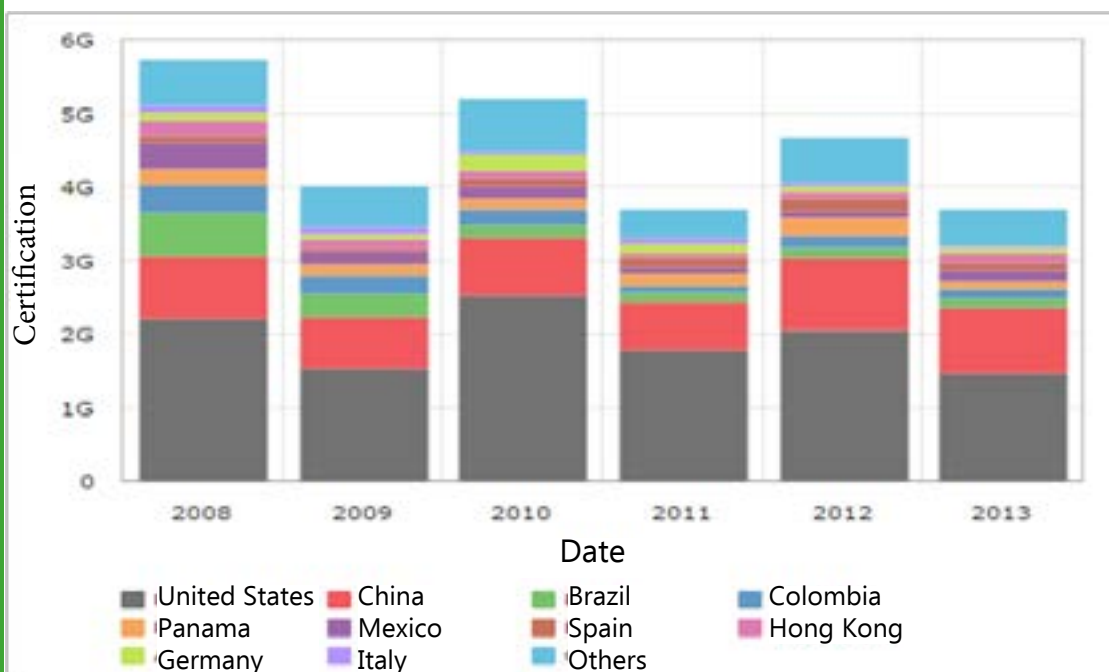
Agricultural and agro-industrial sector are placed second demanding machinery. According to estimations of the Confederation of Associations of Agricultural Producers US\$ 2 billion are annually required to meet the demand for specialized machinery.

Venezuela is highly dependent on import machinery and spare parts. Between years 2011 and 2013 total machinery imports reported were of US\$ 12.1 billion.

It may be noted that machinery imports in Venezuela have declined due to foreign exchange restrictions and the devaluation of the Bolivar, making the prices barely cover the operating costs and with no financial reserves for the replacement of assets. Venezuela had the best machinery park in the region. Nowadays, has an obsolete stock aged 20 to 25 years.

In order to increase the market competitiveness, several aspects related to machinery must be strengthened: the long-term financing for the ac-

Chart 2.1:
Venezuelan Machinery Sector Imports



Source: <http://trade.nosis.com/es>

quisition of machinery, tax incentives for the incorporation of assets, investment to improve service inbond for spares deposits, opening of the rental market, greater participation in the development of official investment plans to ensure continuity of the works and thus to renew the industrial park.



PART III

ACTIVITIES OF THE MACHINERY SECTOR IN VENEZUELA

Dynamic of the machinery market in Venezuela

Venezuela represents an attractive market for sale, distribution and rental of machinery, due to the potential of agricultural, steel, construction and mining sectors.

I. Behavior of machinery activity in the agricultural sector

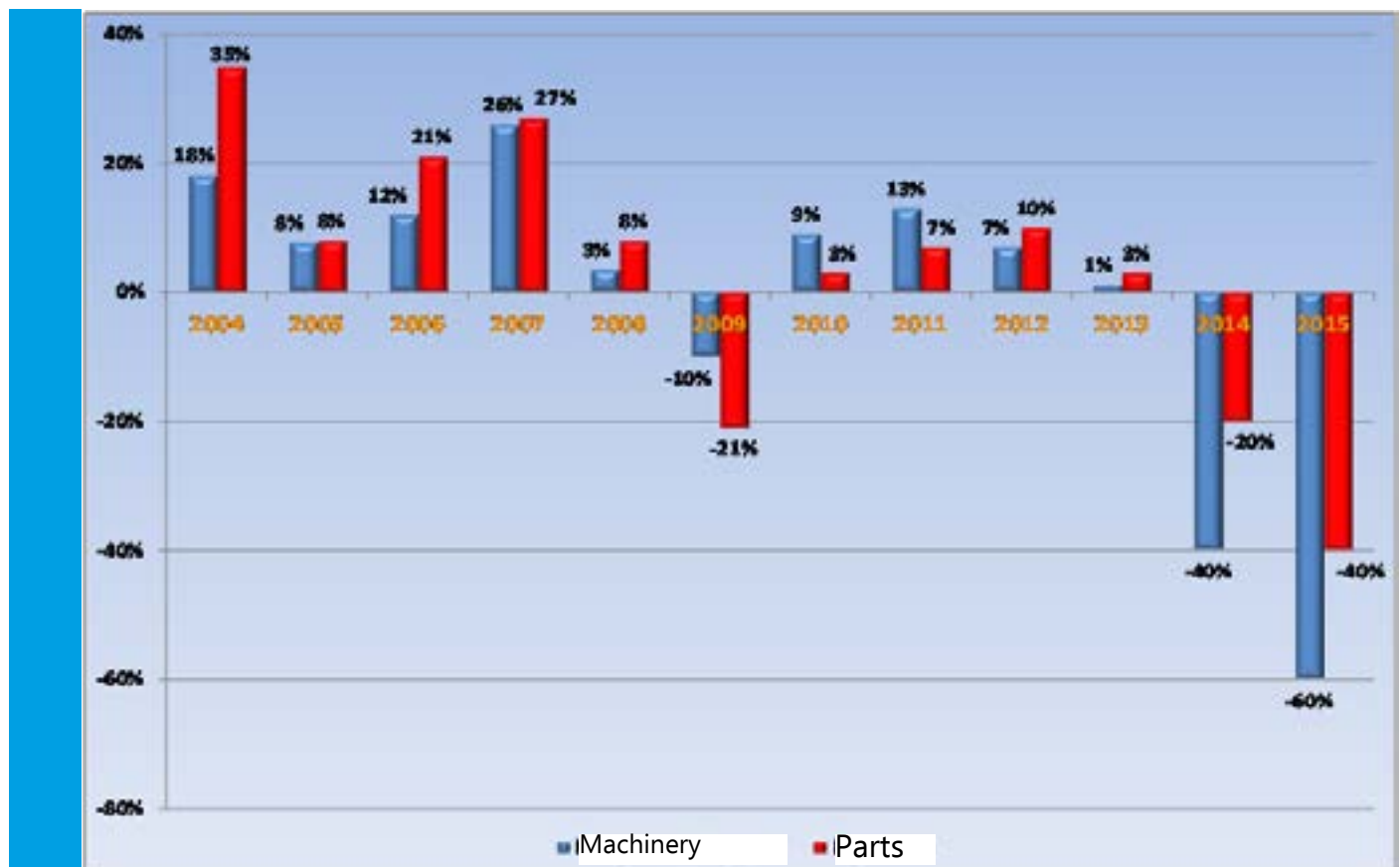
The market is divided into machinery / equipment and spare parts. Between years 2010 - 2013 was experienced an average rate of 7.5% for machinery and equipment, while the average rate for replacement stood was 5% higher than (-10%) and (-21%) for the year 2009 respectively, but with much lower levels compared to the period 2004-2008 with an average level of 13.43% and 19.66%, respectively.

Moreover, the period 2014 -2015 generated a sharp drop in relation with previous years, with an average rate for machinery (-50%) and equipment (-30%). This is expressed in a sharp contraction in supply due to currency restrictions and the suspension of the binational assembly plant Veniran Tractor C.A.

Industry sales have experienced a similar behavior. For the period 2010 - 2013 an average rate of 7.5% for machinery / equipment and 5.75% in the sale of spare parts was registered. But, in 2014 is presented a drop of (-40%) and (-20%), respectively.

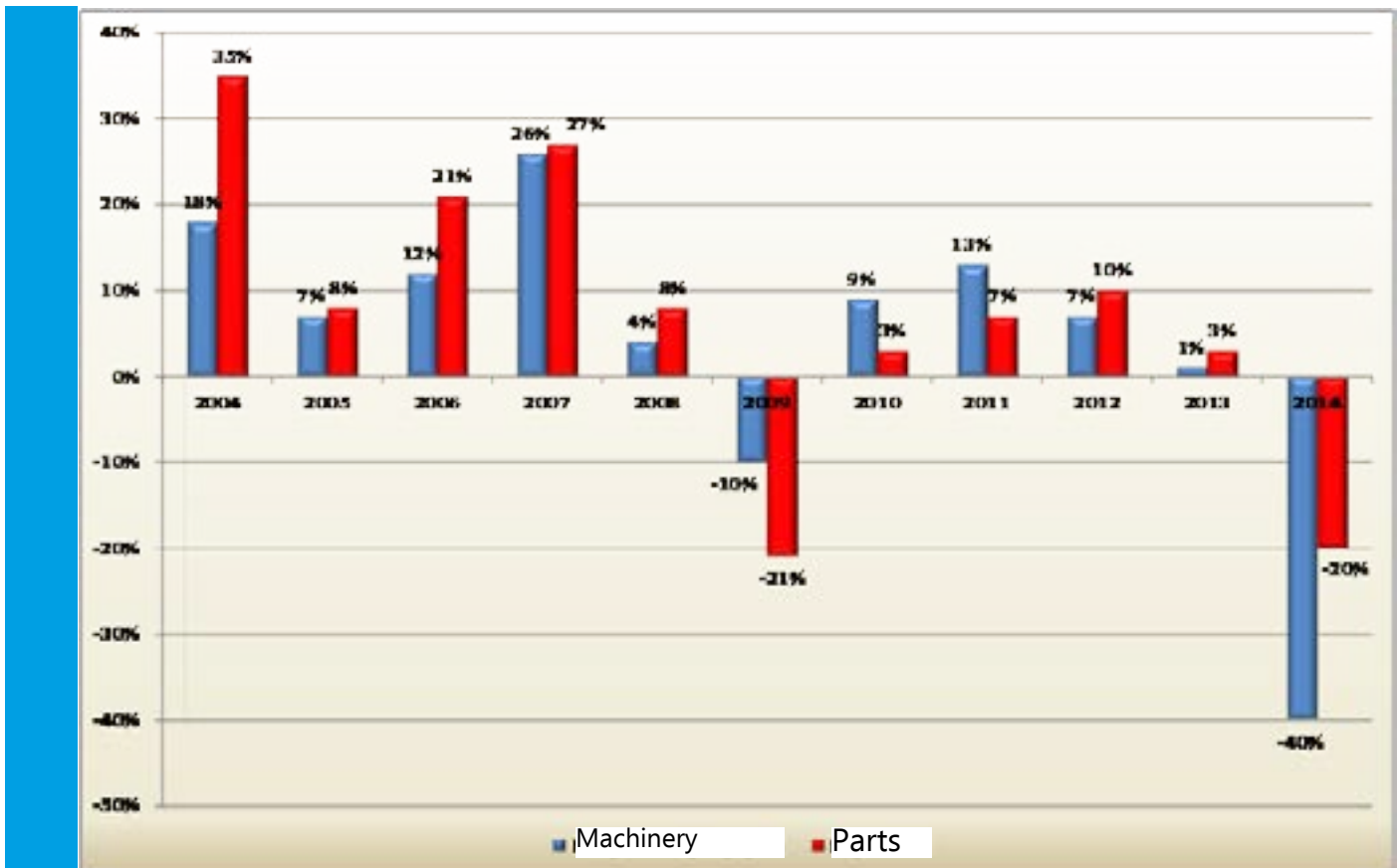
In relation to the agricultural machinery park, it is mainly composed of three types of equipment: tractors, harvesters and seeders with 25,000, 2,800 and 5,000 units, respectively.

Chart 3.1:
Behaviour of agricultural machinery sector



Source: <http://cavedrepa.org/estadisticas-y-temas/estadisticas/sector-1996-2015>

Chart 3.2:
Machinery sales in the agricultural sector



Source: <http://cavedrepa.org/estadisticas-y-temas/estadisticas/sectore-1996-2015>

II. Behavior of the Machinery activity in the Construction sector

The construction machinery sector is characterized by a high degree of volatility in the rate of percentage change. The period 2009 – 2010, noted a contraction of (-30%) with a negative peak (-46%) for machinery and equipment and (-18.5%) for spare parts. The next three years, presented an average increase of 7.6% for machinery and equipment and 5% for spare parts.

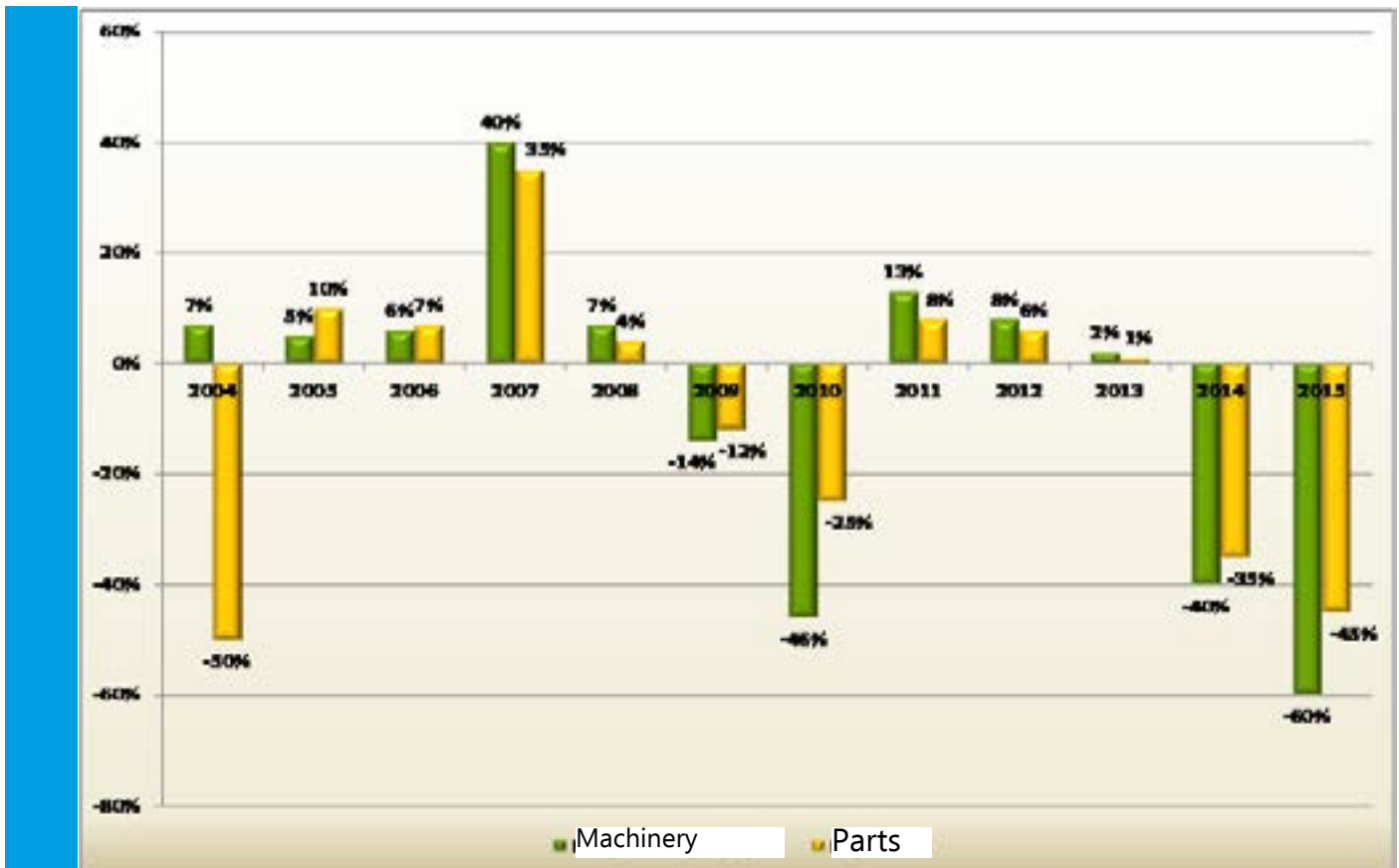
Then, for the period 2014 – 2015, the sector experienced again a drop at (-50%) with a peak (-60%) for machinery and equipment and (-40%) for spare parts.

The percentage of sales registered a fall in the last two years, due to the drop in demand, either by the restrictions imposed on the private sector via foreign exchange settlement and fall of construction projects due to lack of raw materials.

The period 2009 – 2010, observed a contraction of about (-30%) with a negative peak (-46%) for

machinery and equipment and (-18.5%) for spare. Then, in 2011 an increase is perceived: 59% for machinery and equipment and 33% for spare parts and an average sales of 7.6% and 5%, respectively that is maintained until 2013. Subsequently, there was a drop in sales for the year 2014 (-42%) for machinery and equipment and (-36%) for spare parts

Chart 3.3:
Machinery sales in the construction sector



Source: <http://cavedrepa.org/estadisticas-y-temas/estadisticas/sector-1996-2015>

Chart 3.4:
Machinery sale in the construction sector



Source: <http://cavedrepa.org/estadisticas-y-temas/estadisticas/ventas-por-sector-1996-2014>

Venezuelan market trends

- The Venezuelan State is the main investor and buyer of heavy machinery, because it maintains a monopoly over strategic sectors such as steel, mining and through Misión Vivienda maintains a hold on the demand for cement and steel, and raw materials needed for construction projects.
- Private specialized companies in the field of machinery, equipment and spare parts imports, are considered SMEs by the size of capital that shapes them.

Machinery market junctures in Venezuela: year 2016

High levels of scarcity

The Venezuelan Chamber of Distributors of Spare Parts, Heavy and Agricultural Equipment (Cavedrepa, by its acronym in Spanish) ensures that there is a deficit of 60% in the supply of spare parts. In consequence, a group of tractors stay stopped in the field. This situation has led to the paralysis of agricultural work in Venezuela, resulting in the decline of domestic production. The most limited supplies are filters, industrial tyres and batteries, as well as the shafts using by charge carriers. The trouble for getting parts have increased compared to 2015, because in the last five months the sector has not received more foreign currencies.

I. High dependence on imports

In broad terms, the GDP per capita, grew by 12% points between 1998 and 2012, but private and government consumption in per capita terms did it in the order of 50% and 56%, respectively. Adding the increase in investment in capital goods, face to the low growth GDP per capita, that gap had to be closed with imports increasing per capita, whose value in real terms (real dollars using as deflator the CPI US, at 1997 prices) grew on time between 1998 and 2012 at 92.4%, dependence remains in 2016.

II. Great decapitalisation

The IMF maintains its forecast on the Venezuelan

economy, with a calculated drop in 8 points of GDP for 2016, which must be added to the fall of 7-points of the indicator in 2015. The collapse is seen in critical dimensions in electricity, roads, infrastructure of health and education services and the loss of manufacturing, agribusiness and commercial companies, all impacting on the divestment of capital goods.

Legal aspects of the machinery sector in Venezuela

Article 305: "The State shall promote sustainable agriculture as the strategic basis for overall rural development to ensure food security of the population; defined as the sufficient and stable availability of food within the national sphere and timely and permanent access to them by public consumer (...) To this end, the State shall promulgate financial, trade order, technology transfer, tenure land, infrastructure, manpower training and others that may be necessary to achieve strategic levels of self-sufficiency. It shall promote actions within the framework of national and international economy to offset own disadvantages of farming."

Article 308: "The State shall protect and promote small and medium enterprises, cooperatives, savings banks, as well as family businesses, small businesses and any other form of community association of work, saving and consumption under collective ownership in order to strengthen the country's economic development, based on the popular initiative. Moreover, the State shall ensure training, technical assistance and appropriate financing."

On the other hand, by Decree No. 694 imports of capital goods are exempted from payment of Value Added Tax (VAT) and applies only the rate of 2% or 0% ad valorem, as appropriate, to permanent imports. The decree published in the Official Gazette No. 40.337, dated January 20th, 2014, provides that this tax incentive also applies to parts and accessories of this type, not produced or insufficiently produced in the country, and for first use.

In relation to foreign investment, Article 301 of the Constitution establishes that the State reserves the use of trade policy to protect the activities of public and private national companies. It

is not allowed to foreign individuals, companies or organizations, regimes more advantageous than those established for nationals. Foreign investment is regulated by the same conditions as domestic investment.

part of the heritage of subjects receiving foreign investment in the country. These contributions may be:

- a) Financial investment in currency and / or any other medium of exchange or compensation established within the framework of the Latin American and Caribbean integration.
- b) Physical or tangible capital assets as industrial plants, new or reconditioned machinery, new or reconditioned industrial equipment, raw material and intermediate products forming part of the production process of the subject receiving the investment.

National Government Strategy in 2016

I. Plan de la Patria (Homeland Plan) (2013 – 2019)

The strategy of National Government to develop the machinery sector is raised in the Second Socialist Plan for Economic and Social Development of the Nation, 2013-2019.

In this sector the main objective is the creation of so-called Fábricas Madre (Mother Factories), which are large centers where will be built capital goods needed for industrial production. It is contemplated in the overall objective 3.2.4.4: "Develop the design, materials development, process engineering for the production of capital goods and Mother Factories (factories of factories).

Framed in this overall objective are established two strategic objectives. First objective: 3.2.5.17. projects the consolidation, extension and development of projects in the sector of machinery and equipment such as: a) factories of heavy machinery for construction; b) plants for food processing equipment; c) factories of industrial refrigeration equipment.

The second strategic objective within the over-

riding objective is the creation of Mother Factories (objective 3.2.5.21.), which establishes the development of industrial capacities to build machinery, equipment and infrastructure in the country and the region. Support development of agribusiness. Agricultural equipment and food concentrates.

In this sense, the development of Mother factories to manufacture capital goods (machinery, equipment, spare parts) must be coordinated with the development of different productive sectors, as expressed in the Strategic Objective 3.2.5: "Develop, strengthen and promote productive links in the national industry projects identified as priority areas such as automotive, home appliances, building materials, transformation.

"The machinery sector also should be articulated with petrochemicals. According to the Strategic Objective 3.2.1.2: "Develop primary production and build strategic axes in the petrochemical chemistry and associated chains of products; as the basis of industrialization in the generation of intermediate and final consumption goods; while the associated machine industry for such purposes."

The strategic objective 3.2.1.4. associates Mother factories of machinery to industrialize the construction sector to meet housing development, buildings, urban equipment and infrastructure through the development of equipment and construction machinery; modernization and industrialization of building systems, among others.

Also, in general, objectives 3.2.5.2. and 3.2.5.6 propose to create industrial links between Mother factories of capital goods with iron-steel and aluminum sectors.

II. The engines of the productive economy

These projects rather than a strategy are short-term measures to tackle the economic crisis affecting the Venezuelan economic system. In total, there are 14 engines and were raised under the economic emergency decree, which, at first must be activated within 60 days, passing the time set by the Supreme Court (TSJ, by its acronym in Spanish) it is extended by 60 days more

until the deadline for the formation of these engines.

The Government has formed working groups between different public institutions and economic sectors, but it is noteworthy that the Venezuelan Chamber of Spare Parts, Heavy and Agricultural Equipment (CAVEDEPRA, by is acronym in Spanish) was not called to the installation of these working tables for the activation of the engines.

Therefore, the sector of machinery and other capital goods is not represented in these working groups. This sector is essential for the consolidation of five engines in particular: third engine: agricultural and food, fourth engine: mining, sixth engine construction and ninth engine: industrial, but it is not expected a response in the immediate future for appropriate incorporation.

III. Obstacles to management

- Predominance of social policy on economic policy: There is an ideological preference by the Executive for social spending that implementing a pragmatic policy to promote economic development, which has increased the fiscal deficit, inflation and shortage of goods, rather than direct resources to build Mother factories of capi-

tal goods and their proper articulation with other economic sectors.

- Decapitalization: Due to falling of oil prices the margin of project implementation has shrunk dramatically. Added to this, the lack of confidence of international creditors with the Venezuelan government, due to missed payments, has hampered access to credit lines, necessary for the development of industrialization projects and to avoid potential financial mismatches.

- Small time gaps: to revive economic sectors and especially machinery, construction and agriculture industry need higher times rank, in order to perform feasibility studies of project, the seeking of financial resources, to define logistics chain and implementation of policies.

- Disruption between the Plan de la Patria and engines: Production chains of Mother Factories of capital goods projected in the Second Socialist Plan for Economic and Social Development of the Nation, 2013 - 2019 is not working and do not have the expected installed capacity. Neither, explain how projects of these companies are linked with the engines of economic production.

PART IV

OPPORTUNITIES FOR INDIAN COMPANIES IN MACHINERY SECTOR IN VENEZUELA

Possible areas of Interest for the Republic of India

In Venezuela, the basis to invest for the production of capital goods (machinery, equipment, spare parts) is diverse, but mostly focused on: imported goods and some productive partnerships that can be carried out.

1. Import of spare parts and finished products.

List of machinery for construction with the highest demand in Venezuela

N°	Machine	Picture	N°	Machine	Picture
1	Crawler Tractors		15	Asphalt Compaction Equipment	
2	Excavators		16	Asphalt machine	
3	Retro-excavators		17	Sweepers	
4	Loaders Camiles		18	Concrete Plants	

N°	Machine	Picture	N°	Machine	Picture
5	Loaders		19	Concrete Pumps	
6	Compaction Equipment		20	Mixer	
7	Grader		21	Vibrators, Vagues and Mortar Launchers	
8	Moto scrapers		22	Cranes and Dragas	
9	Compressors		23	Winches and Welders	
10	Concrete Breakers		24	Equipment Deep Foundations	
11	Crushers		25	Water Pumps	
12	Asphalt Plants		26	Generator	
13	Planer Pavement		27	Dump trucks	
14	Pavers		28	Drilling Equipment	

List of agricultural machinery with the highest demand in Venezuela

N°	Machine	Picture	N°	Machine	Picture
1	Tractor		7	Rake Machine	
2	Combine harvester		8	Sheller	
3	Cutter		9	Cutter Machine	
4	Fertilizer machine		10	Packing Machine	
5	Fumigation Machine		11	Rotavator	
6	Seeder		12	Reaper	

Clearly, possibilities of investment must be associated to this list of products. But, a specialized approach should be the pointed to start any concrete action. For that purpose, strategic alliances can be done with specialized institutions, such as the Venezuelan Chamber of Distributors of Spare Parts, Heavy and Agricultural Machinery (CAVEDREPA).

2. Development of new production lines of Machinery.

Through bilateral dialogue between the Embassy of the Republic of India and the government of Venezuela joint investment can be promoted in Mother factories of capital goods by the figure of joint venture, where foreign companies eligible for a stake of up to 49% of the share capital.

Thus, link those factories with different economic sectors or propose the possibility of integrating the engines of the productive economy driven by the Venezuelan State.

3. Investment in mining machinery for mining Arc project

Due to high oil prices in the international market in the last 10 years, the national government had minimum investment in the mining sector, resulting in thundering falls in production. But the new economic environment with falling oil prices at an average of US\$ 24.33 so far in 2016, the official view has turned this sector with high potential and old records of high production.

Mining sector, according to figures from the Central Bank of Venezuela (BCV), has seen a sharp decline in the last four years. The latest figures published on the agency website show that in the third quarter of 2015, the fall of mining was 4.6%.

However, during the second working meeting of the mining engine of the National Council of Productive Economy, installed by the gover-

ment of President Nicolas Maduro, Minister of Petroleum and Mining, EulogiodelPino, said that mining is an important source for the nation, because Venezuela has 48 types of minerals including metallic, non-metallic and strategic. In relation to gold, there are 133 million ounces in reserves, which are allocated 81.4 million ounces to the Venezuelan Mining Corporation (CVM) to form joint ventures with foreign capital, and the rest will be reserved for other projects.

But, despite these agreements on exploration, the Mining Chamber of Venezuela (Camiven, by its acronym in Spanish) states that the best choice for mining development in the short term is the recovery of state company CVG Minerven, located at the south of Bolivar state, with low levels of production of gold in recent years. Because the existing infrastructure is obsolete and Minerven still needs new machinery.

Two ways to invest in the Mining Arc are presented. The first way is through the formation of joint ventures together with the CVM for machinery exploration of mineable resources, which would be a long term project. Second path would be a medium term project consisting in the repowering of the Minerven production machinery.

Final Considerations

Companies in the machinery sector located in Venezuela are mostly engaged on import, sale or rental of those products, but not develop or research. Therefore, there are no incentives for innovation and invention of new machinery, equipment and parts.

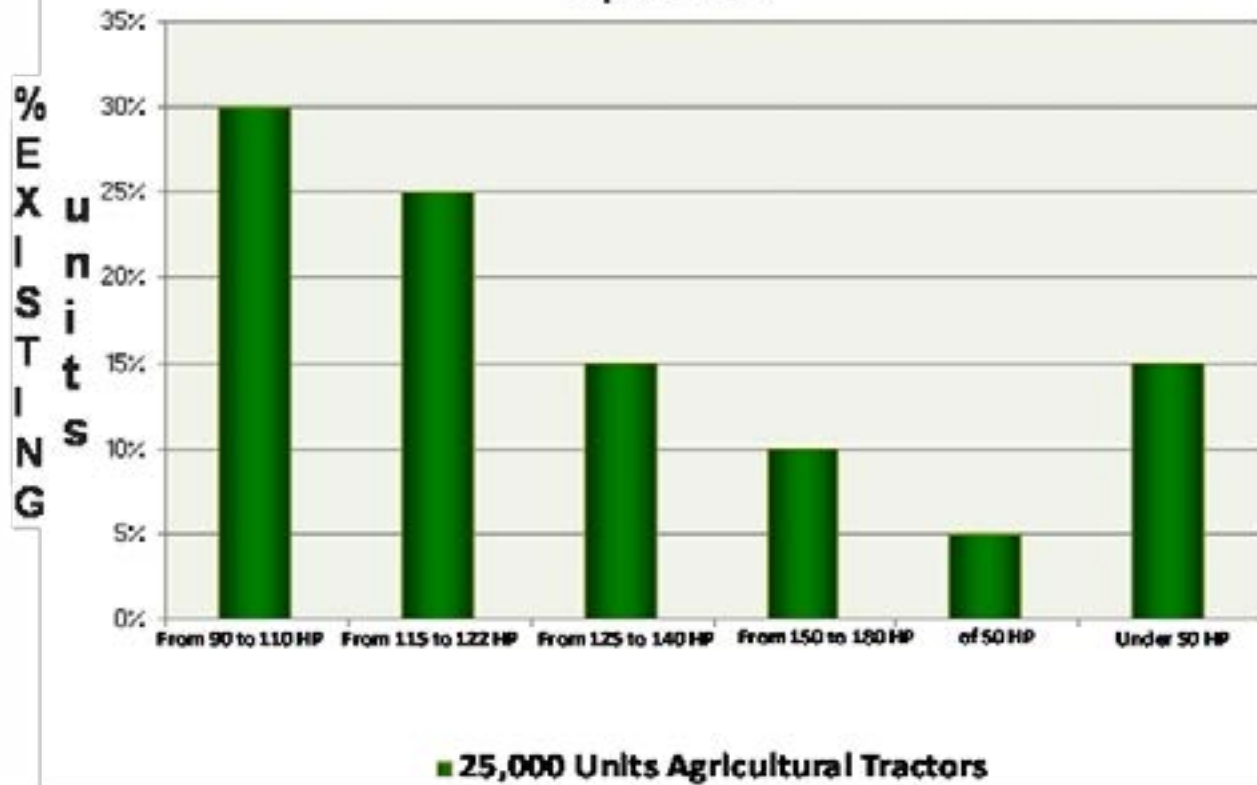
This situation is the result of the lack of investment, the fragile relationship between government and private sector; the lack of articulation with universities and research centers with the private sector and the public sector.

Despite these difficulties, the machinery sector presents great potential within the Venezuelan economy, because by its nature this market is easily susceptible to create productive linkages with other sectors. This is because it is through the capital goods that production in sectors such as manufacturing, construction, agriculture, agro-industry, metallurgical, mining, petrochemical is encouraged.

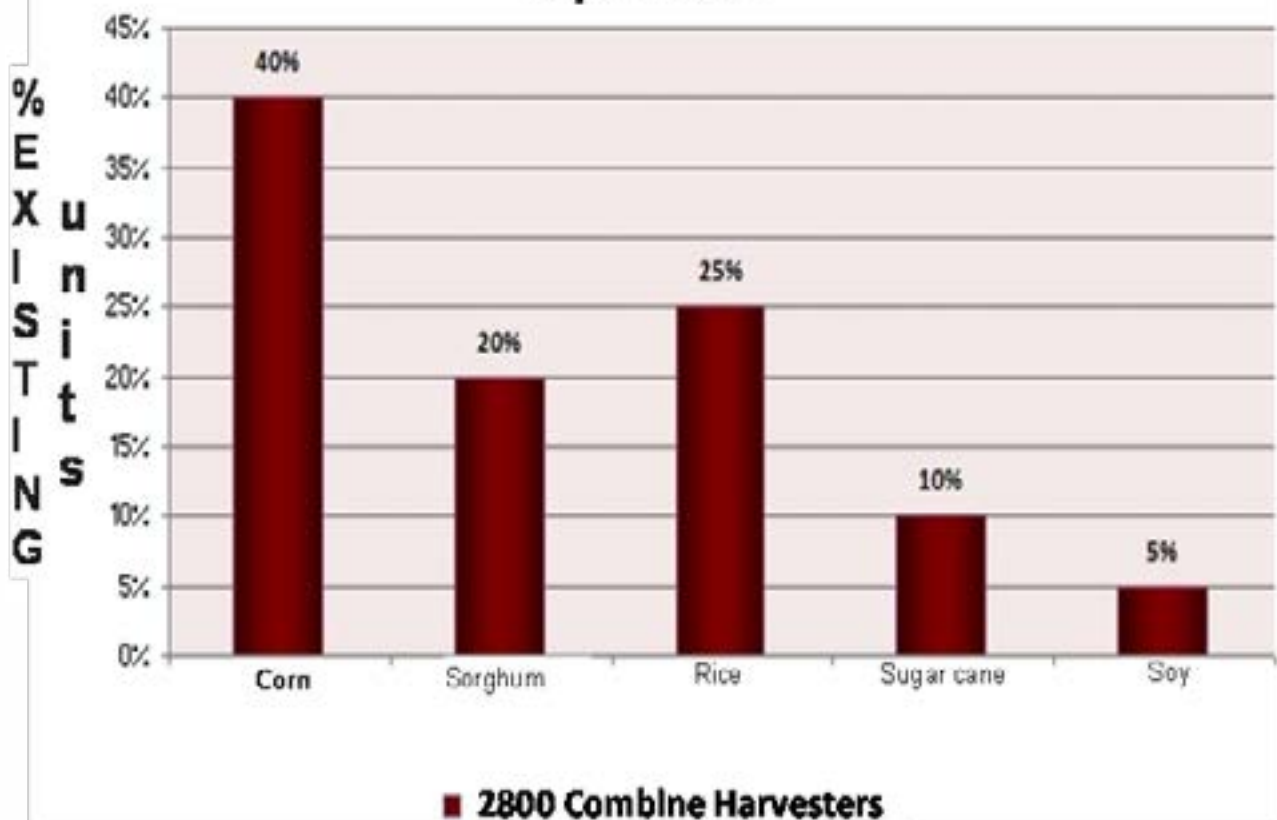
Therefore, this potential mitigates the risks of investment. In addition, there is no national competition in the production of these products. For that reason, the rate of return on investment is more attractive than other economies in the region.

ANNEXES

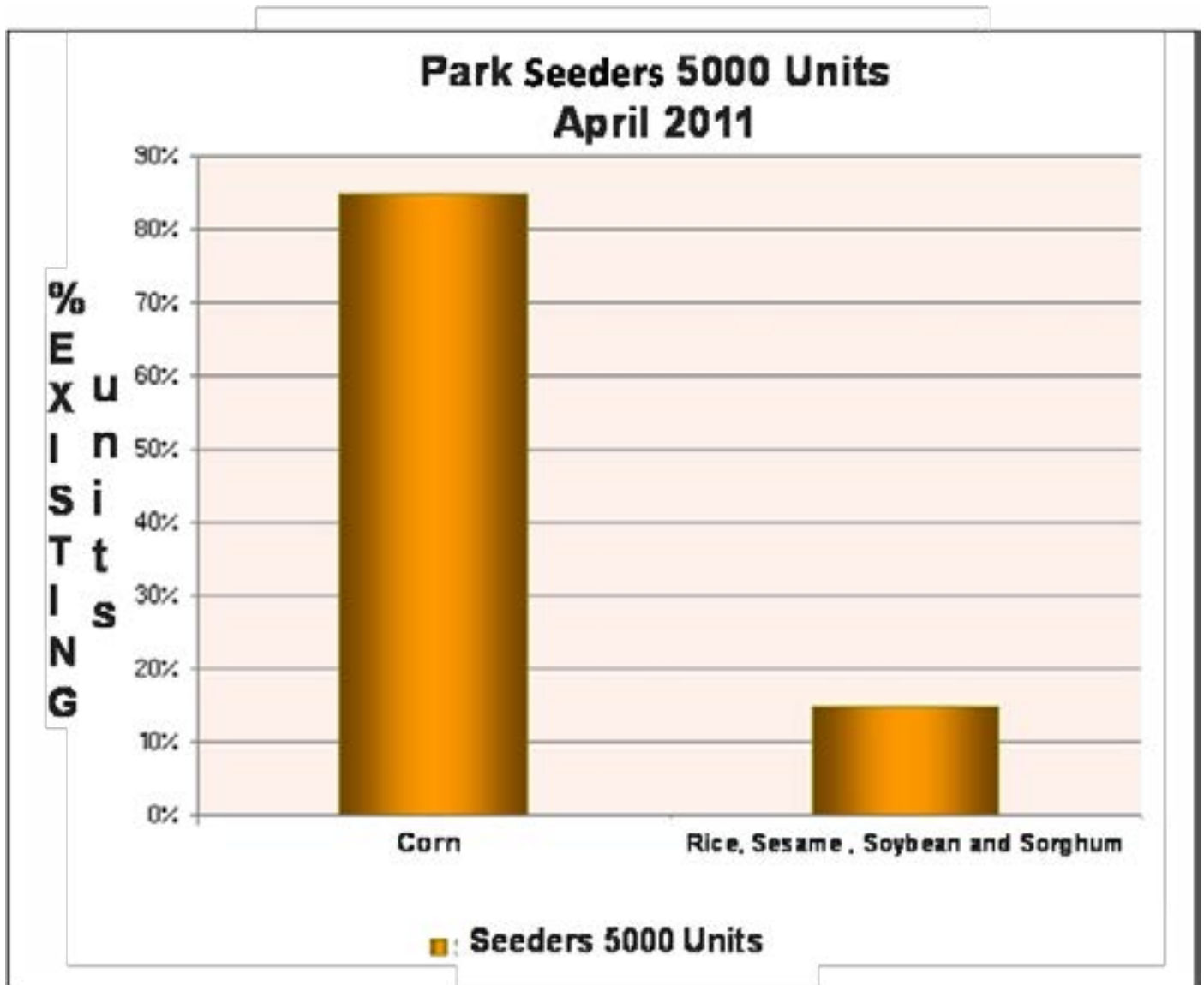
Park Farm Tractors 25,000 units April 2011



Park Units Combine harvesters 2800 April 2011



Source: <http://cavedrepa.org/estadisticas-y-temas/estadisticas/margenes-de-comercializacion/19-estadisticas/89-estadisticas-parque-de-maquinarias-agricolas-mes-abril-2011>



Source: <http://cavedrepa.org/estadisticas-y-temas/estadisticas/margenes-de-comercializacion/19-estadisticas/89-estadisticas-parque-de-maquinarias-agricolas-mes-abril-2011>