



CONAPRI
Consejo Nacional de Promoción de Inversiones



CHEMICALS AND PETROCHEMICALS

Executive Resume

Caracas, July 2006



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- **Legal framework**
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 - Regulation of foreign investment
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- **How to invest in Venezuela**
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 - Characterization
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•Sector characteristics.

•In Venezuela

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•Sector indicators.

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•Petrochemicals

- Gross and net production: 1999-2005
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- General indicators: production, sales, domestic and foreign markets, productivity, capacity utilization: 1999-2003
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- Sales by mixed companies: 1999-2003



•Petrochemicals

- Strategic plan 2005-2012 of Corporación Petroquímica Venezolana: objectives
- Petrochemical production (Pequiven): 1999-2005
- Investment projects 2005-2012
 - El Tablazo
 - Morón
 - Jose
 - Paraguaná
 - Güiria

•Prospects for the sector

•Conclusions

•Key organizations



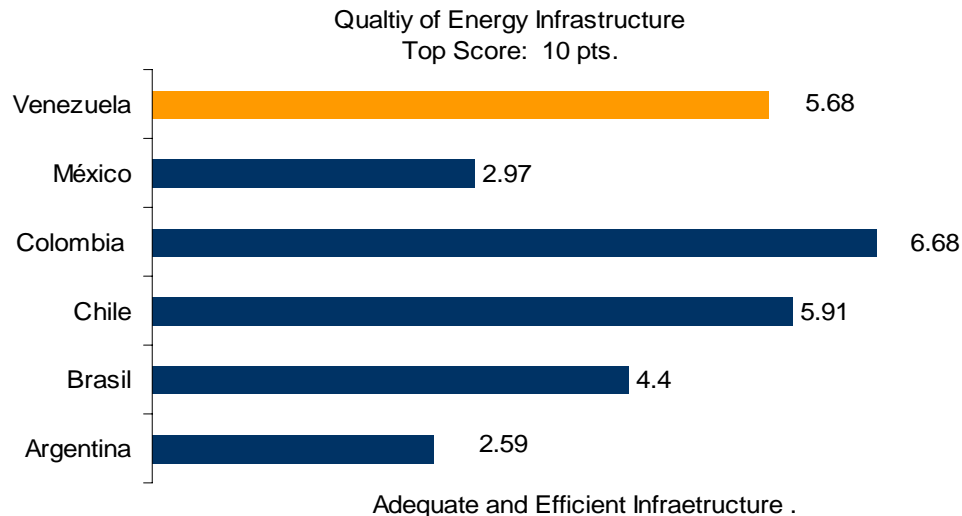
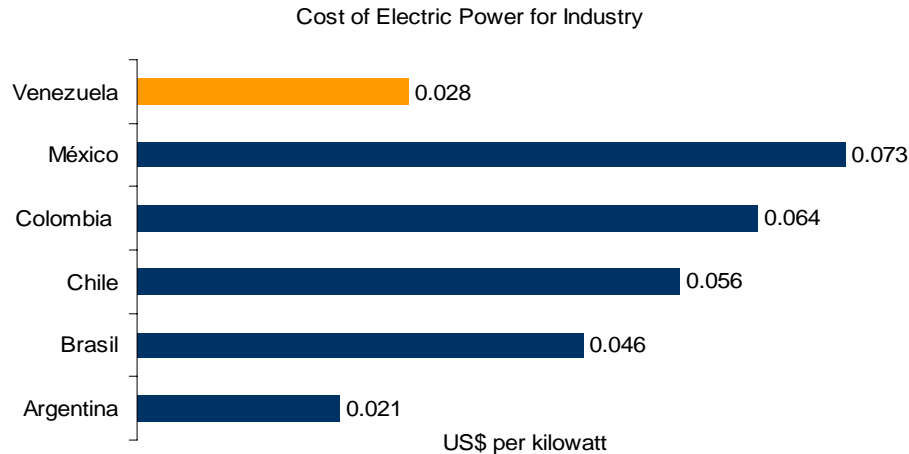
COUNTRY PROFILE

and legal framework

- No restrictions to participation of private capital, whether foreign or domestic, except in the case of iron, a sector reserved for the state.
- Freedom of repatriation of capital and earnings, following compliance with requirements governing purchase of foreign exchange.
- Signing of international treaties for protection and promotion of foreign investment.
- Value Added Tax exemption for imports of goods and services during the pre-operational stage of mining projects geared towards exports.
- Geographical location favoring access to main markets.
- Participation in a variety of commercial integration arrangements: Andean Community, G-3 and CARICOM, among others.

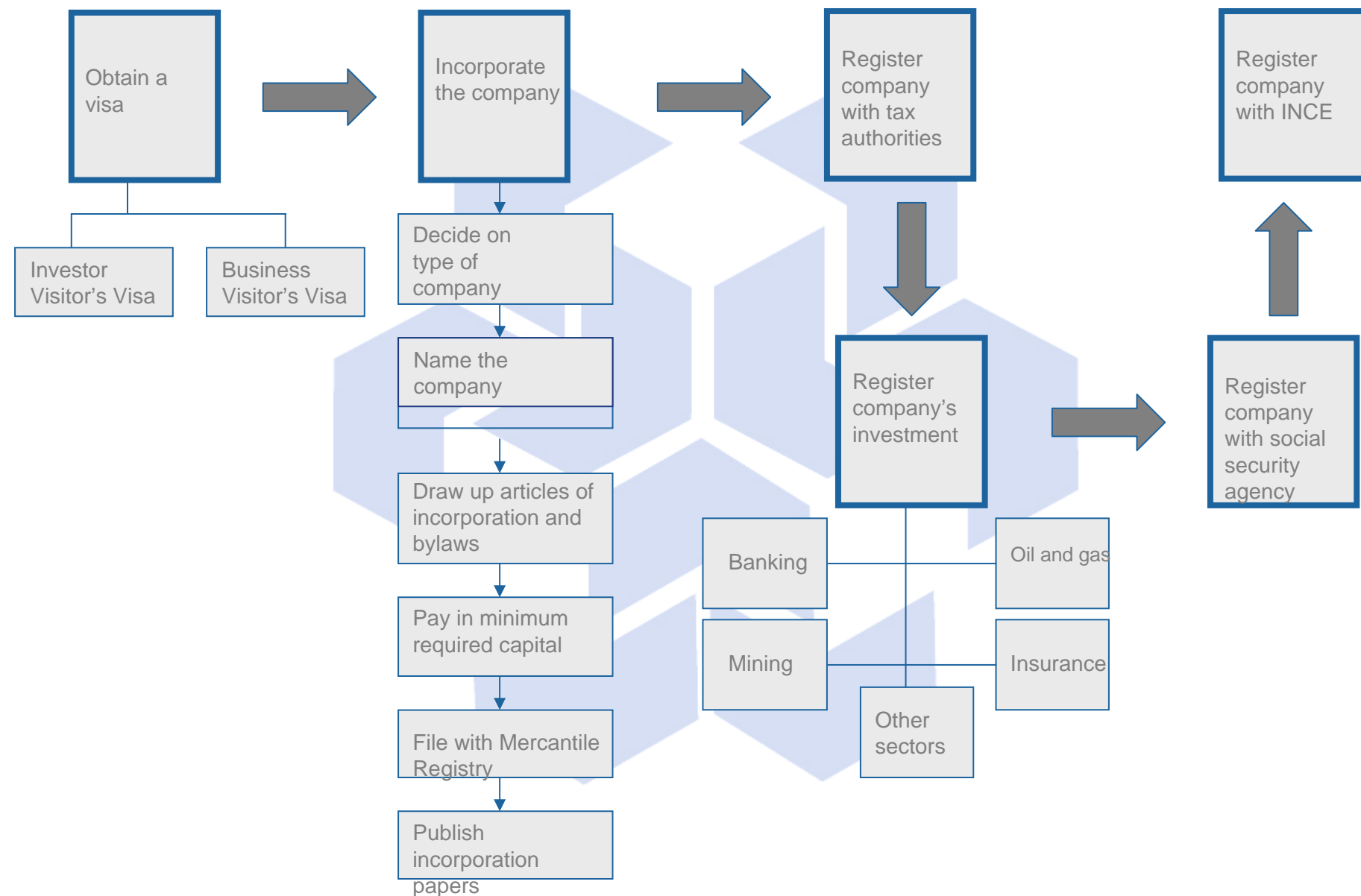
(*) Venezuela has given notice of termination of the G-3 Agreement. Customs Preferences will be maintained for at least six (6) months.

(**) Venezuela has withdrawn from the CAN. Customs Preferences are to be maintained for five (5) years.



- In the energy field, Venezuela has large reserves of oil and gas, as well as an electric power industry with an installed capacity of 20,399 MW, based on figures of the Venezuelan Electric Industry Chamber (Caveinel).

- In world competitiveness surveys, Venezuelan infrastructure and costs rank above those of many of its competitors.

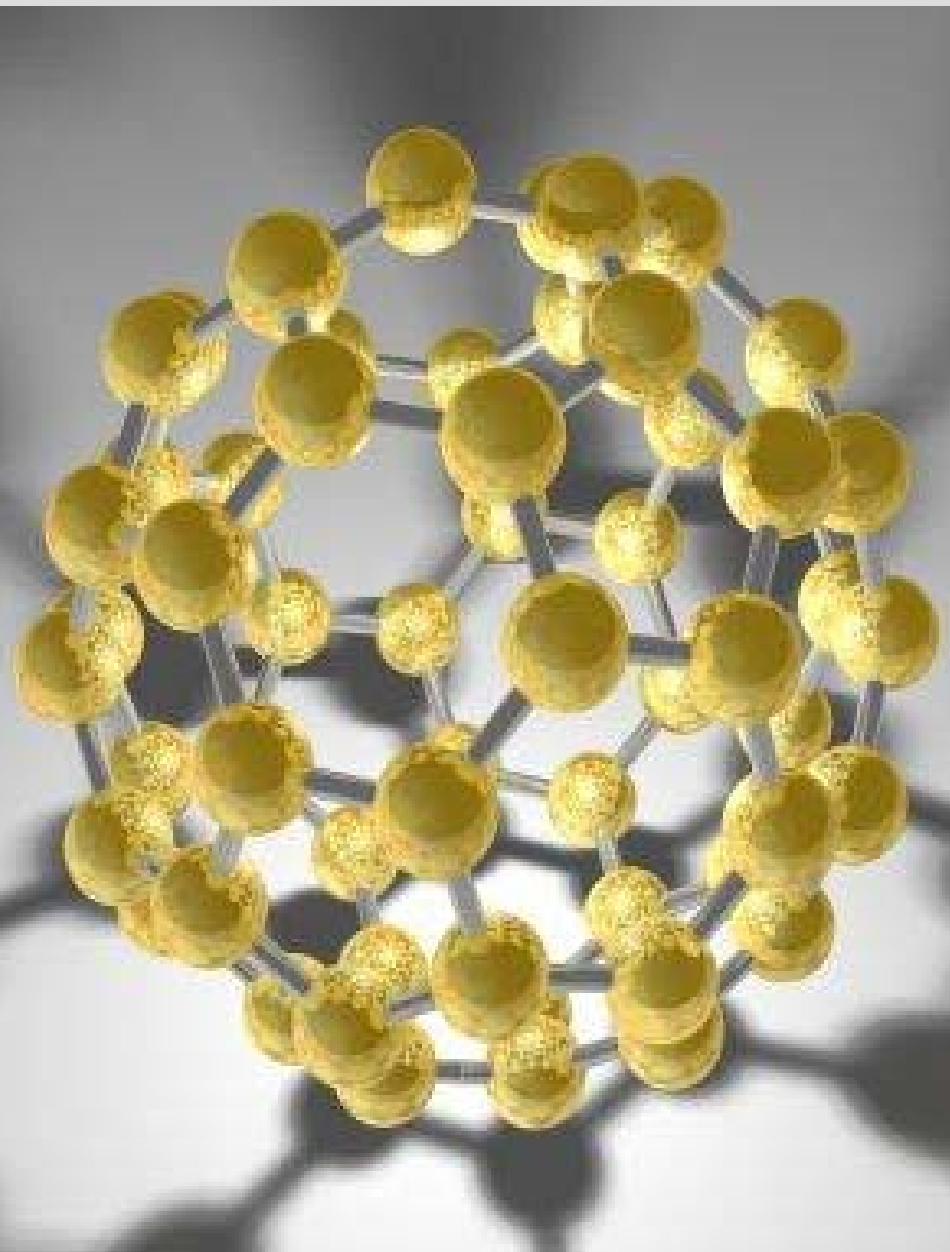




GLOBAL SITUATION

- The chemical industry as a whole is fully globalized and is extremely dynamic and competitive.
- A complex process of planning and maturing is required for companies in this industry, with years of lead time for development of projects for construction of new plants.
- The various chemical products are interrelated and approximately 33% of production is used by the industry itself.
- This is an industry that generates great value added for other companies and sectors of the economy.
- Key factors for this industry include:
 1. Availability and prices of raw materials
 2. Economies of scale
 3. Investments.
- Products and services provided by the chemical and petrochemical industry are found in all areas of human endeavor and, with the growing world population, are becoming more and more indispensable.
- The chemical industry ranks at the top of the list as a generator of jobs and health

- Of the world's 30 largest companies, 15 are in Europe, 6 in the United States, 6 in Japan, and the remainder in Saudi Arabia, South Africa and China. All together these companies account for 29% of world sales.
- New countries have entered the business, via licensing, especially countries with extensive crude and gas reserves that allow them to compete efficiently
- Recent years have borne witness to a reversal in the situation of the chemical and pharmaceutical industries, with the strengthening of one and a weakening of the other. This has been due to a number of factors, including introduction of a variety of technologies, changes in the marketplace, growth prospects, drivers of change, a move towards innovation, and changes in investor expectations. In all, this has had a negative impact on the chemical industry and on the workers, also, who have seen this industry shrink as a source of jobs.
- Most of the exports in this sector come from Canada, the country with the largest number of companies of this kind.



CHEMICAL INDUSTRY

in Venezuela



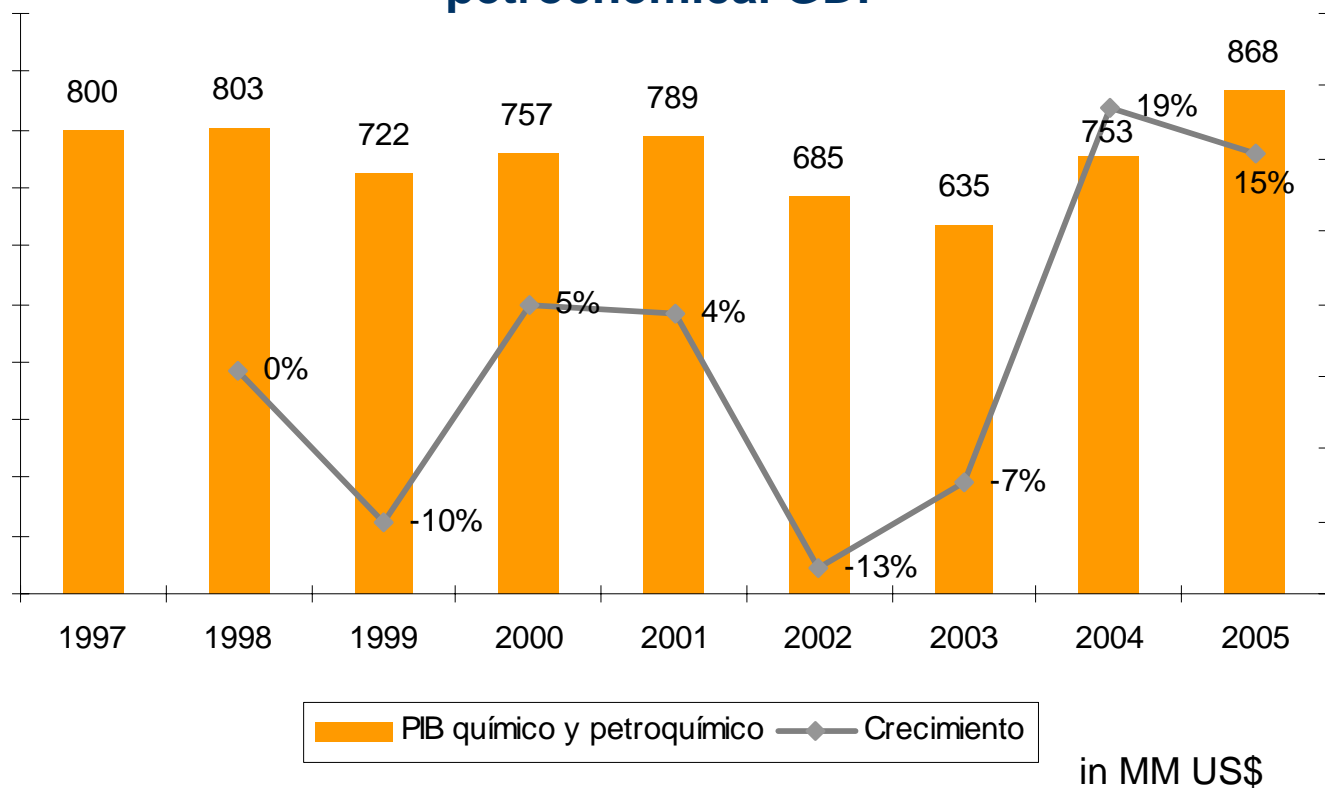
- Since 1989 the national industry has undergone a significant restructuring process to survive and expand
- It has successfully exploited regional integration spaces. **Main market: Andean Community**
- There is an important investment backlog
- The country possesses **low-cost raw materials**
- **Natural gas**, which is the basic material of the petrochemical industry, is very **abundant in the country**, unlike in other countries which depend on oil and are vulnerable to international prices
- Venezuela has **specialized** in the **basic sectors**, with growing imports of final products, and has not exploited the advantages of its raw materials
- Productivity in the intermediate sectors can add up to 10 times the value generated by the oil industry.
- In recent years, 92% of existing companies in 2004 and 70% in 2005 only made pre-operational investments (replacement of machinery, maintenance and the like).
- 86% of the local companies working in this sector export 70% of their production to the Andean Community.
- Over the past two years, both inventory and the level of employment in the petrochemical sector have grown slightly in comparison with previous years.

Source: Venezuelan Association of the Chemical and Petrochemical Industry (Asoquim), Reto de la Competitividad (IESA), Rosas, F; Mendez, R; Moreno, B; Barrios, A; De Otaiza, M; Oportunidad y Reto para un desarrollo químico en Venezuela (Petróleos de Venezuela, Intevep),



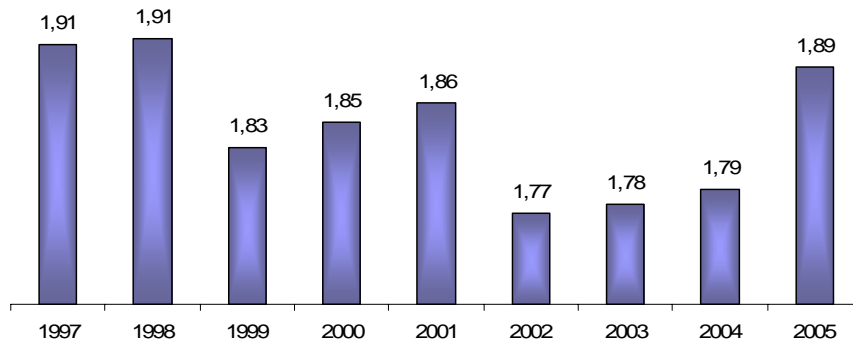
Segments	Subsegments	Number of Companies
Basic Chemicals	<ol style="list-style-type: none">1. Thermoplastic olefins and resins (El Tablazo)2. Basic petrochemicals (Paraguaná, Morón, Jose)3. Fertilizers and inorganic products (Morón)	15
Intermediate Chemicals	<ol style="list-style-type: none">4. Organic intermediate products (Eastern & Western Venezuela)5. Organic intermediate products (El Tablazo, Central Venezuela)6. Fibers (Central Venezuela)	15
Final Chemicals	<ol style="list-style-type: none">7. Auxiliary resins and plasticizers (Central Venezuela)8. Specialty products (Central Venezuela)9. End products.	15 20 200 more

Chemical and petrochemical GDP

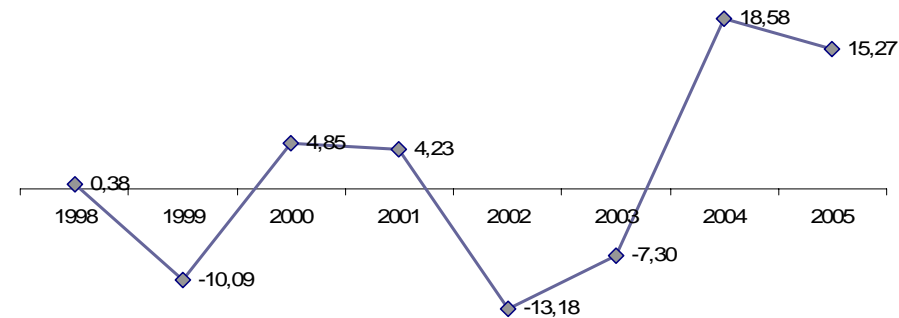


The average product for the chemical and petrochemical industry during this period comes to 757 million dollars. The notable recovery in 2004 and 2005 places this indicator at its highest level in the past eight years.

Participación % del Sector Químico y Petroquímico



Tasa de Crecimiento del sector Químico y Petroquímico

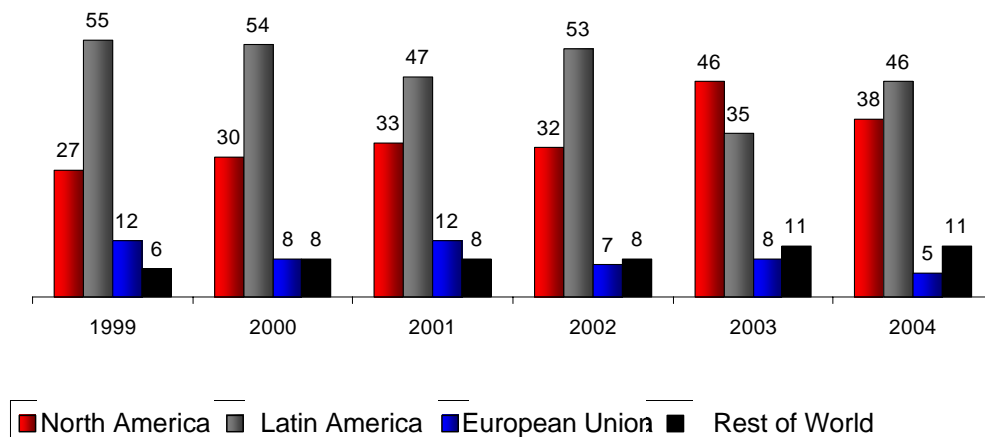


- Following the downturn in the Venezuelan economy in 2002-2003, both the chemical and petrochemical industries have been able to recover well in the following years.
- Although the country is richly endowed with natural resources, particularly hydrocarbons, individually the contribution of the chemical and petrochemical industries to the country's GDP is not very high.
- This fact illustrates the great potential this sector has to offer given that, up to now, advantage has only been taken of raw materials with little value added.

Trade balance by destination

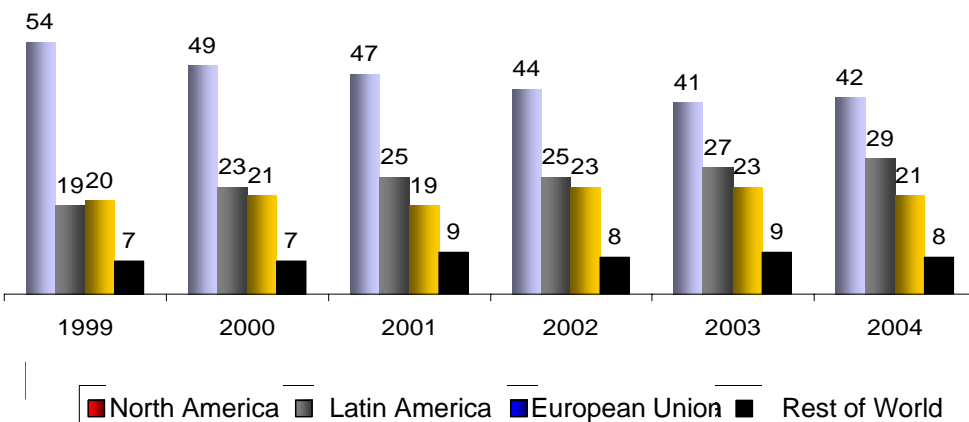
The share of exports to Latin America has fallen in favor of exports to North America

Share of sector exports by destination (%)



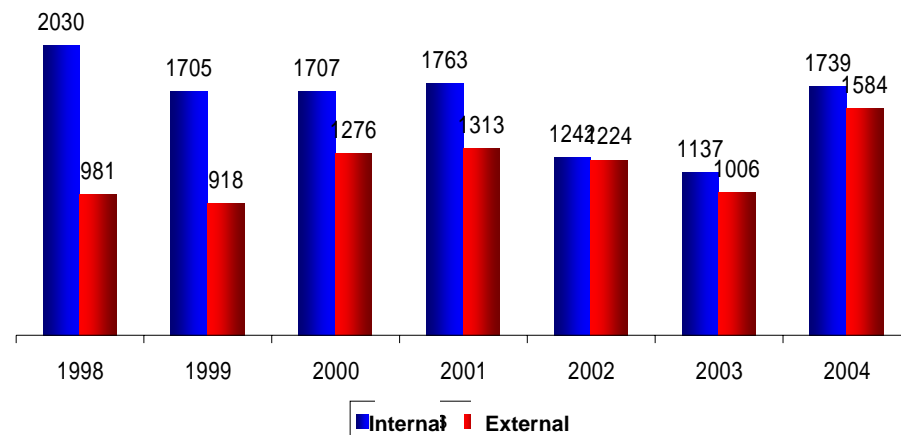
Share of imports by origin (%)

Share of imports from North American has fallen in favor of Latin America.

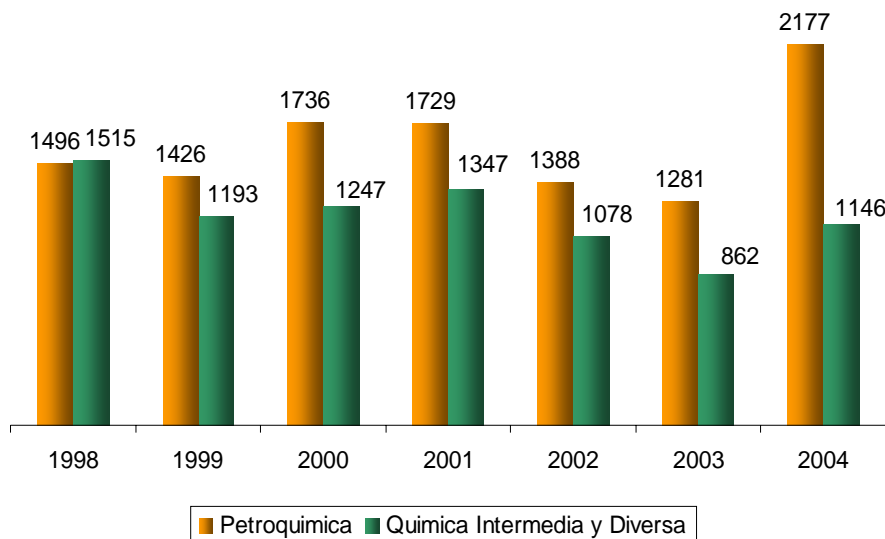


The domestic market has been the most important in the period analyzed; however, the gap has narrowed.

Sales by destination (million \$)



Sales by Subsector (million US\$)



The difference between the sales of the petrochemical subsegment and the rest has increased in recent years.

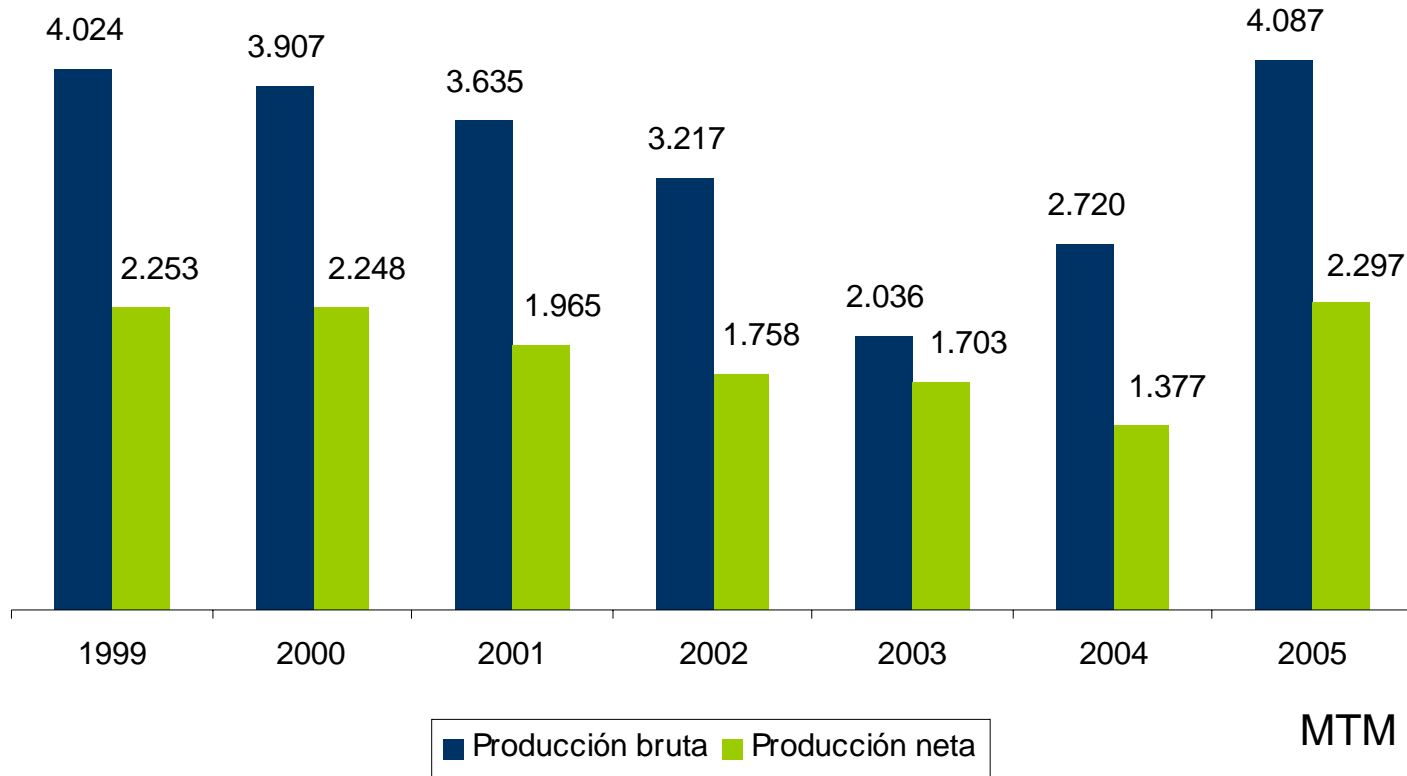
Source: National Statistics Institute (INE), Asoquim



PETROCHEMICAL SECTOR

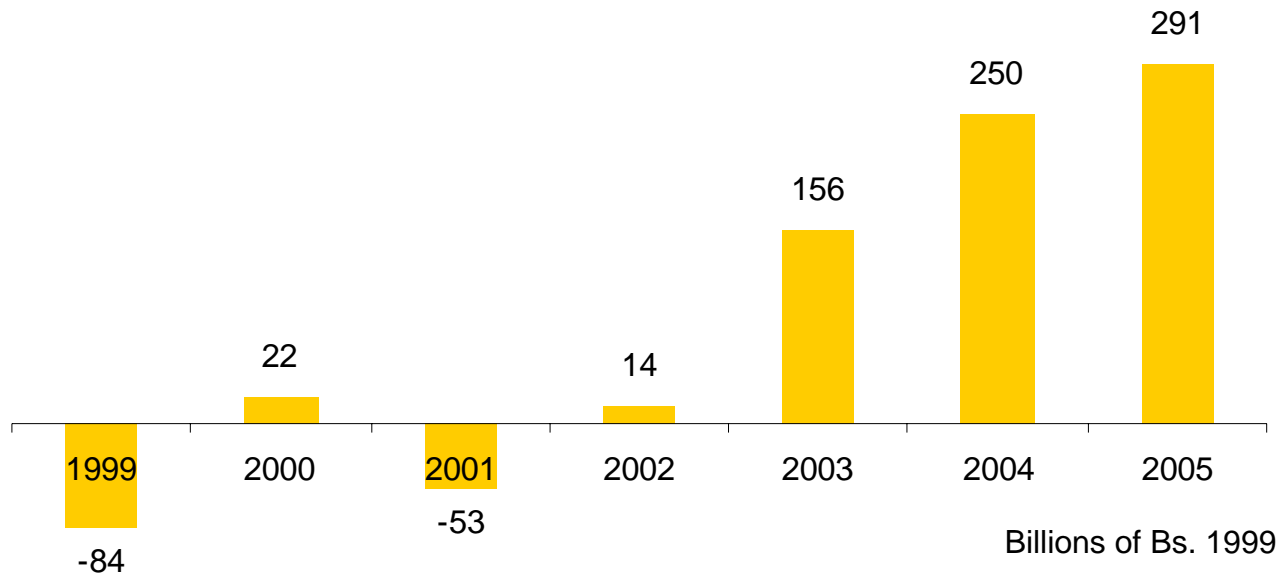
domestic

Annual Production in MTM



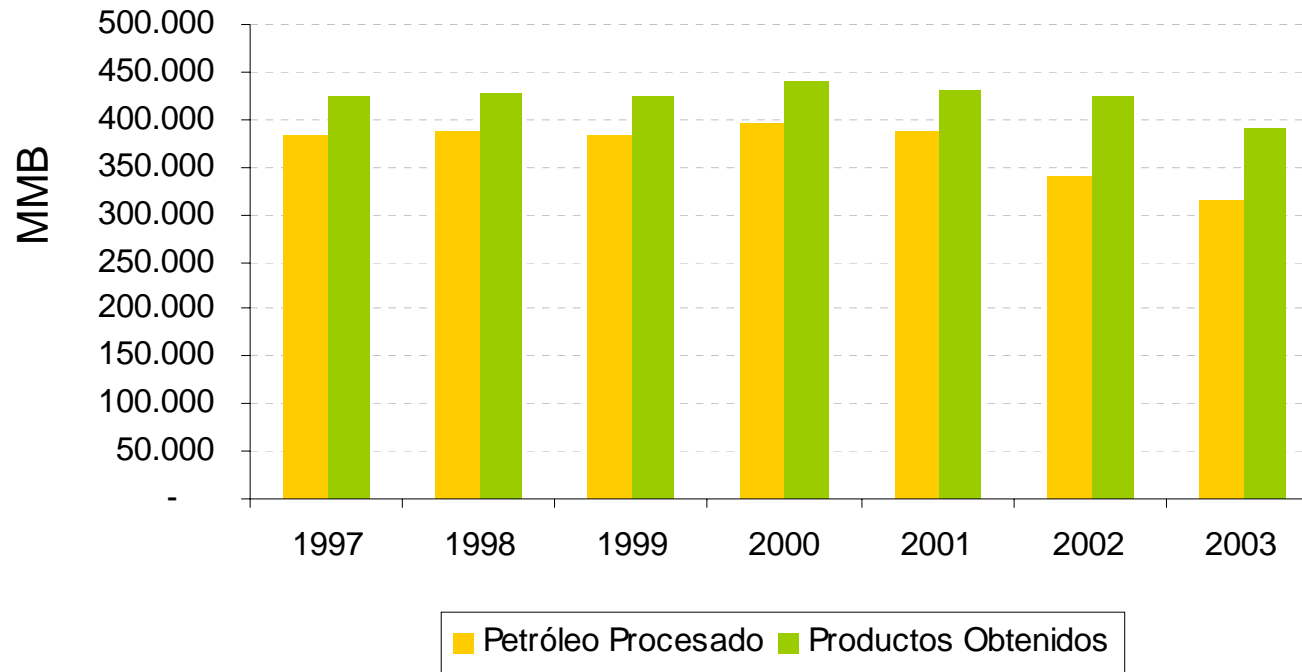
There has been a marked recovery of production in the petrochemical industry over the past two years. In fact, despite declining levels since 1999, the average growth rate for gross production is 4.3%, and 3.5% in the case of net production.

Net profit in billions of Bs. - 1999



Net profit for the sector has gained considerable ground, even after 2003, a year marked by a serious economic contraction in the country. The average growth rate of profits is 167%.

Processed Petroleum and Products Obtained in MMB



Final production of products obtained by means of the different refining processes exceeds the amount of petroleum that is simply processed for delivery as a raw material to other industries, both domestic and foreign.



Basic Indicators for the Petrochemical Sector

Consolidated State-owned Comps.	1999	2000	2001	2002	2003
Gross Production, MTM	4.022	3.907	3.217	3.635	2.036
Total Sales, MMBs	358.943	608.972	859.653	663.410	1.034.000
Domestic Market, MMBs	249.079	309.395	486.432	398.714	698.000
Foreign Market; MMBs	109.864	218.577	373.221	264.696	336.000
Actual Labor Force	3.124	3.004	2.399	2.669	2.165
Productivity, MT/Man	1.287,5	1.300	1.342	1.362	940,4
Capacity Utilization, %	84	81	67,1	75,8	42,5
Net Profit (Loss), MMBs	-84.309,8	23.783	16.000	-54.487	276.000

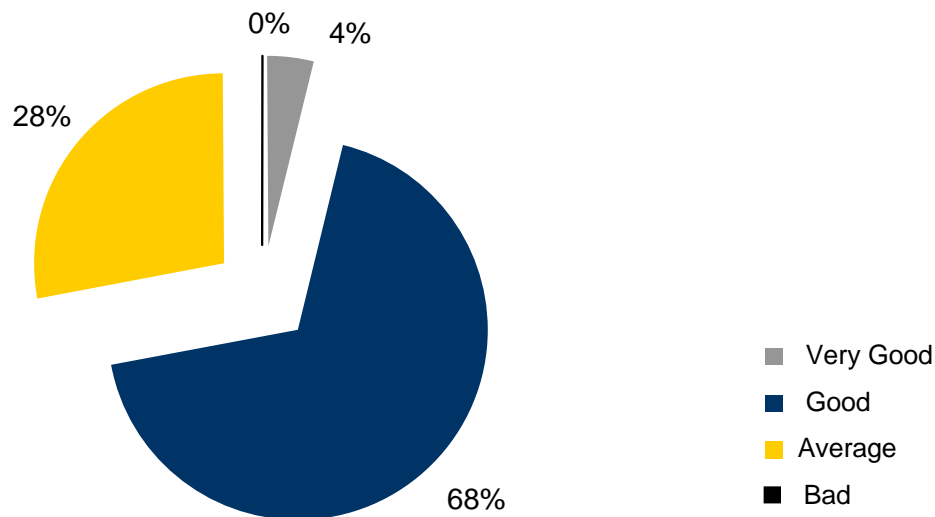
Source: PODE 2003



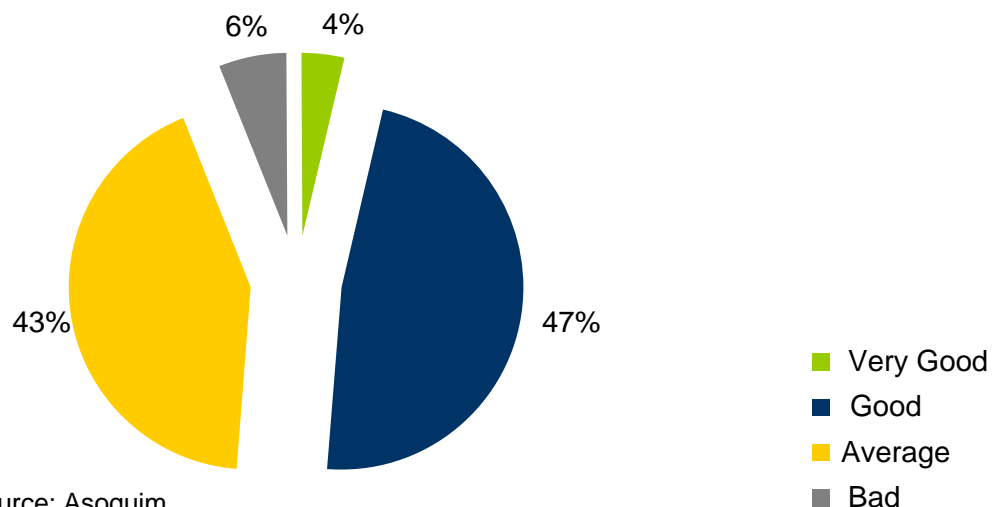
- Increase production from 11.4 MM to 25 MM tons/year
- Increase revenue from US\$1.10 MM to US\$10.00 MM.
- Increase use of our raw materials from 450 MMPCD natural gas to 1,350 MMPCD of gas or its equivalent
- Develop the Paraguaná Petrochemical Complex
- Develop the Güiria Petrochemical Complex
- Consolidate development in the Jose Petrochemical Complex
- Modernize the Morón Petrochemical Complex
- Reactivate the Zulia El Tablazo Complex
- Projects for expansion of the refineries to meet more stringent demand for crude oil.

Estimated total investment US\$10.00 MM

Current condition of your company

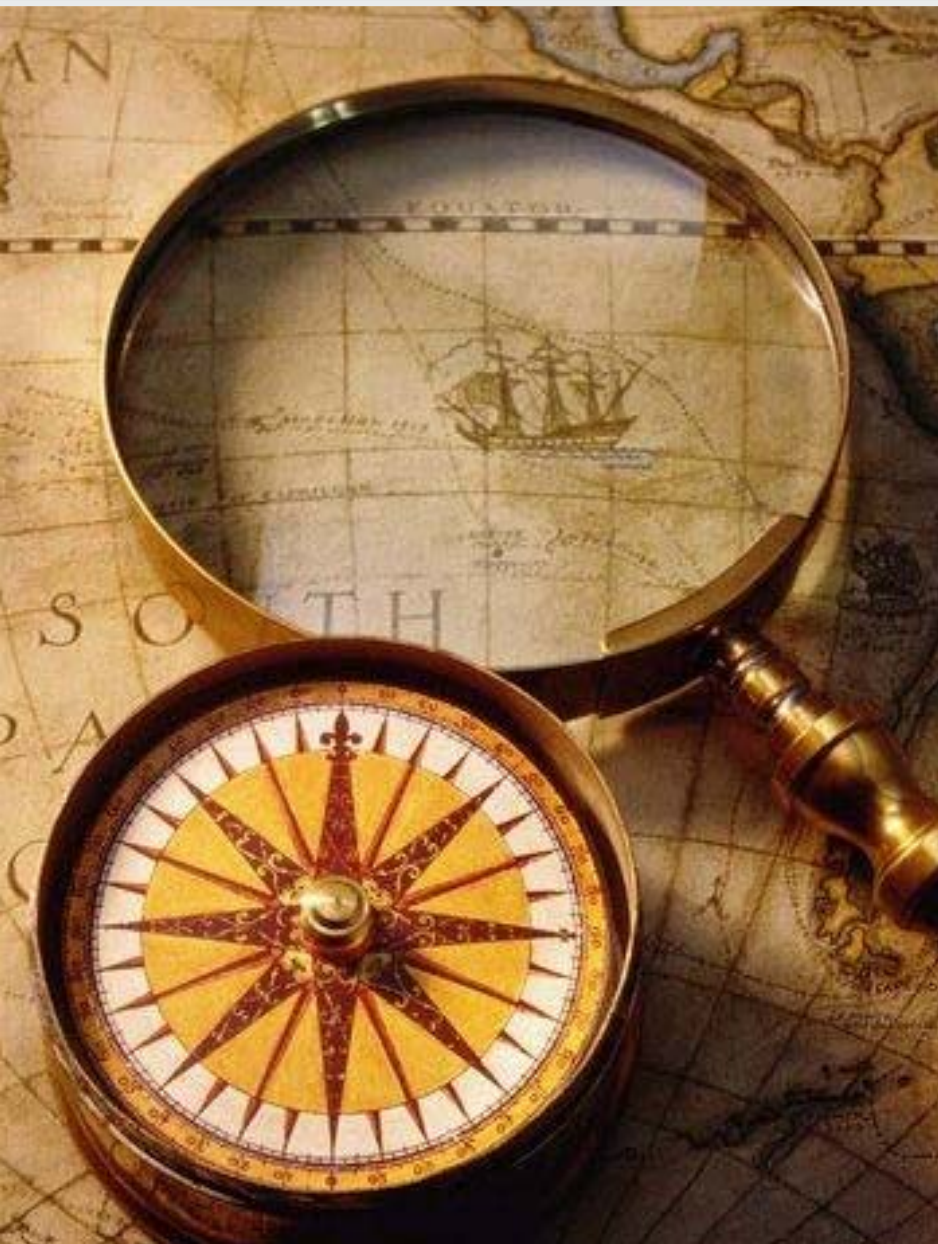


Current condition of the sector



Source: Asoquim

A survey by the **Venezuelan Association of the Chemical and Petrochemical Industry** (Asoquim) during the second half of 2005 showed that its members have a positive outlook regarding the present and the immediate future, as regards both their companies and the sector as a whole.



Web page

<http://www.conapri.org>

Tel: +58 212 953 1946

Fax: +58 212 953 3915

Address

Calle Guaicaipuro

Torre Forum

Planta baja, oficina LC-A,

El Rosal

Caracas 1060, Venezuela