



Embassy of the Bolivarian Republic of Venezuela to the United States

TERRORISM & TRADE: ASSESSING THE IMPACTS

Is a political move worth the economic consequences?

In recent weeks, the Bush administration and its congressional allies have stated that they are considering designating Venezuela a state sponsor of terrorism. Currently applied to Cuba, Iran, Syria, Sudan, and North Korea, such a designation carries with it a number of severe sanctions. According to the U.S. State Department, those sanctions include “restrictions on U.S. foreign assistance; a ban on defense exports and sales; certain controls over exports of dual use items; and miscellaneous financial and other restrictions.”

The effort to designate Venezuela a state sponsor of terrorism is unfounded and unprecedented. It is more closely linked to a desperate attempt to use an invented enemy to push the U.S. Congress into passing a free trade agreement with Colombia than it is to any credible and verifiable evidence against Venezuela.

Regardless, any such move to place Venezuela on the list of state sponsors of terrorism would be plainly political and unilateral, provoking a series of serious negative consequences for the U.S. war on terror, U.S. standing in the hemisphere, and the U.S. economy. Below we analyze some of the potential effects on the U.S. economy and oil security.

COMMERCE

The U.S. and Venezuela have a multi-billion dollar commercial relationship. Trade between the two countries has increased over time within a wide range of sectors, although most of that trade takes place within the crude oil and petroleum products sector. There are also significant investments by Venezuela’s state-owned oil company, Petroleos de Venezuela (PDVSA), in the U.S., as well as investments in Venezuela by U.S. oil and non-oil companies. If Venezuela were placed on the list of state sponsors of terrorism, this extensive commercial relationship would be severely threatened.

In 2007, the commercial relationship between the U.S. and Venezuela was valued at \$50.1 billion. Of that number, the U.S. imported \$39.9 billion in goods from Venezuela – mostly oil and petroleum products – and Venezuela received \$10.2 billion in goods from the U.S. In terms of the size of its commercial relationship with the U.S., Venezuela is behind only Mexico in the region and ranks seventh in the world.

Paying the Price for a Political Decision
\$10.2 billion in lost U.S. exports to Venezuela
230,000 manufacturing jobs tied to exports
1.58 million barrels of oil a day from Venezuela

U.S. Companies in Venezuela

There is a significant amount of non-oil U.S. investment in Venezuela, amounting

to tens of billions of dollars. Numerous U.S. companies have investments and operations in various sectors in Venezuela, including food, health, information technology, cars, textiles, electrical parts, and others. In 2007, U.S. exports to Venezuela were valued at \$10.2 billion, 80 percent of those being non-oil related. (See Appendix A)

The Impact on the Fifty States

Were Venezuela to be designated a state sponsor of terrorism, the impact would be felt in the economies of all 50 states. According to the U.S. Department of Commerce, the most affected states and the amount they would stand to lose are as follows: Florida, \$3.1 billion; Texas, \$2.8 billion; Michigan, \$693 million; Louisiana, \$448 million; California, \$266 million; Illinois, \$251 million; New York, \$212 million; and Ohio, \$200 million. (See Appendix B and C)

Additionally, any such designation could have an impact on the 230,000 manufacturing jobs that are directly and indirectly attributable to exports to Venezuela.

Commercial Transactions

If Venezuela were designated a state sponsor of terrorism, the commercial transactions that make up the backbone of the commercial relationship between the U.S. and Venezuela would become significantly



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more expensive – in some cases prohibitively so. The tax credit for double taxation would stop applying to U.S. citizens and companies with investments in Venezuela, thus making any such investments much less attractive and financial viability much more difficult. Additionally, it is estimated that an export license for Venezuela would cost as much as 30 cents for every dollar worth of exports, making the process of exporting goods to Venezuela much more costly. Finally, any foreign company using U.S. personnel, technology, or licenses would see their operations limited.

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OIL

If Venezuela were designated a state sponsor of terrorism, the real impact would be felt in the global and U.S. oil markets.

The U.S. is a natural energy market for Venezuela. Venezuela is one of the largest foreign suppliers of crude oil and petroleum to the U.S., accounting for 12 to 15 percent of U.S. total oil imports. Last year, the U.S. Department of Energy reported a consumption of 1.58 millions barrels of oil per day from Venezuela. Crude oil and petroleum products from Venezuela take only six days to reach the U.S. It can take between three to eight times longer for oil products to reach the U.S. from other sources.

In a scenario of any ban on imports of oil from Venezuela, conservative estimates find that the price of a barrel of oil could increase between 10 and 20 percent. This would certainly add more tension and uncertainty to an increasingly complex oil market and prices could rise to levels never before imagined. The oil industry could perceive these actions as having a negative effect on global oil trade, especially on the desired relationship that consumers and producers must keep in order to assure the appropriate supply flow management of energy worldwide.

Venezuela has made tens of millions of dollars worth of investment in CITGO, a U.S.-based oil company owned by PDVSA and headquartered in Houston, Texas. This investment includes refineries, terminals and other facilities, over 8,000 gas stations and retail outlets nationwide, and all the resources needed to comply with existing U.S. environmental standards for petroleum products. CITGO's value and supply chain moves a market worth billions of dollars. PDVSA and CITGO's combined annual purchases of goods and services from 800 U.S. companies amount to more than \$2 billion.



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APPENDIX A: U.S. COMPANIES IN VENEZUELA

Below is a short list of U.S. companies that do business or export goods to Venezuela:

<u>COMPANY</u>	<u>SECTOR</u>
General Motors Venezolana	Automotive
CEMEX Venezuela	Suppliers
Cadena de Tiendas Venezolanas (CATIVEN)	Retail
Procter & Gamble de Venezuela	Consumer Products
MMC Automotriz	Automotive
PROAGRO	Food & Beverages
MACK de Venezuela	Automotive
VENEQUIP	Suppliers
Bridgestone Firestone Venezolana	Rubber and Plastic
Baker Hughes	Construction and Engineering
Pfizer Venezuela	Pharmaceutical
Sanofi Aventis	Pharmaceutical
Inelectra	Construction
Corporacion Inlaca	Food & Beverages
Corimon	Chemical
Clariant Venezuela	Chemical
Novartis de Venezuela	Pharmaceutical
Hewlett-Packard Venezuela	Technology/Computer Hard & Software
Lenovo Venezuela	Technology/Computer Hard & Software
GoodYear de Venezuela	Rubber and Plastic
Citibank, N.A.	Banking
Asea Brown Boveri	Construction
Alimentos Kellogg	Food & Beverages
S.C. Johnson & Son de Venezuela	Consumer Products
SONY de Venezuela	Technology/Computer Hard & Software
Cadbury Adams	Consumer Products
AON Risk Services Venezuela	Insurance brokerage
DHL Global Forwarding Venezuela	Transport
CARGIL	Food & Beverages
FEDEX	Transport
IBM	I.T
DELL	Technology/Computer Hard & Software
American Airlines	Airlines
Delta Airlines	Airlines
Continental Airlines	Airlines



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APPENDIX B: VALUE OF EXPORTS FROM U.S.

Below is a list of the value of U.S. exports to Venezuela, listed by U.S. state in thousands of dollars:

1	State	2007	29	Massachusetts	30,760
2	U.S. Total	10,199,324	30	Wyoming	29,080
3	Florida	3,180,566	31	Mississippi	22,577
4	Texas	2,817,167	32	Alabama	21,753
5	Michigan	693,797	33	Colorado	19,546
6	Louisiana	448,165	34	Delaware	19,348
7	California	266,173	35	Oregon	17,890
8	Illinois	251,466	36	Connecticut	17,006
9	New York	212,127	37	New Hampshire	16,568
10	Ohio	200,380	38	Washington	13,416
11	New Jersey	162,814	39	Arkansas	9,202
12	Wisconsin	162,124	40	North Dakota	7,922
13	Pennsylvania	160,845	41	Nebraska	7,616
14	Georgia	153,796	42	West Virginia	6,222
15	Indiana	126,757	43	Utah	4,613
16	Tennessee	124,848	44	Rhode Island	4,450
17	North Carolina	95,615	45	Arizona	3,787
18	South Carolina	93,959	46	Nevada	3,600
19	Kansas	81,519	47	Idaho	2,815
20	Missouri	78,261	48	South Dakota	2,700
21	Minnesota	74,659	49	Vermont	2,451
22	Kentucky	58,419	50	Montana	2,357
23	Virginia	57,165	51	New Mexico	1,488
24	Oklahoma	53,634	52	Maine	1,063
25	Iowa	47,607	53	District of Columbia	1,010
26	Virgin Islands	41,922	54	Alaska	46
27	Puerto Rico	38,805	55	Hawaii	3
28	Maryland	34,663		Unallocated	212,782



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APPENDIX C: EXPORTS FROM U.S.

Below is a breakdown of exports from three states to Venezuela:

TEXAS:

NAICS Total All Merchandise 2007 Exports from Texas to Venezuela



Product	Value (\$)	Percent
333 _Machinery Manufactures	820,998,651	29.1 %
325 _Chemical Manufactures	818,454,876	29.1 %
324 _Petroleum & Coal Products	456,709,341	16.2 %
334 _Computers & Electronic Prod.	194,487,139	6.9 %
All Others	526,517,000	18.7 %
Grand Total	2,817,167,007	100 %

FLORIDA:

NAICS Total All Merchandise 2007 Exports from Florida to Venezuela



Product	Value (\$)	Percent
334 _Computers & Electronic Prod.	1,299,799,613	40.9 %
333 _Machinery Manufactures	734,429,279	23.1 %
336 _Transportation Equipment	294,996,580	9.3 %
335 _Elec. Eq., Appliances & Parts	166,601,162	5.2 %
All Others	684,739,842	21.5 %
Grand Total	3,180,566,476	100 %

MICHIGAN:

NAICS Total All Merchandise 2007 Exports from Michigan to Venezuela



Product	Value (\$)	Percent
336 _Transportation Equipment	610,988,789	88.1 %
333 _Machinery Manufactures	16,426,026	2.4 %
332 _Fabricated Metal Products	15,018,354	2.2 %
335 _Elec. Eq., Appliances & Parts	12,648,318	1.8 %
All Others	38,716,007	5.6 %
Grand Total	693,797,494	100 %