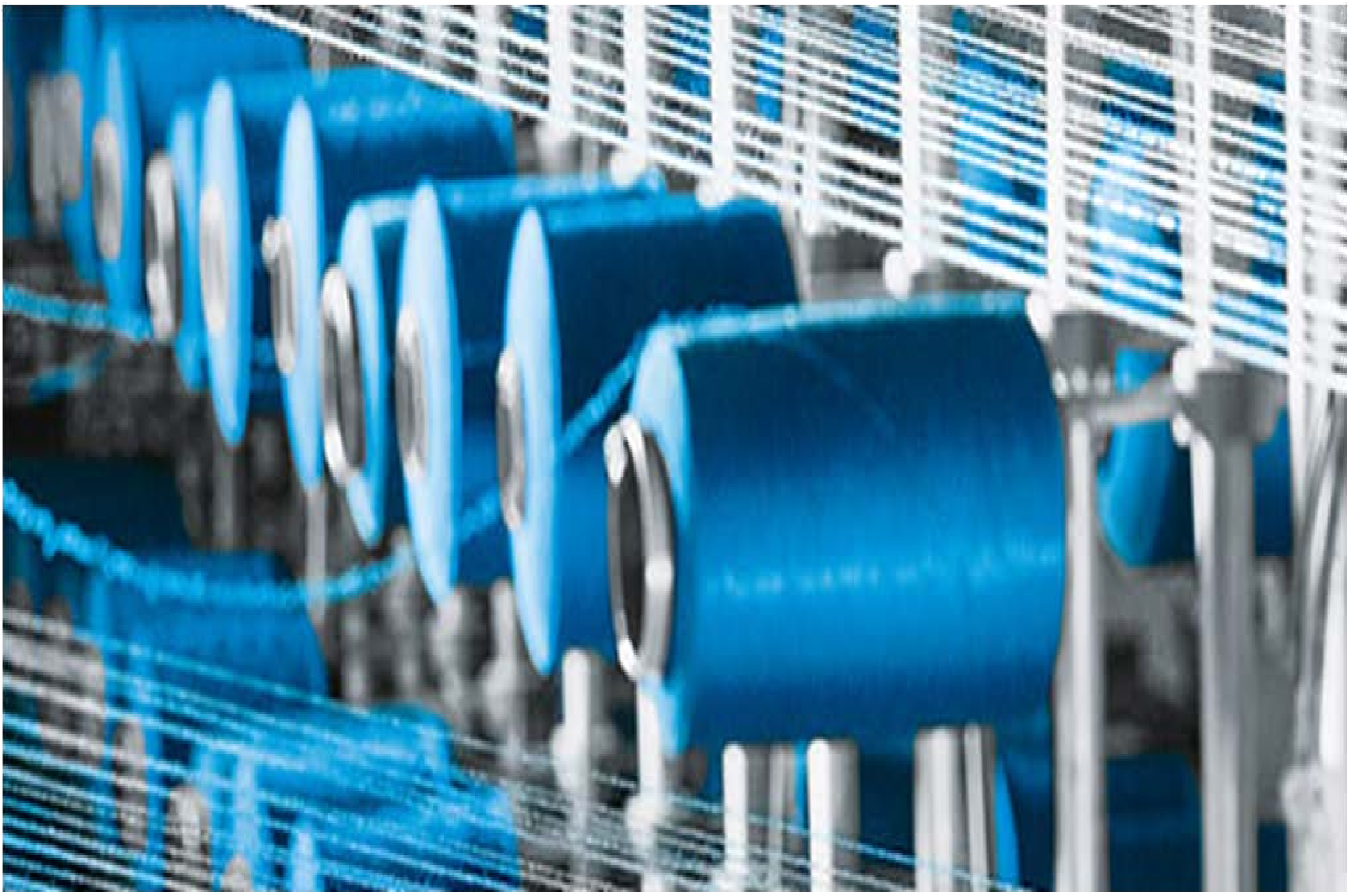
Market Survey

Textiles



Caracas, July, 2016
Bolivarian Republic of Venezuela

AL&C

CONSULTING GROUP

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

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PART I

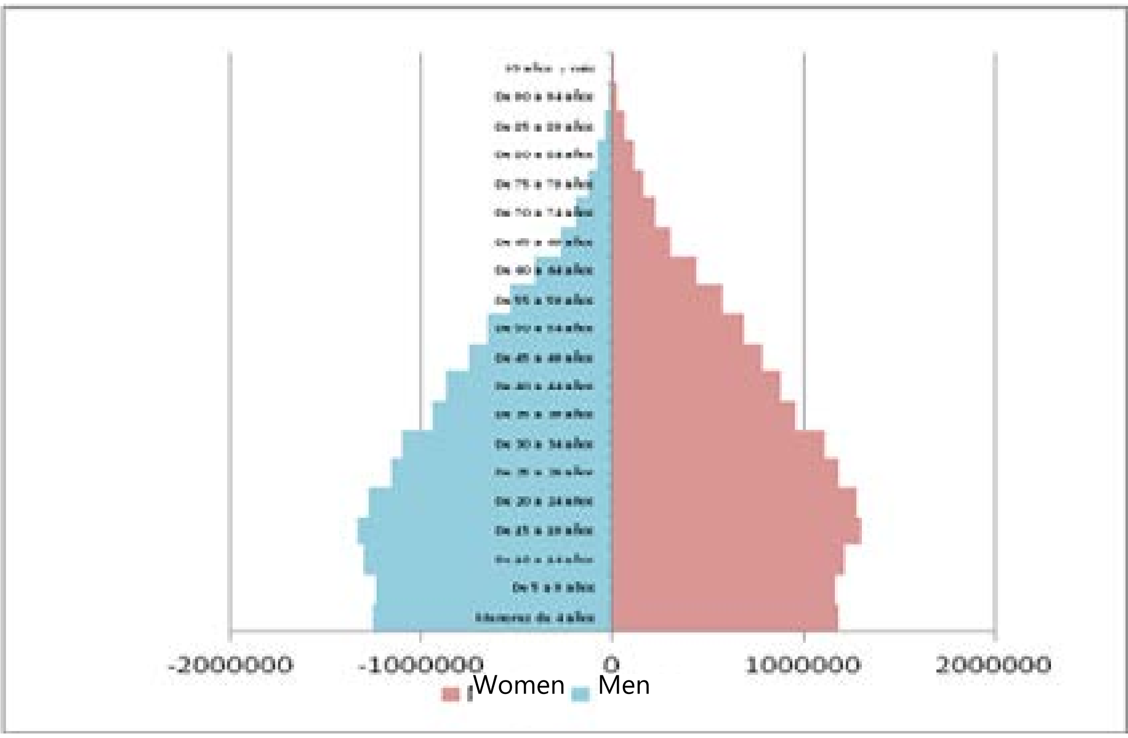
ECONOMIC SITUATION OF THE BOLIVARIAN REPUBLIC OF VENEZUELA

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 206.92 Bs/$1

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 (ajusted 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 economies, 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. Nevertheless, 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 dollar 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 Prieto" 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.

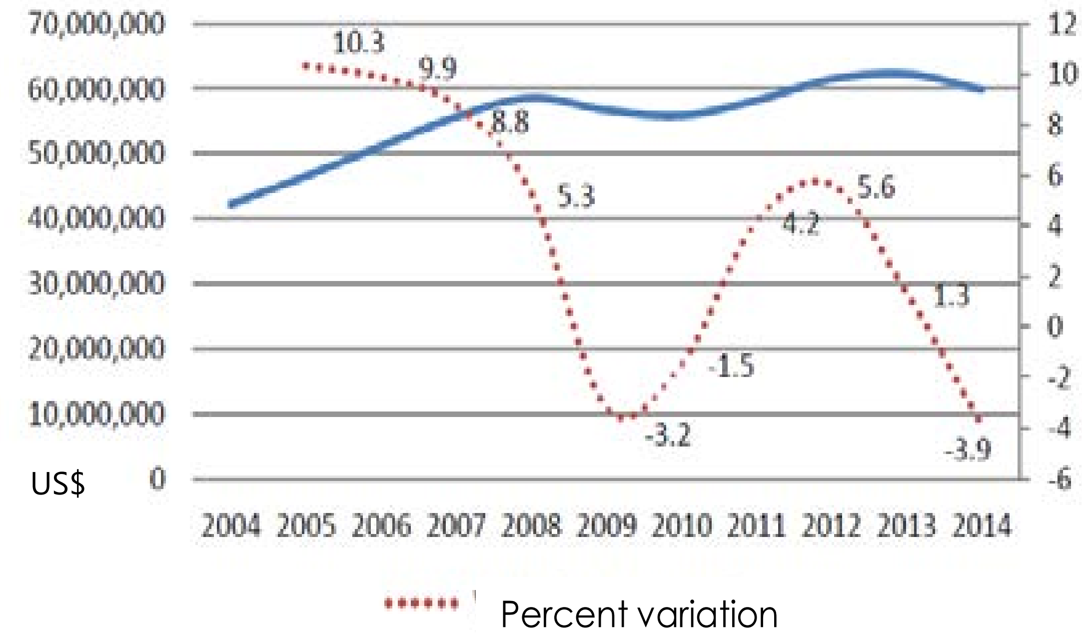
Economic situation in Venezuela

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 Domestic 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

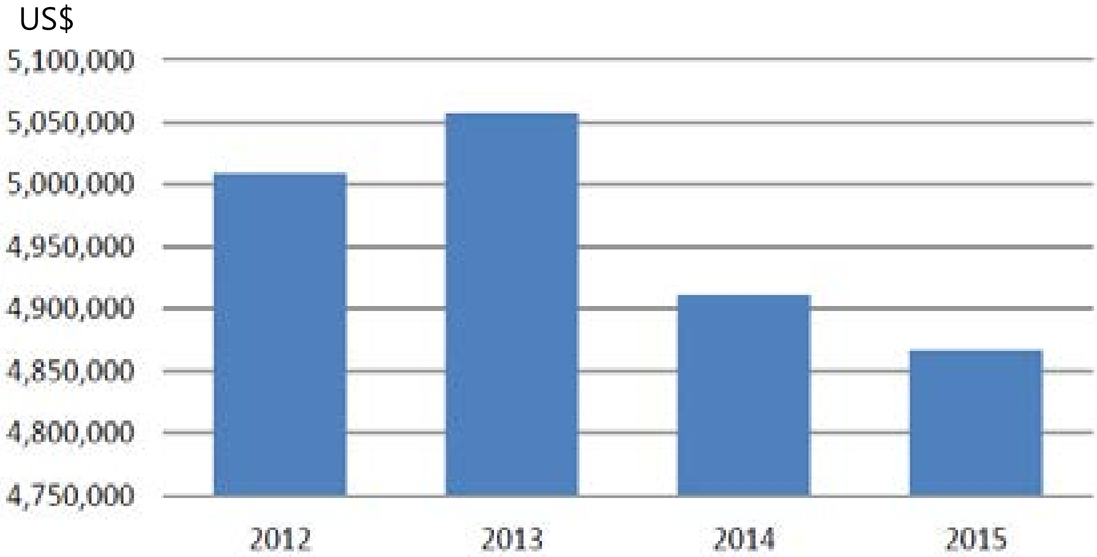
GDP: Constant Prices (US$), 2004-2014



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%.

Chart 1.2

Oil sector production, US$, 2012-2015



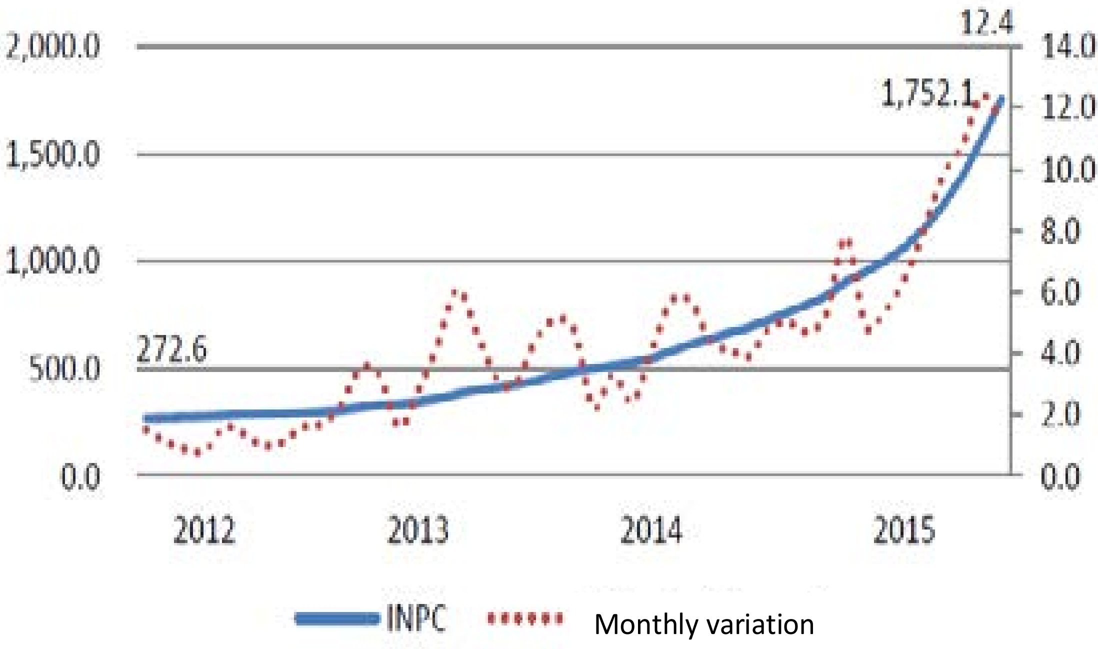
Despite being an oil economy, the contribution of the oil sector is becoming less to the national productive apparatus, representing only 11% of the Gross Domestic Product

(Graphics by AL&C Consulting Group. Source: BCV)

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)

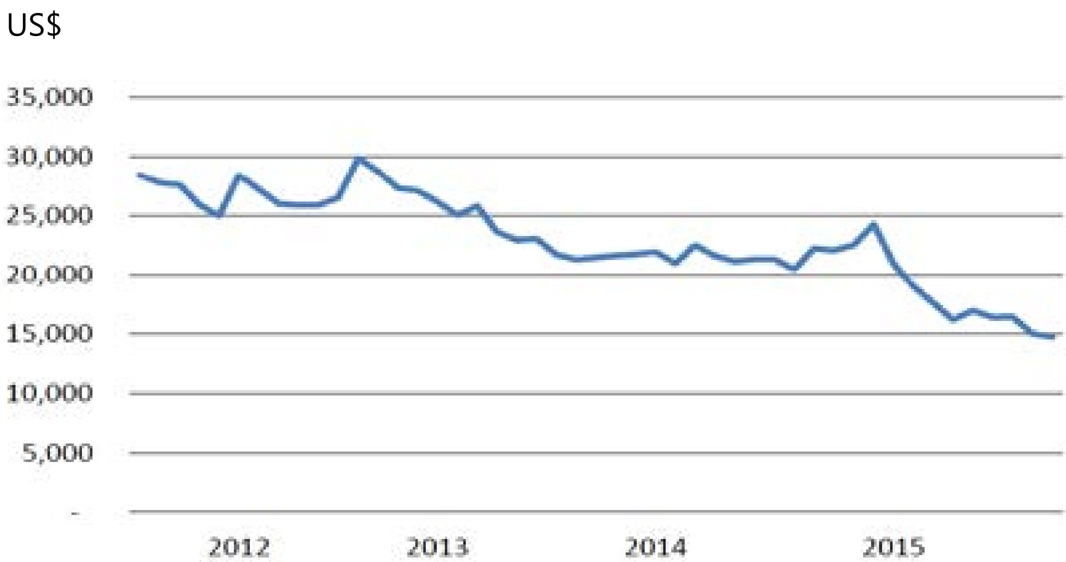
Chart 1.3
Price index, 2012-2015



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

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

Chart 1.4
International Reserves US$, 2012-2015



(Graphics by AL&C Consulting Group. Source: BCV)

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 twenty-one billion in 2011 to eleven and a half billion in 2015. Although public operations regarding monetary gold have not been made.

Chart 1.5

Relation between external debt and International Reserves, 2012-2015

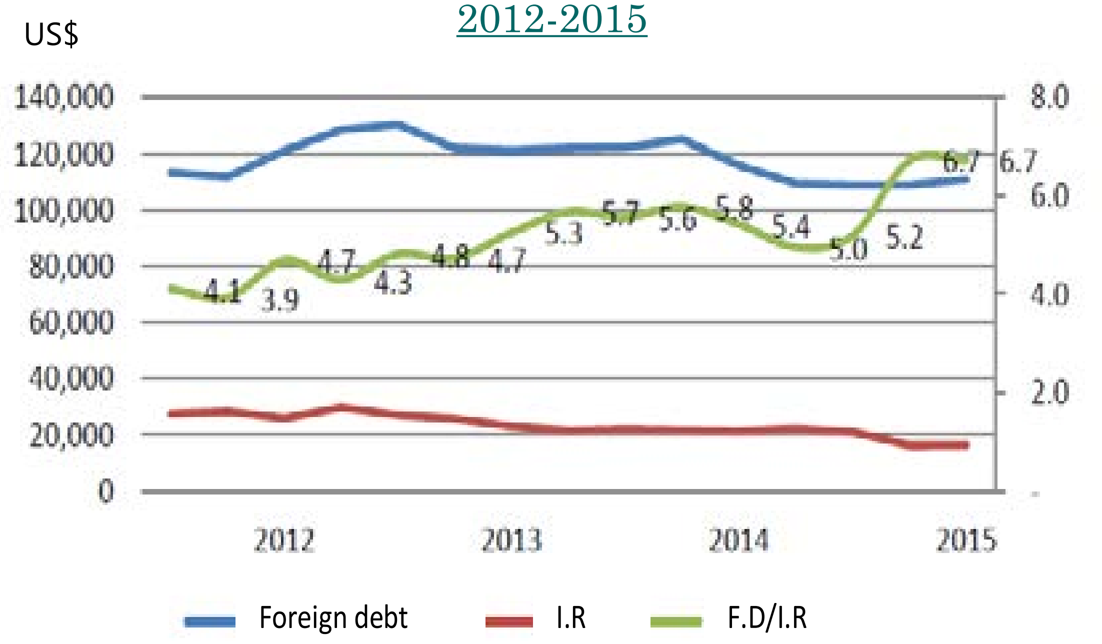
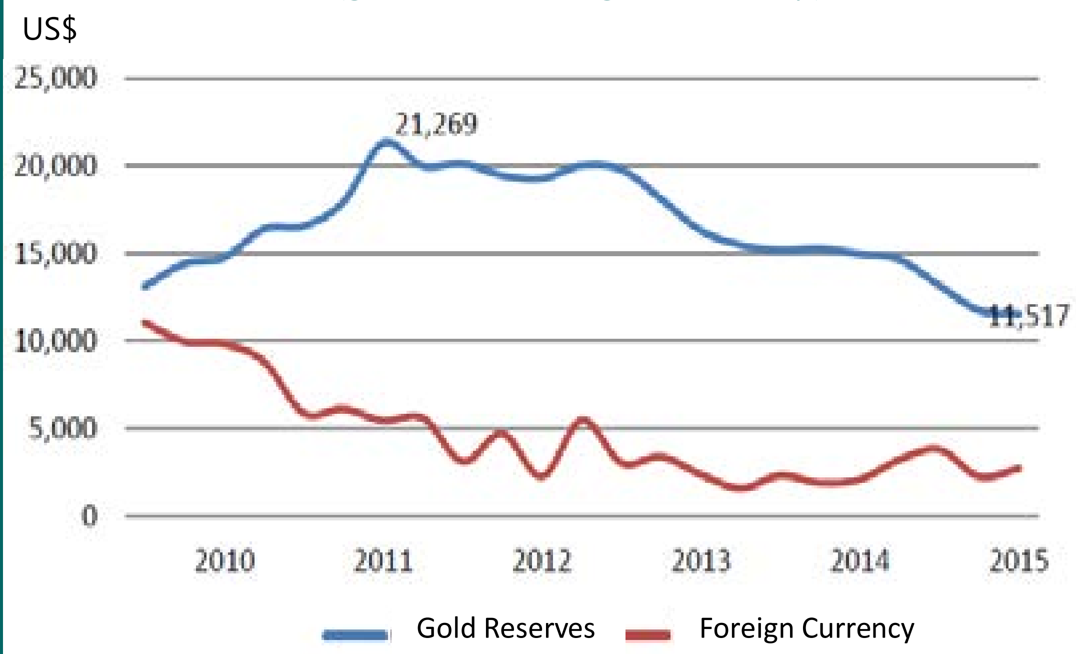


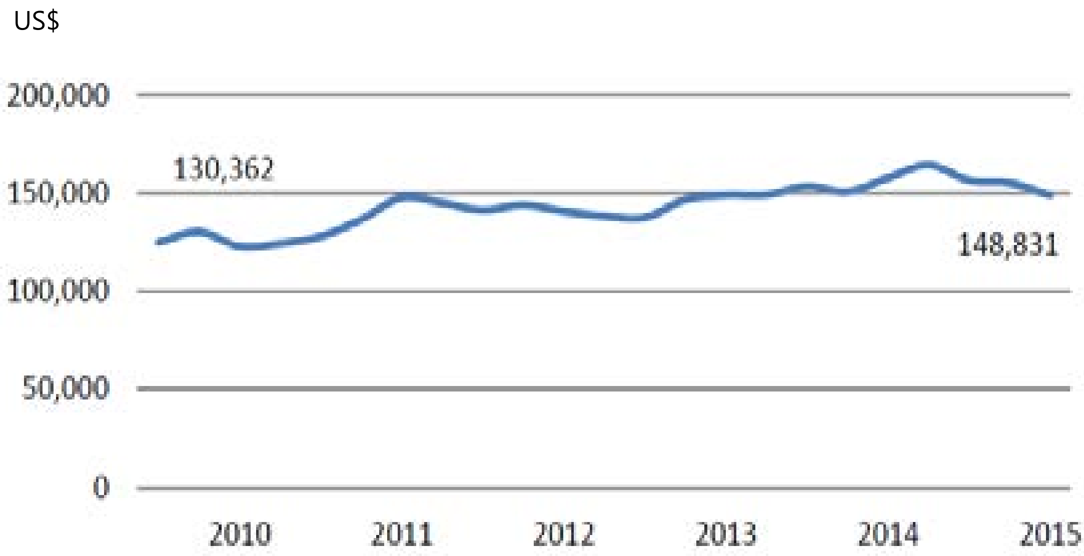
Chart 1.6

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



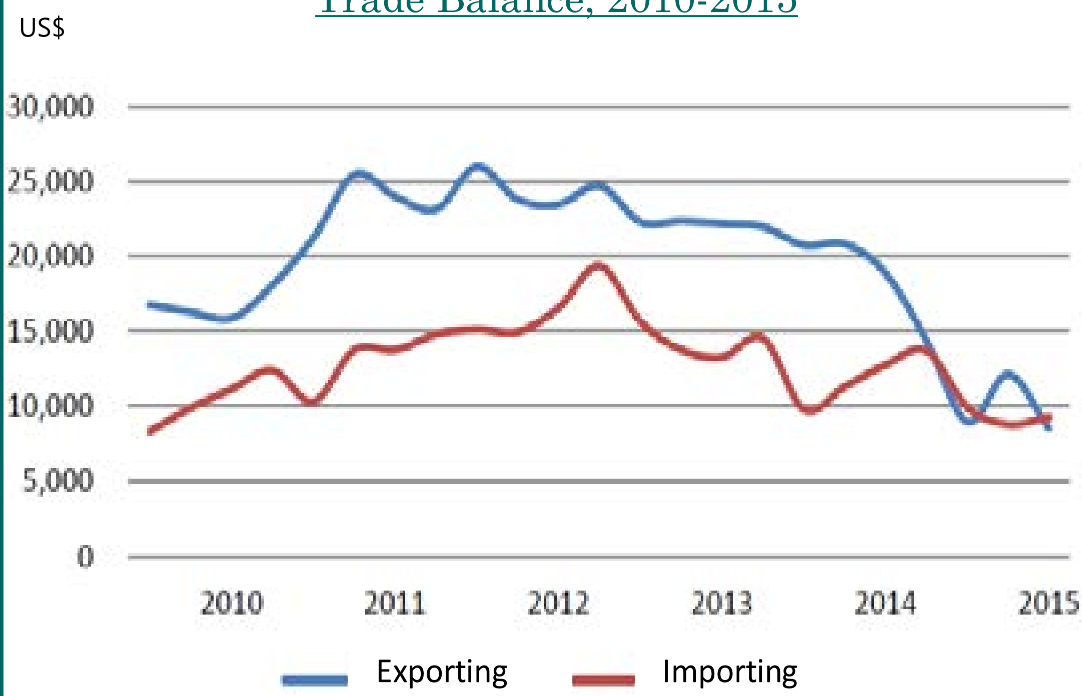
The behavior of the balance of payments remains negative during the last six years, with the characteristic feature of maintaining positive trade balances, but capital outflows exceeding this surplus. By 2015, for the first time in 20 years, quarters are shown with negative trade balance, mainly due to the fall in oil prices.

Chart 1.7
International Investment Balance (US$), 2010-2015



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 1.8
Trade Balance, 2010-2015



PART II

TEXTILE INDUSTRY IN VENEZUELA

Textile market in Venezuela

As in many other sectors, Venezuelan textile market is dependent on imports. Annually, this sector requires about US$ 100 million to import raw material and then, keep operating industry at maximum capacity.

David Fihman, President of the Venezuelan Textile Association (ATV), has indicated that this sector employs directly seven thousand workers, and indirectly more than twenty thousand people. According to ATV, raw material produced by the domestic industry is insufficient. Consequently, this sector becomes highly dependent on authorizations by national Government, through DIPRO (former CADIVI/CENCOEX), to buy the required raw material.

In 2015, taking into account that the textile sector has been highly affected by the lack of foreign currency to pay to international suppliers and the increasing sector debt, forecasts for 2016 were negative. In spite of that till end 2015, there were no records about closure of any textile factory, as occurred in 2014. This indicates that the sector has been active inspite of the lack of foreign currency.

Venezuelan textile sector depends on imports of three big items: cotton, polymers and colorants.

The National Superintendency for the Defense of Social and Economic Rights (SUNDEE) has taken some measures to control that sales are made at "fair price", and setting a margin of gain for producers and importers.

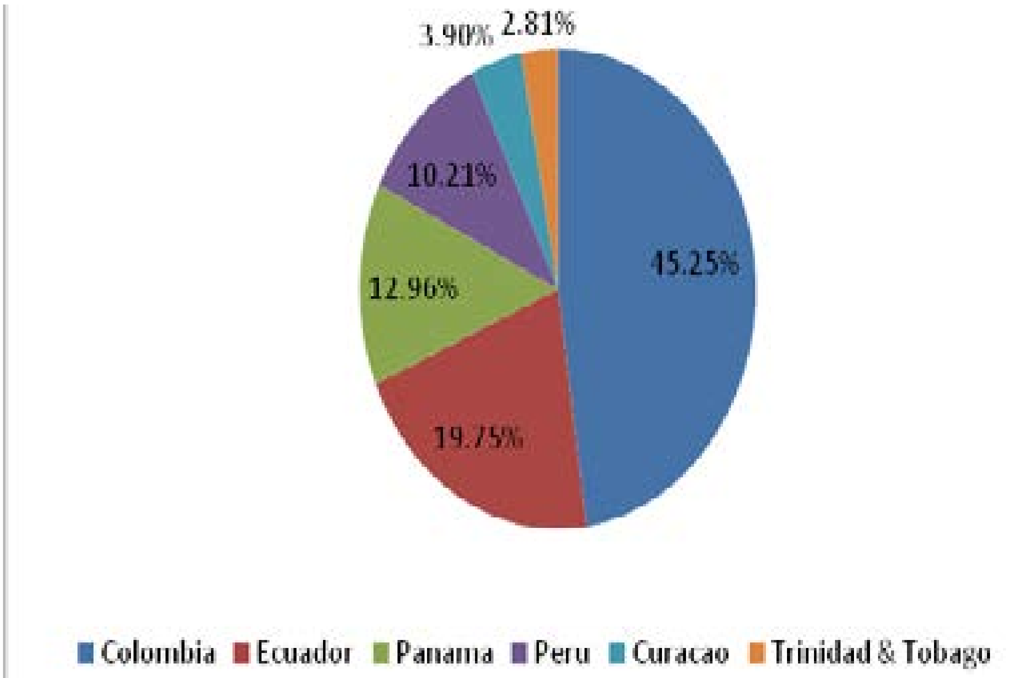
Economic situation in Venezuela has caused stagnation in the textile sector. Producers are required to sell at regulated prices and have little access to foreign currency to satisfy domestic demand.

Fortunately, at national level, this sector is not regulated by any import law. Thus, if economic conditions would improve, Venezuelan strategic location can allow the export of Venezuelan textile products to markets, such as: Ecuador, United States, Haiti and Colombia.

Textile sector has minimum requirements to operate normally, but can offer high-added value products.

Currently, textile sector continues operating and producing, due to proper administration of resources obtained in last years. But the limited access to foreign currency, high levels of inflation and lack of raw material, makes the textile industry face a deterioration process; though it

Chart 2.1:
Major destinations of Venezuelan exports



Source: World Integrated Trade Solution (2013)

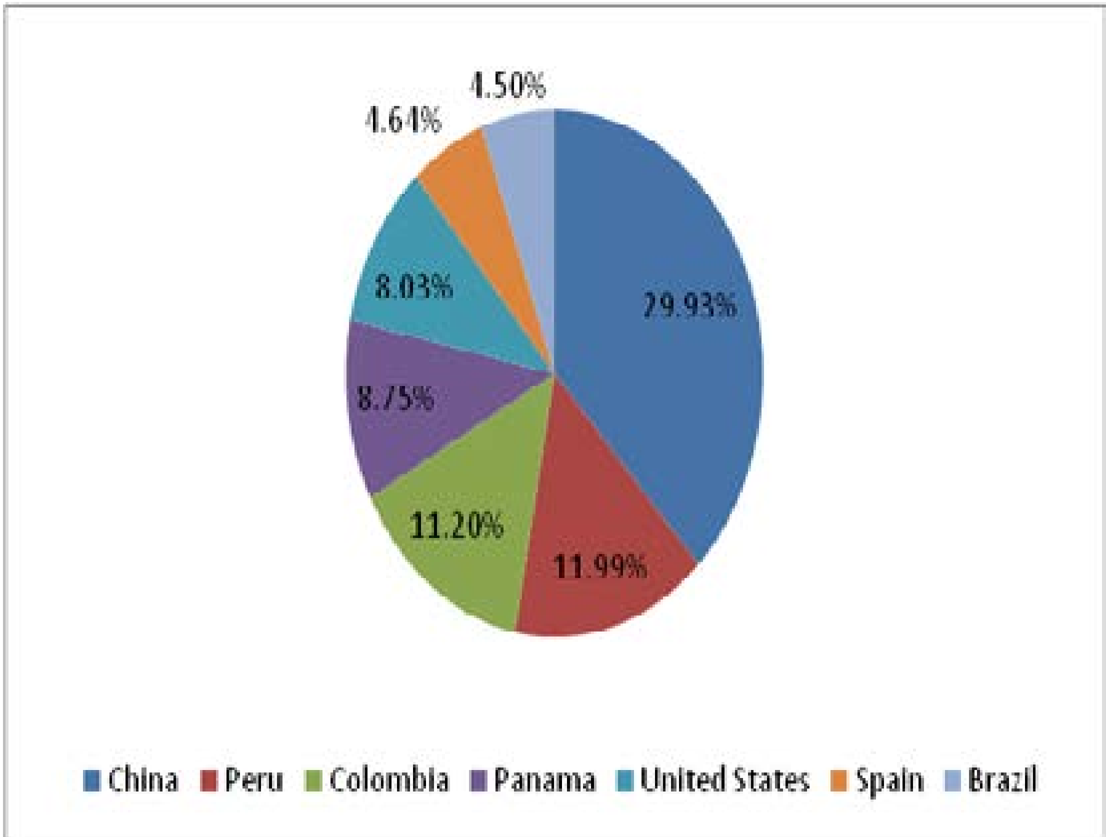
Due to little textile production, Venezuela exports mainly to countries in the American region, where it is easier to transport the products, by land or by sea.

Another reason why Venezuelan products are mainly exported to countries in America is that those countries are traditional partners and they have signed bilateral treaties or have been part of economic integration mechanisms is not yet listed as one of the sectors in critical situation.

The following graph shows the major destinations of Venezuelan exports in 2013. Due to little textile production, Venezuela exports mainly to countries in the American region, where it is easier to transport the products, by land or by sea. Another reason why Venezuelan products are mainly exported to countries in America is that those countries are traditional partners and they have signed bilateral treaties or have been part of economic integration mechanisms such as: the Andean Community of Nations (CAN), Latin American Integration Association (ALADI) and the Caribbean Community (CARICOM).

The above graph shows major countries from where Venezuela imports the textile products. Comparing these figures with those of exports, it is clear that the imports are higher, because Venezuelan textile enterprises do not meet the domestic demand of cotton, polymers and colorants. It also shows that in 2013 China had a major share in comparison to other partners, due to the political and commercial approach between both nations in recent years.

Chart 2.2:
Major origin countries of Venezuelan imports



Source: World Integrated Trade Solution (2013)

PART III

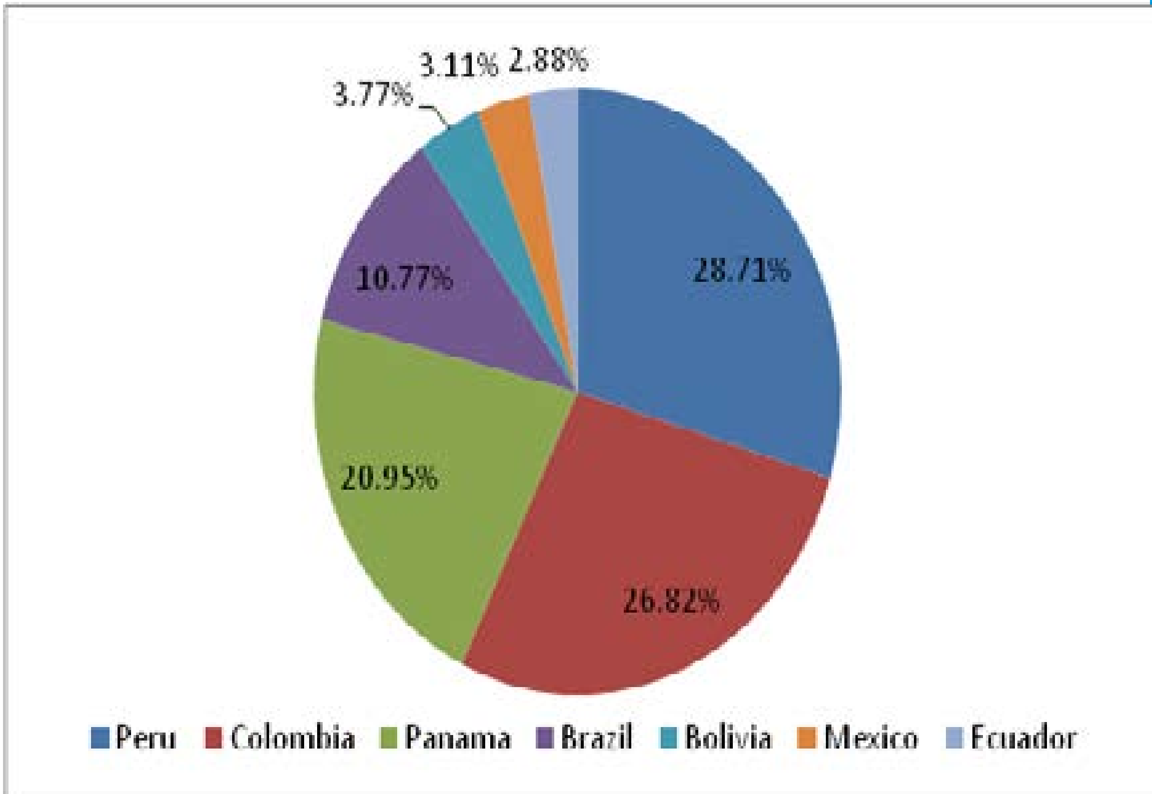
ACTIVITIES OF THE TEXTILE SECTOR IN VENEZUELA

Textile market dynamic in Venezuela

Venezuela is a market with a high potential to sell textile products because it covers a wide spectrum, including textiles for clothing to asphalt mantle in the construction sector. The labor force employed in the textile sector is not so much. There are about 7,000 people employed directly and some 20,000 people indirectly.

The following graph shows the main countries from where Venezuela imports. These are mainly, from Latin American markets, lead by Peru and Colombia.

Chart 3.1:
Major sources of imports in Latin America

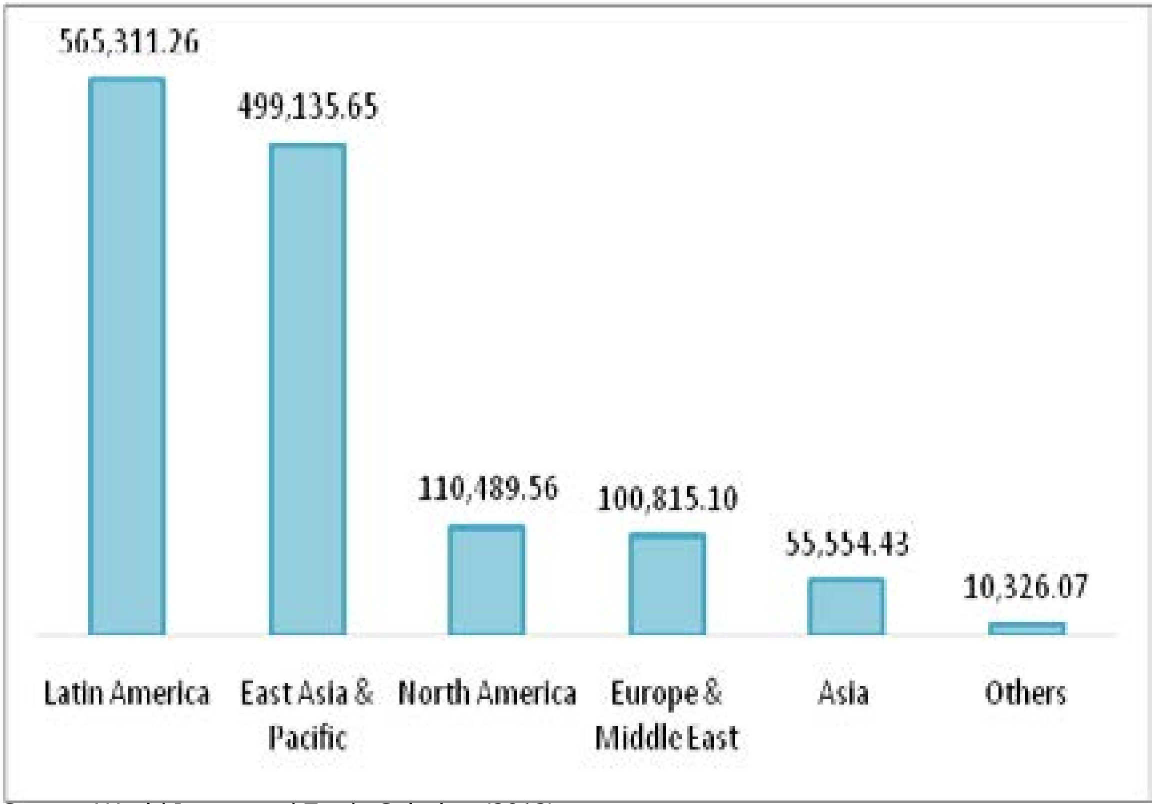


Source: World Integrated Trade Solution (2013)

The major commercial partners of Venezuela at regional level are listed in the chart, and have the following characteristics: 1) they are Venezuela's traditional partners, 2) they are bordering countries, 3) they have more possibilities to distribute products and 4) they have a large textile production capacity.

Peru is the main origin country of imported textile products to Venezuela because it has great competitive advantages in the textile field at regional level and can cover a part of Venezuela's textile demand due to its traditional business relationship and due to some multilateral organisms.

Chart 3.2:
Import distribution per continent (US$)



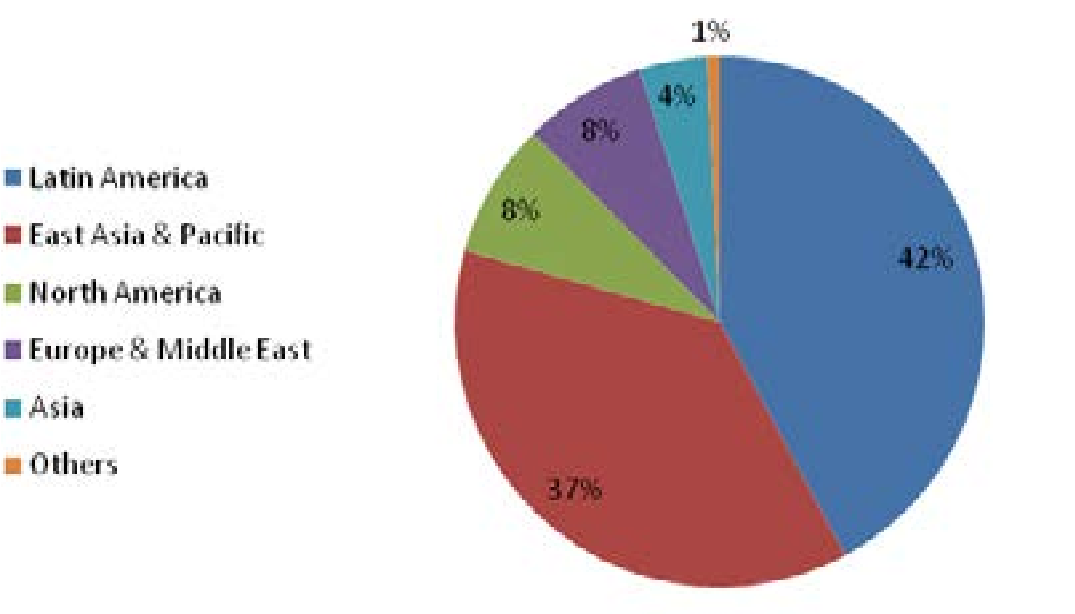
Source: World Integrated Trade Solution (2013)

With regard to import distribution per continent it can be seen that Latin American market is essential for Venezuela to cover a wide portion of the domestic demand, as it is easier to transport merchandise among border countries which, also have the capacity to supply the industry with the required raw material.

Secondly, Asian continent has great comparative advantages because its workforce has the enormous capacity to produce at low cost. This is also supported by the political and commercial approach between Chinese and the Venezuelan governments that facilitates the arrival of textile products from China to Venezuela.

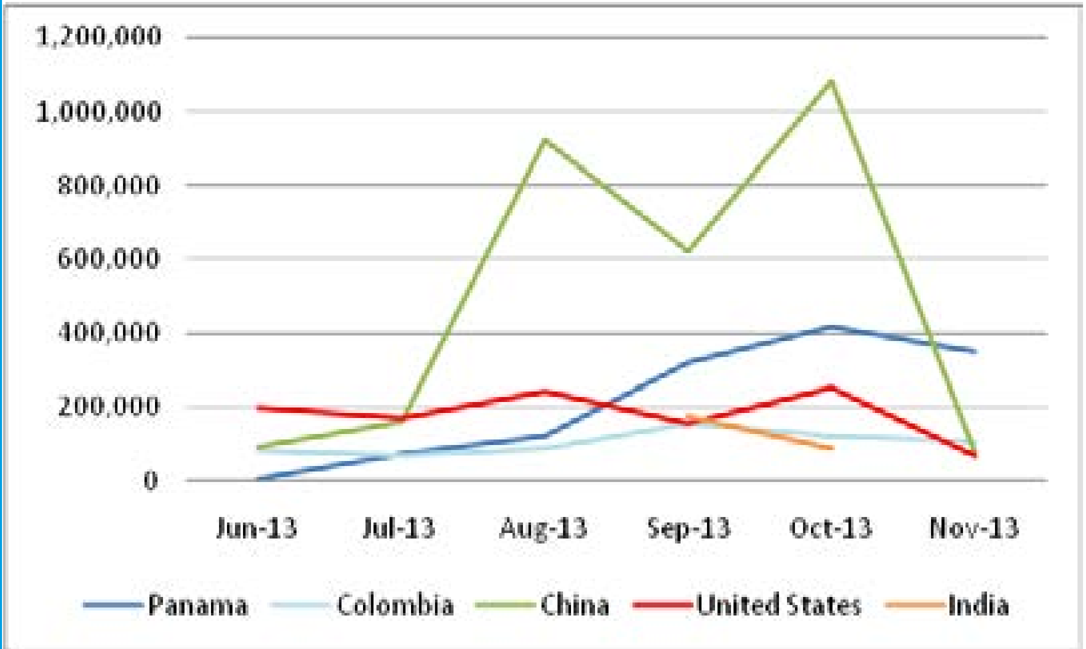
North America comes at the third position, with great competitive advantages due to United States industrial capacity and technological innovation or Mexican big industry of textile production. But, the political estrangement between Venezuelan Government and some countries in the region has generated a commercial estrangement in this market. In the fourth position are ranked Europe and Central Asia. Textile products imported from those regions are more expensive because of the high technology used and haute couture textile process.

Chart 3.3:
Percentage distribution of import per continent



Source: World Integrated Trade Solution (2013)

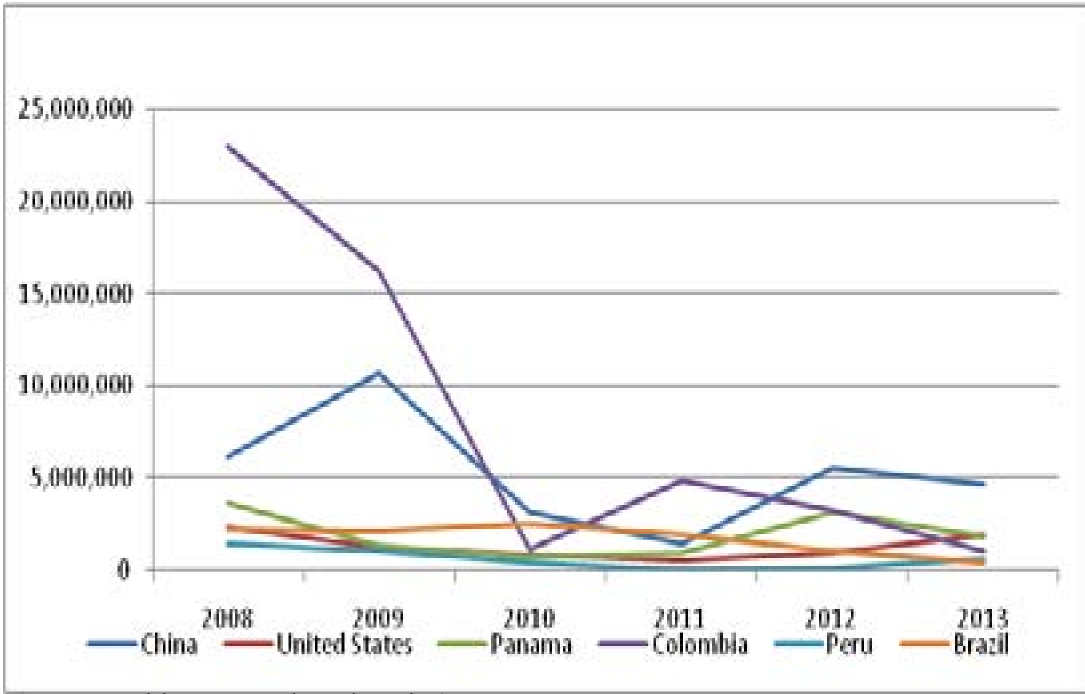
Chart 3.4:
Import distribution per continent (US$)



Source: World Integrated Trade Solution (2013)

The above graph shows the main countries which provide textile material to Venezuela. Due to little textile production, lack of foreign currency to invest, and the purchase of required material for textile production, Venezuela needs to import a wide variety of diversified textile products in order to satisfy the domestic demand. China is the main exporter country of textile products to Venezuela, due to the existing economic cooperation relation between both nations, which facilitates Venezuela's imports. Imports from China are facing a significant decline after settling on the peak of the market, due to the lack of granted foreign currency for textile imports. This makes the acquisition of high levels of textile from China difficult. One of the most significant cases is of Panama, which increased its imports by having incidents factors such as ease of transportation, being the most important country in regional commercial traffic and for the great migration of Venezuelan nationals to a Central American country.

Chart 3.5: Annual Imports (US$)

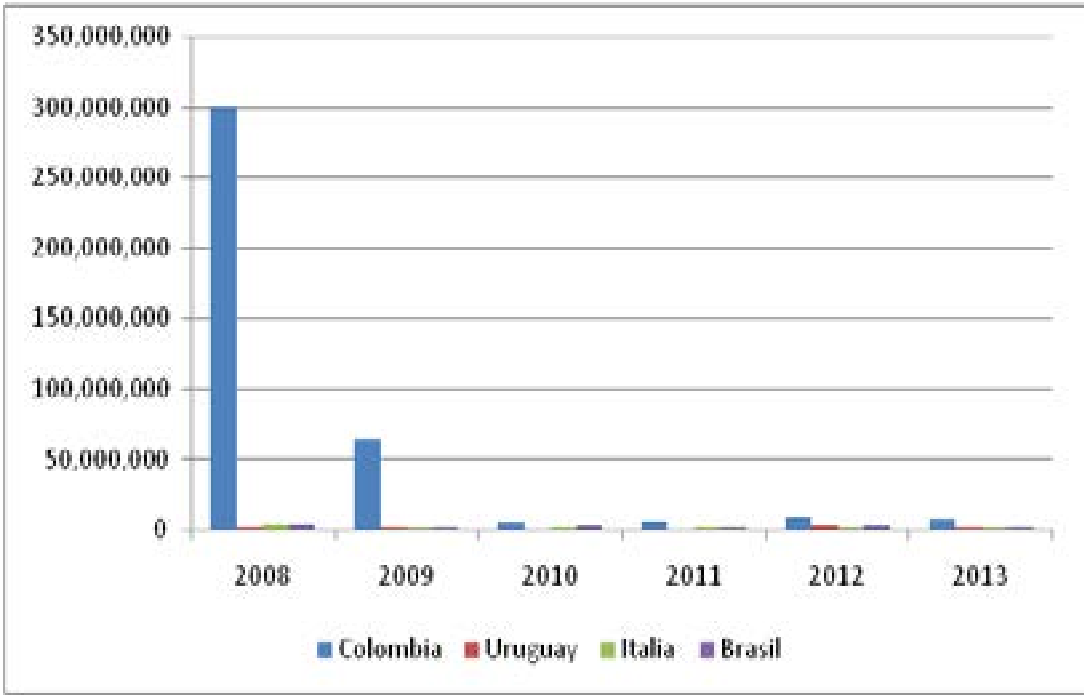


Source: World Integrated Trade Solution (2013)

This implies that there is more investment from this country to Venezuela. Venezuela has maintained the level of textile imports from 2008 to 2013 at less than US$ 5 million. For 2010, Venezuela's most important commercial partners in this field were China and Colombia. Both suffered a drop in exports to Venezuela, due to the policies implemented by the Venezuelan government which were more stringent limiting the foreign currency allocation.

The main imported textile items are leather, skins, silk, wool, cotton, synthetic filaments, discontinuous synthetic filaments and carpets - floor coverings.

Chart 3.6: Fur and leather imports origin 2013. Fur 6 Leather (US$)



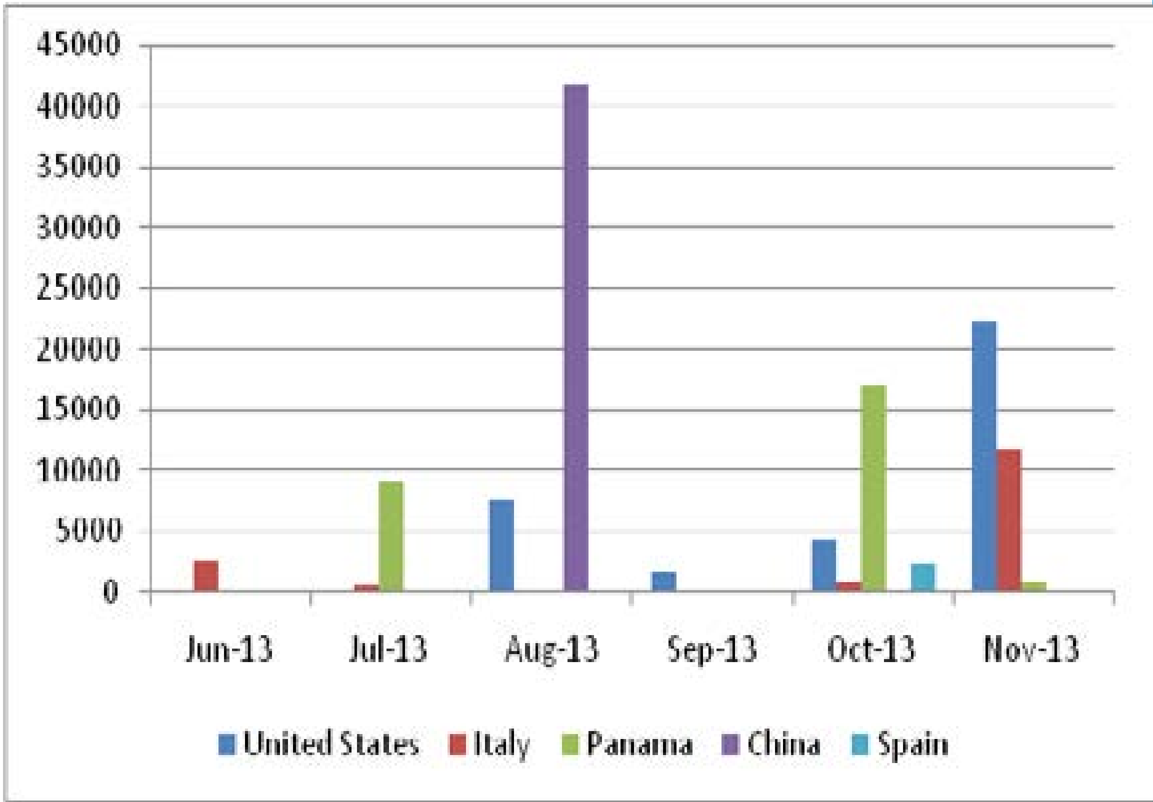
Fur and leather

By the end of 2013 the main imported items were leather and skins, coming from Colombia, followed by Uruguay, Italy, Brazil and Spain as shown in the graph below. It is important to note that imports in this sector have declined in the last 5 years around 24% taking 2008 as the reference year. However, in November 2013 imports had increased by nearly US$ 2 million leading to an increase of the Italian and Brazilian participation in the sector.

Silk

As for the silk, the material originally comes from China, but it is not the country with the highest frequency of imports. When imports are made regularly and in high volumes, as shown in the graph of silk, the largest supplier is the United States, which is also the second source from silk raw material.

Chart 3.7:
Silk imports origin 2013. (US$)

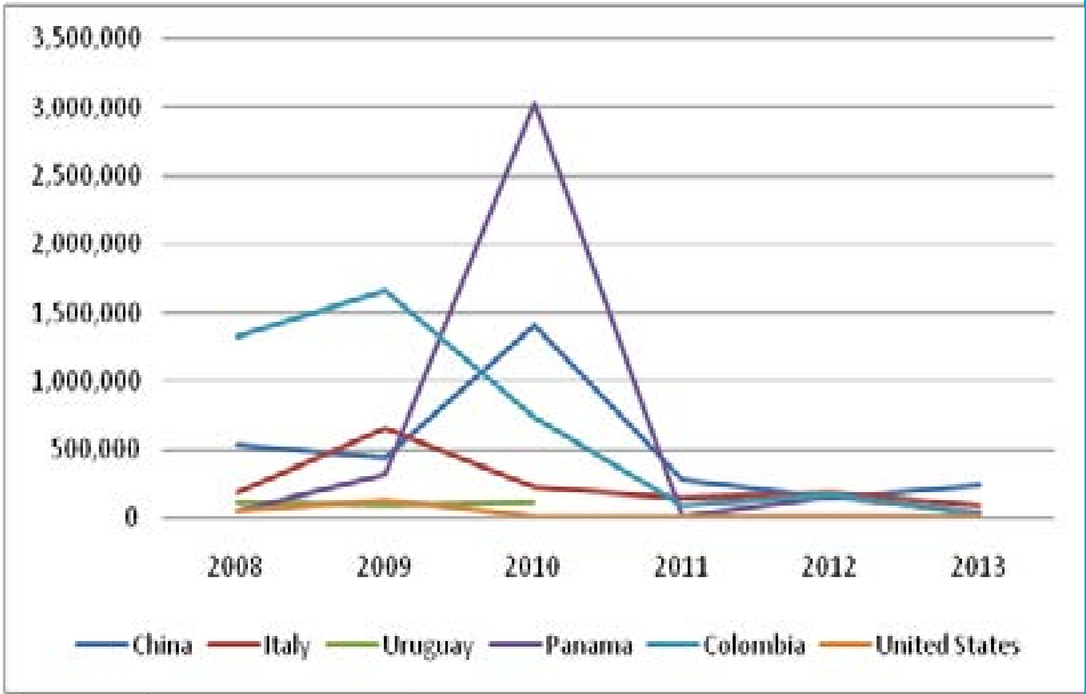


Source: World Integrated Trade Solution (2013)

Wool

This raw material has been mainly coming from Colombia, with some variations between 2008-2013, but Colombia is still the supplier with higher flow in volume and frequency to Venezuela. The second largest supplier in volume is Panama and third is China, with a similar behavior regarding silk, especially in 2010 when China and Venezuela entered into a new phase of deepening their economic relations. But that year there was also a peak of imports from Panama. In 2008, Colombia occupied the first position as supplier, but the level of trade reduced with Venezuela, reaching similar levels to other countries imports.

Chart 3.8:
Wool Imports (US$)

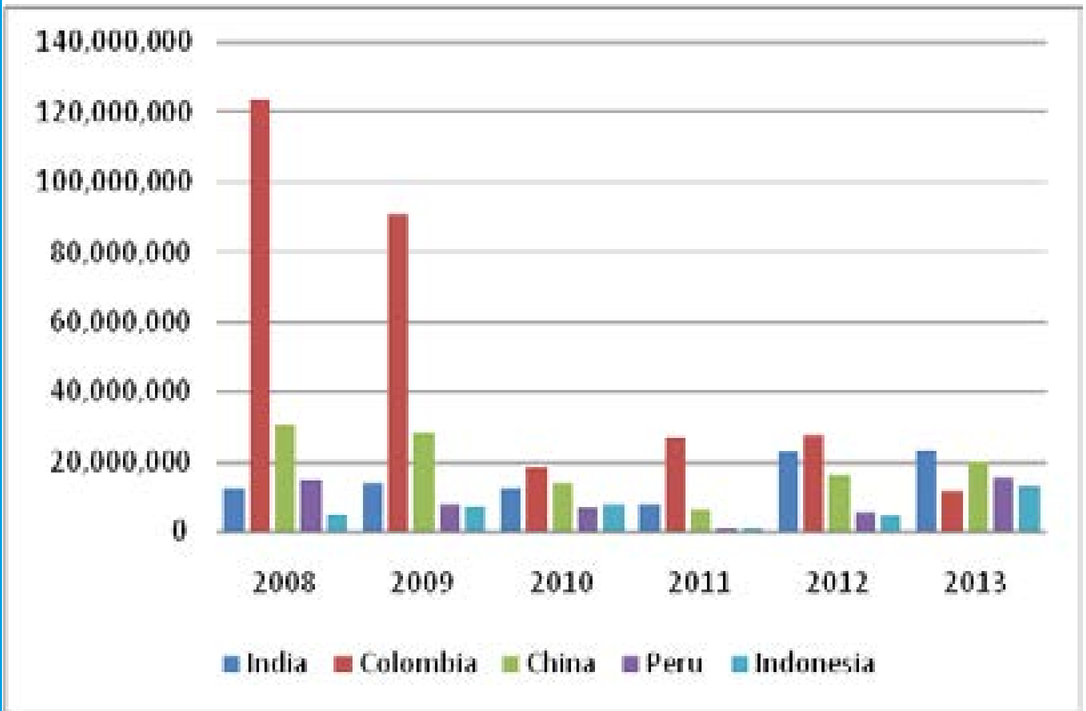


Source: World Integrated Trade Solution (2013)

Cotton

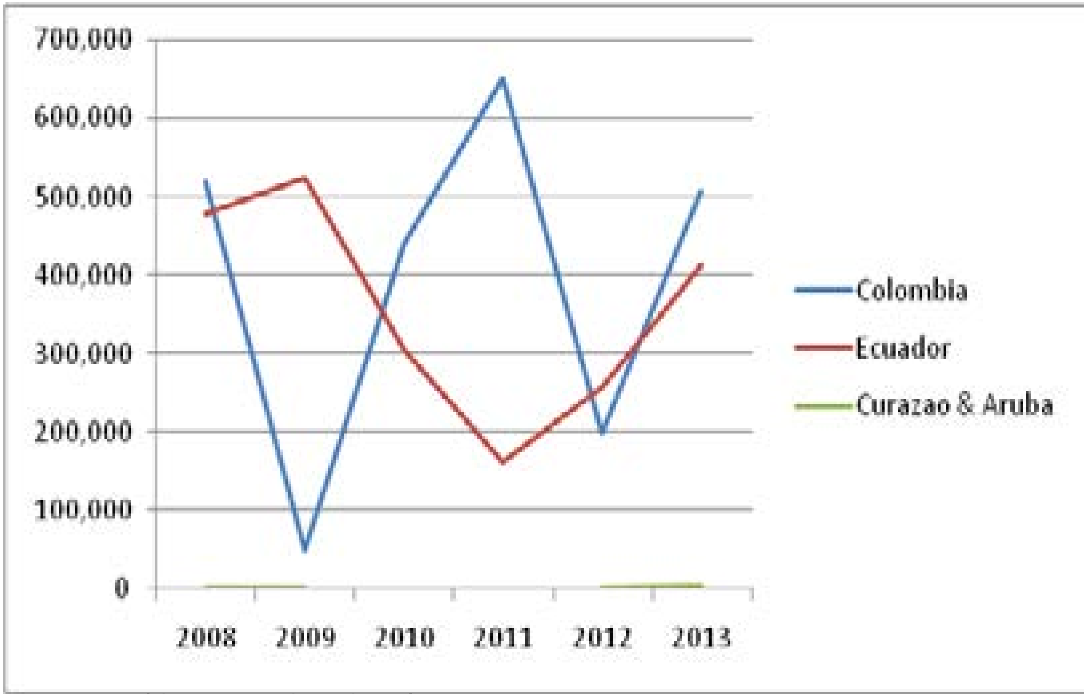
The historical main source of cotton has been Colombia. However, by 2013 India surpassed Colombia as the main supplier of cotton to Venezuela and had a behavior tending to increase imports despite the variable trends, with a tendency to decrease. That means that India has capitalized the gaps of other cotton countries supplier, the major imported item by Venezuelan textile sector.

Chart 3.9:
Cotton Imports (US$)



Source: World Integrated Trade Solution (2013)

Chart 3.10:
Cotton Exports (US$)



Source: World Integrated Trade Solution (2013)

In 2010, annual exports and imports suffered some reduction of raw materials. If the import of raw material decreases, the total quantity of final products for exports also decreases. Consequently, exports decrease, affecting all destinations including Colombia, the main destination of textile exports. At that time, relations between both countries suffered a distance and affected trade between them. Same situation is happening with the United States. Meanwhile, it has been possible to maintain trade with Ecuador, possibly due to political ties between both countries, which have allowed some Venezuelan products output to that destination.

Legal aspects of the textile sector in Venezuela

Textile industry does not have a great weight within the Venezuelan industry, so, unlike other countries such as Colombia, Peru or Mexico. This is the reason why the sector is not regulated by laws but by COVENIN Standards.
General laws that apply to the sector are the Labor Law of Workers, which establishes the rights and duties to be fulfilled by both the workers and the employers. This law applies without distinction in all sectors of the country so the rules established to start a business in Venezuela need to be taken into consideration.

According to information provided by the Venezuelan Textile Association, SUNDDE is the organization that brings together national agencies that establish certain controls for the sector, because some rules come from the "Law on Fair Prices".

The decree with the rank, value and force of Organic Law on Fair Prices sets certain parameters that the government of Venezuela considers favorable to reduce the gaps between raw material producers and processing enterprises of raw materials, and to help fight against speculation and usury. This law establishes allowable profit margins and authorizes the SUNDDE as governing body to evaluate and modify through orders and other regulations, which will be the scope and application of the law.

PART IV

OPPORTUNITIES FOR INDIAN COMPANIES IN TEXTILES SECTOR IN VENEZUELA

Possible areas of interest for the Republic of India

In Venezuela, industrial sector is small, but with a low investment has achieved to create enough jobs and a sales volume with an important market nationwide.

Import of raw materials such as silk, cotton, man-made fibers and synthetic artificial staple fibers, can be considered as a main area of interest for India.

1. Raw material import

Main raw materials imported by Venezuelan textile sector are:

- Cotton
- Polyester (Synthetic filaments)
- Silk
- Wool
- Fur and leather
- Carpets and floor coverings

A secondary market poorly developed in Venezuela is for products such as:

- Special fabrics
- Knitwear
- Impregnated fabrics

2. Fashion Industry

There is also a third sector that has a great potential because Venezuelan culture is guided by standards of beauty promoted by beauty competition. Fashion is a sector always looking for permanent innovation and special requirements such as garments and dresses. Fashion industry has representation through the Venezuelan Association of Garments, which is part of the Venezuelan Textile Association, and seeks to represent the interests and ensure the functioning of an industry, created and supported by Venezuelan culture and idiosyncrasy.

Fashion industry in Venezuela does not have the size or dynamic like other countries or cities: but it is still a sector in continuous development and growth due to the long tradition and participation of women (and more recently men) in beauty competitions. This sector is not yet fully developed, but it can be a potential market for investors in future.

3. Investments in renovation of plants

The textile sector can get benefits not only from the import of raw materials, but also from updating or restructuring plants and machinery production, which can allow to increase the production of finished products and their sale in the domestic or international markets.

Final considerations

In Venezuela, the textile sector is not fully developed. But, there is a growth opportunity in this sector that requires a low annual investment but generates high performance in the country, in job creation and in the finished products.

However, the sector is not articulated enough to develop joint activities that benefit all related companies due to lack of access to information, and thus relying on government data which is not updated regularly. This affects the functioning of trade associations because there is also general distrust amongst entrepreneurs in sharing their self-produced information.

The textile sector is highly dependent on imports, so in a situation where the supply of foreign currency depends on the Venezuelan government, the exchange controls that currently rule the Venezuelan economy, creates a highly uncertain atmosphere for the sector.

Finally, there is a scope to venture into the sector as there is no leading company in the sector, although there are a few companies which compete and participate. And the size of domestic market is such that there is scope for new companies with higher technological level to play an active role in the textile market.