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WHO IS THE NEXT VICTIM?

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Currently in Venezuela there exists a debate surrounding the role this Administration is assigning the private sector in the economy. The discussion regarding the President's constitutional reform has set off all the alarms concerning the fact that many feel the private capital sector action field is being significantly limited with regard to what awaits it in the near future. However, not all sectors are exposed in the same way, which is why it is very important that companies not only worry about how to sell more next year, but also about what strategies to develop in order to be able to confront the paradigm changes expected from a State that considers the private sector to be a necessary evil, for now.

The reform is ambiguous concerning the issue of private property

Even though important official spokespersons, including President Chávez, have pointed out that the constitutional reform project does not violate the concept of private property, legal experts consulted by **Ecoanalítica** point out that what article 115 of the constitutional reform project establishes is ambiguous and leaves many things open to interpretation. It would be good if the president of the National Assembly would follow through with what she said a few days ago that

the attributes of use, enjoyment and the complete disposal of private goods would be included in the text pertaining to private property

The Government's proposal looks to limit the private sector

Within the economic and social model that the current Administration is following, the private sector is a secondary player. At *Ecoanalítica*, we believe that the model that the Government is following is specifically designed to make the State be the only transforming entity in the social project that is currently being implemented and that the private sector initiative is only limited to a specific number of activities. In fact, Minister Giordani, one of the intellectual architects of this model, points out that private companies should look out for the collective well-being (which includes the workers) and that their bottom line should not be to generate wealth, quite a controversial point, since the goal of any self-respecting company is to generate profits. But in the Government's opinion, those profits should be "social".

As much State as possible... As much market as can't be avoided

The State's strategy centers on the following:

1. Companies should all extend themselves to the public, manufacture, and distribute products for everyone. This is why the so-called poor-man's market is so important.
2. Companies must be responsible to the State and that includes having their accounts in order with public organisms like: SENIAT, CADIVI, IVSS, INCE, CONAVI, Ministry of Labor, the municipalities, among others.
3. The private sector is separated from politics; the Government thereby avoids future episodes like the 2002-2003 strike.

Companies must protect the workers and even try to involve them in managerial decisions; even going as far as i

The State looks to displace the private sector

The State's actions are not only aimed at regulating the private sector but they are also aimed at excluding it from specific activities. According to the Administration's logic, there are certain strategic sectors that should not be in private hands but absolutely controlled by the State. Among these sectors is the recently nationalized CANTV (telecommunications), EDC (electric power) and the migration process of the Orinoco Oil Belt operative agreements and strategic associations (oil industry).

The State as a competitor

The State has decided to compete with the private sector in the area of public services, private services, and in the manufacture of goods,

creating banks, insurance companies, agriculture companies, and of course, nationalizing assets, which translate into greater fiscal controls and price regulation over the private sector, in the middle of a restrictive labor market and a re-centralization of power.

The other important point here is that the Government continues to advance with these strategies since it seems to have no apparent restrictions other than public opinion, its Achilles' heel. This is why the Government takes such pains to sell this process presenting it as a mechanism that will transfer more power to the people and of companies that will be serving the people. The initiative of CANTV and Movilnet to lower their rates is a good example of this.

What business will become socialist?

In order to be able to identify the sectors that are of special interest to the Government, first you must ask yourself, what sectors does the Government think are strategic. At **Ecoanalítica**, we have come up with 4 categories:

1. **100% State:** These, of course, include the oil sector, as well as mining, electricity, and petrochemical.
2. **Temptations:** These include public services, and other sectors that are very close to the consumer and are potentially valuable to the Government in order for them to maintain their popularity, such as: medicines, food, health, and the bank.
3. **The comfortable ones:** This leaves the following sectors for the market: telecommunications, commerce, manufacturing and services, tourism, consulting, and technology. It's important to point out that some of these areas will also be very important for a Government which management will be forced to manage a series of businesses in areas that they aren't particularly knowledgeable of.
4. **Heavy regulation:** Companies subject to heavy regulation will include those found in the temptations category, because even though the Government won't nationalize them, they will be subject to severe regulation, especially the food, medicine, construction, private health, and other sectors.

Two opposed situations in 2008

At **Ecoanalítica** we are convinced that next year, the Venezuelan economy will continue to show increased economic growth, spurred on by the consumption boom, just like we have been experiencing up until now. In fact, economic growth dynamics have favored non-tradable goods, where the private sector dominates. Finance Minister, Rodrigo Cabeza, has pointed out that he is continually surprised by the paradox that the expansion of economic activity has been mainly fueled by the private sector, sworn enemy of the Government's policies.

But, next year the private sector will face even more pressure and even heavier regulation, more controls, and above all, more limitations concerning their operation.

What to do?

Though we will focus more in depth on the strategies that the private sector should follow concerning this issue in the coming Monthly Report, the private sector should concentrate on the following:

- Enter into the mind set of “active” asset protection, especially brands.
- Diversify risks, geographic as well as financial.
- Invest more in brands and consumer channels, because there will be the opportunity to obtain strong margins for commerce, since demand will continue to grow in the short term.
- Proactively confront regulatory risks, and this means to anticipate and try to find ways to minimize the impact of rules and regulations made with little to no criteria that favors business.
- Last but not least important, companies must search for social legitimacy, which is to say, obtain some kind of a social license in order to operate. This is a fundamental change, because the Rule of Law is weaker, so it will be important to invest in the people and support social projects.

Economic Tips

1.3% inflation in September. According to the Central Bank of Venezuela (BCV), inflation in the Caracas metropolitan area was 1.3% during the month of September 2007, down from the 1.9% that registered in September last year, but up 1.1% from the previous month. With this latest result in, the cumulative Consumer Price Index (CPI) variation at the close of the third quarter 2007 was at 10.9%, down from the 12.5% reported during the same period in 2006. Inflation for the last 12 months was at 15.3%, the same that was posted in September 2006, and down from the 15.9% reported in the previous month of August.

Education and vacations. According to the BCV, the surge in inflation during the month of September was mainly due to the 4.2% increase in Education Services, normal for this time of the year, while Restaurants and Hotels reflected a variation of 3.4%, reacting to a 2.0% increase in Food and Non-Alcoholic Beverages; besides it coinciding with the end of the vacation season. In general, non-controlled items increased 2.0%, while controlled items went up by 0.5%.

Lower in Maracaibo. The CPI in the Maracaibo metropolitan area posted a month-to-month variation for the month of September of 1.0%, with which the integrated rate of both indexes (Caracas and Maracaibo) is at 1.2%.

Bonos del Sur awarded. The Finance Ministry awarded natural persons that requested between US\$3,000 and US\$51,000, an amount of US\$2,200 of *Bono del Sur III*. Awards were based on the size of the purchase orders received and making sure that awards went to small and medium investors.

First stage of the conversion process has started. This Monday, October 1st signaled the beginning of the first stage of the monetary conversion process which consists of labeling all products with both prices, current bolivars (Bs.) and *bolívares fuertes* (strong bolivars) (Bs.F.). The authorities have a number of mechanisms in place to disseminate information and there is also an information campaign in progress to get the population used to the change which will become official on January 1, 2008. In an effort to help clear up any doubts and to inform the public, the BCV has activated a special phone service at 0800-Bolívar (265 48 27).

And it comes with extra measures. The monetary conversion which becomes official on January 1, 2008 will be accompanied with a number of new fiscal, exchange, monetary and real economy policies. This announcement was made by the Minister for the People's Power for Finance, Rodrigo Cabeza, during his walk along the

Sabana Grande Boulevard to verify that business were in fact posting their prices in current bolivars and strong bolivars (Bs.F).

Maza's opinion. Former BCV director, Domingo Maza Zavala, reiterated that eliminating three zeros from the currency doesn't mean the end of the national economy's problem with inflation. Among the measures that the Government should be implementing in order to control inflation, Maza recommended, "in the first place, contain and rationalize public spending, especially, by eliminating the budget deficit, which threatens to increase each year (...) in the second place, naturally, there should be a sufficient supply of staple goods, which currently is not the case." He continued to say that "in the third place, domestic production should be strengthened, because without a balance between production and consumption, there is no way one can begin to expect prices to come down, not even for them to stabilize."

Foreign currency granting restrictions. The Minister of Finance, Rodrigo Cabeza, confirmed that there will be restrictions for foreign currency for imports, as President Hugo Chávez announced in his latest broadcast of his show "*Alo, Presidente*", but he assured that no specific product will be prohibited. Cabeza explained that the economic Cabinet, before what they consider to be an excessive growth of imports, has been working on "a series of measures that will allow for the rational issue of foreign currency," in an effort to preserve the nation's international reserves.

FONDEN resources. According to the Ministry of Finance, FONDEN has assets of around US\$15.73 billion, and of that amount, US\$5.89 billion has yet to be allotted to any project. A portion of these resources has been earmarked, another placed in instruments, specially structured notes, which are backed by Ecuadorian, Argentinean, and Brazilian debt, among others.

SENIAT clarifies. Concerning the issue of having products labeled with both prices, in "current bolivars" and "strong bolivars" which started on October 1, the superintendent of the SENIAT, José Vielma Mora, announced that checks will be made to make sure business around the country are following this procedure, but he made clear that there would be no type of sanctions or fines for those businesses that have yet failed to comply. He reminded that billing in 2007 will be done in current bolivars, and that this would be the currency used for allocations, accounting or personal and/or corporate balances.

MERCOSUR membership delayed. The final decision to allow Venezuela to join MERCOSUR has been delayed once again due to an extension requested by certain members belonging to the Foreign Relations Commission and Defense of the Brazilian

Parliament, who pointed out that need for more time to analyze the regulations and the conditions related to the case.

OIL TIPS

Venezuelan oil reaches US\$74.03 per barrel. The Ministry of Energy reported that the Venezuelan crude oil basket prices last week reached US\$74.03 per barrel, which represents an increase of US\$0.92 compared to the previous week. The average price per barrel of Venezuelan crude oil reached US\$59.60 so far this year.

Confusion concerning Venezuela's quota. OPEC's new oil production quota for Venezuela, fixed at 2.47 million b/d starting in November, reduces Venezuela's total oil producing share to 9.06% (currently it's 11.5%). However, according to Minister Rafael Ramírez there is some confusion concerning this issue since such a modification requires the approval of the Ministers. From November, OPEC will have a new joint production ceiling of 27.25 million b/d.

Efforts to increase production. Venezuelan production will increase by 250,000 b/d, thanks to the application of oil well "re-shooting" method which will allow them to carryout maintenance services. Up until now, this method has been used on ten wells, generating an increase of 15,000 b/d. In a period of two years it's expected that 1,000 wells will be submitted to the same procedure which will produce an additional 250,000 b/d.

And more rigs. PDVSA estimates that the year will close with at least 130 wells operative nationwide in order to maintain and increase the hydrocarbon production canons of the last few years. This information was announced by the vice-president of PDVSA Exploration and Production, Luis Vierma, during his opening speech at the *VIII Exposición Internacional del Gas*. He also announced that two new rigs had just been acquired from the Republic of China which belong to the project called Perforation Sequence.

The International Energy Agency (IEA) expects a slight drop. The IEA forecasts that Venezuela's capacity for crude oil production will drop from 2.62 million b/d this year to 2.6 million b/d in 2008, a drop which reinforces the downward production trend that according to this organism the country's oil industry has been showing. In its most recent market report for September, the agency estimated that the local production averaged 2.36 million b/d last month (including the 475,000 extracted from the Orinoco Oil belt), an increase of around 20,000 b/d compared to what was registered in July. It

also estimated that for the same period, Venezuela had the capacity to produce over 250,000 b/d, the third highest among OPEC countries, after Saudi Arabia (2.1 million b/d) and Nigeria (320,000 b/d).

Collective bargaining agreement complete. Finally, oil workers reached an agreement with the state-run oil company, PDVSA, and signed the collective bargaining agreement 2007-2009. Among the conditions agreed upon were an increase in salary of VEB13,000 a day, as well as an increase in food stamps to VEB950,000 (which will be indexed to the price index), among other things.

PDVSA costs to increase. The corporate director for Labor Relations in PDVSA, Luis Castillo, announced that the forecast that the company has concerning the increase of the salary budget that the shortening of the workday could reflect is around 25% and 30%.

PDVSA pays 16 mixed companies. Venezuela paid the 2006 exercise dividend to 16 of the 19 mixed companies and the three that are still pending will receive their payment in the next two weeks, said a company spokesperson yesterday. The amount being paid was not specified.

Strategic associations pay their tax debt. Within the framework of the tax collection process of the strategic associations carried out by SENIAT, it has been calculated that these companies owe more than VEB1.50 billion in back taxes due to anomalies found with regard to income tax returns between 2002 and 2006. According to SENIAT, Ameriven, Sincor, Cerro Negro and Petrozuata all paid VEB1.05 billion toward this debt.

PDVSA looks to expand in Uruguay. PDVSA is negotiating the purchase of the 107 gasoline stations of Esso, which is a subsidiary of the U.S. company ExxonMobil, that are in Uruguay. Negotiations are in their very initial stages and prices haven't been mentioned. A representative of the state-run Brazilian oil company Petrobrás stated last week that Esso plans to sell its assets in Argentina, Brazil, Chile, Paraguay, and Uruguay.

Financial help for the Bronx. PDVSA and CITGO established an agreement to help a number of organizations in the Bronx, with the aim of supporting social and environmental programs. The agreement consists of a donation for the amount of US\$4 million to this community.

BUSINESS SECTOR TIPS

CANTV becomes interconnected. The telephone company completed the interconnection of 490 km (305 miles) of fiber optics with the Venezuelan Telecom Network connecting Santa Elena de Uairén with Puerto Ordaz. According to the company, this will improve the fixed telephone service and cellular service in the region as well as introduce broad band internet access to the population of Santa Elena.

Hotel demand increases. According to Ricardo Cussano, president of the National Federation of Venezuelan Hotels (Fenahoven), the demand for hotels increased by 12% during the first semester of the year compared to the same period in 2006. Hotel occupancy is at 78% of total capacity, while last year it was at 72%.

Iranian plants operational. By a presidential decree, the “Exceptional Plan for continuing the Infrastructure and the Acquisition of Necessary Equipment” was authorized to begin and gave the green light for companies contemplated within the framework of Venezuelan-Iran cooperation agreement to commence operations. The National Institute for Educative Cooperation (INCE) is in charge of executing the plan which includes the installation of ten milk processing plants as well as five plastic injection plants. The budget assigned for these developments is VEB258.0 billion.

PYME to issue debt. The National Society for Reciprocal Guarantees for Medium and Small Industry (SOGAMPI) is designing in coordination with the National Securities Commission (CNV), strategies that may allow Medium and Small Industry (PYME) to enter the stock market allowing them to issue debt instruments. Any commitment assumed by the PYME will be backed by SOGAMPI.

Industry registers shortages in raw materials for production. Miguel Pérez Abad, president of Fedeindustria, estimates that the gap between supply and demand is around 28%. This lack of response capability is a fact despite the increase in manufacturing activity. According to Pérez Abad, there is a differential between what the country demands and what the industries are able to offer, derived from factors like the lack of imported raw materials that has been evident in the last 4 or 5 months.

Milk and meat production is critical. Despite the fact that the Minister of Food, Rafael Oropeza, and the Minister of Agriculture and Land, Elías Jaua, have both assured that milk as well as meat production has improved, Genaro Méndez, president of Fedenaga, states that the local supply of these items is not showing any increase, “and the situation remains critical.”

MERCAL needs resources. The estimations of the Ministry of Food (MINAL) show 15 million people benefiting from the Mercal network. However, increased consumption (estimated at between 30% and 40%, according to MINAL figures) and the shortage of key items like chicken, milk, sugar, meat, black beans and wheat flour have created a situation of half empty shelves that shows that the Government network doesn't have the merchandise to cover demand. According to the information released by the MINAL, current Mercal distribution is at 131,000 tons/month. Despite this increase, says Rafael Oropeza, with the current budget we can not increase the number of items for sale. This situation whereby the supply is clearly being surpassed by the demand is what forced the Central Planning Commission to receive a proposal from the Ministry of Food which introduces a 39% increase of available items. This would cost VEB1.6 trillion on top of the Ministry's current budget. If approved, Mercal sales would progressively increase to 181,000 tons/month.

Government hopes to double corn production by 2010. The vice-ministry of Agro-production Development, Tatiana Pugh, stated that the Action Plan 2007-2010, which the Ministry of the People's Power for Agriculture and Lands (MAT) is following, will allow for the doubling of the domestic corn production over the next three years. Currently 2.2 million tons are being produced on 700,000 hectares. The MAT plan intends to increase the area being cultivated to one million hectares and production to 4 million tons/yearly.

Now it's going. The president of the Autonomous Institute for Trains of Lara State (IAFE), Michael Douaihy, announced that the development of the stretch of track between Barquisimeto-Puerto Cabello, will be carried out by the Cuban-Venezuelan company Ferrolasa. A Chinese company was originally slated to carryout the project, but it suspended operations in October 2006. It will take two years to complete the project.

SIVENSA sells its Vicson shares. The Siderúrgica Venezolana (SIVENSA) company sold its shares in Vicson, a company that made wire and wire products. This is part of the company's new strategy to focus on development within the iron and steel industry.

SIDOR follows through. The *Siderúrgica del Orinoco* (Orinoco Iron and Steel) company submitted to the Ministry of Basic Industry and Mining a report about points that have been met and how other are advancing with regard to the goals established within the framework of the cooperation agreement with the Government signed last August 23. The report points out that during the month of August more than 80% of iron and steel production was destined for local markets.

More expropriations. 40% of the Bucarito hacienda, located in Lara state was recently expropriated for the purpose of establishing a fundo zamorano (farm) there. The information was released by the Governor of the state, Luis Reyes.

Conindustria rejects the constitutional reform. The president of Conindustria, Eduardo Gómez Sigala, on behalf of his sector, objected to the constitutional reform due to the illegitimate elements it contains by eliminating, according to him, economic and political aspects that are essential for Venezuelans.

Political Tips

Opposition looks to unify itself. After three months of meetings, the main parties of the opposition and some non governmental organizations are close to reaching an agreement about how to confront the President's constitutional reform proposal. They hope to be able to hit the streets with a single unified message in order to convince the people, and especially the chavistas, that it is not in the country's best interest to approve the reform. Among the parties involved are *Acción Democrática*, *Alianza Bravo Pueblo*, *Bandera Roja*, *Causa R*, *COPEI*, *Movimiento al Socialismo*, *Primero Justicia* and *Un Nuevo Tiempo*.

Yes, there will be changes. Cilia Flores, president of the National Assembly, announced that there will be certain changes made to the proposal in order to avoid "contradictions." Flores also announced that on Tuesday, October 9th, the discussion, article by article will begin, and that during the first week of November, the reform will be approved and sanctioned, so that the referendum can be held on December 2nd.

Private property issue cleared up. During the extraordinary session of the Mixed Commission of the National Assembly for the discussion of the Constitutional Reform which took place in Mérida state, it was approved that the attributes "use, enjoyment, and disposal" will be left intact with regard to private property in article 115, just like it is in the current Constitution. Cilia Flores argued that it has never been, nor will be, the President's intention to curtail or limit citizen's rights, and much less the issue of private property.

More universities. President Chávez, announced the opening of 29 new universities as part of his "Alma Mater" education project. He explained that the universities have different classifications, 14 of the new ones are what will be known as territorial

universities, 10 will be specialized universities, 1 called Universidad del Sur, and 4 technological institutes. The plan is to create 58 new universities by 2012.

Venezuela's candidate steps down. Venezuela's candidate to the Human Rights Council of the United Nations Organization for 2008 stepped down. Currently, the Latin American group is made up by Bolivia, Brazil, Cuba, Guatemala, Mexico, Nicaragua, Peru and Uruguay, and in 2008, three seats have to be renewed. In principle, it should be Brazil, Guatemala and Peru that should step down.

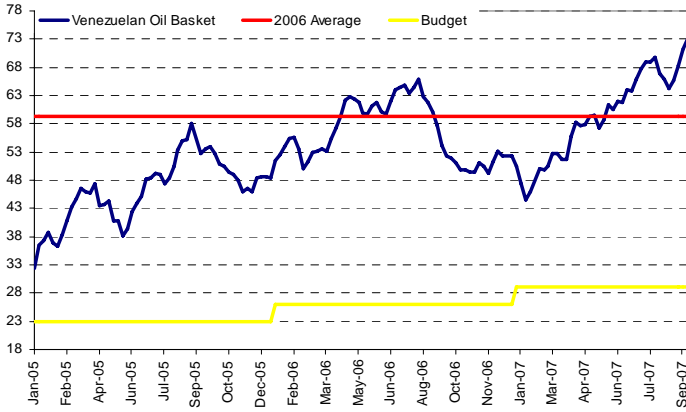
Venezuela and USA coming together. The Minister of Foreign Affairs, Nicolás Maduro, met in New York with US sub-secretary for Hemisphere Affairs, Thomas Shannon, in what is the first meeting between the leading Venezuelan diplomat and a high ranking US government official. According to a report issued by the Ministry, the meeting lasted for around an hour and was held at the UN mission chief for Venezuela's residence.

Increased corruption. The International Transparency Organization published its results corresponding to the Corruption Perception Index for 2007. This year Venezuela placed 162 out of a total of 179 countries. This reflects a drop of 21 places compared to last year when it was ranked 138th.

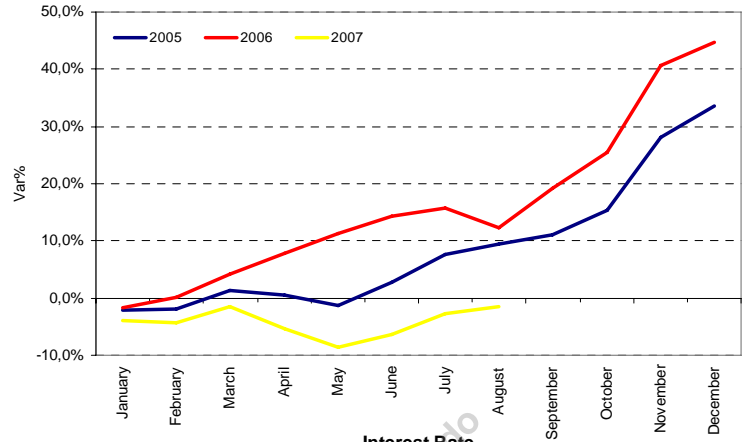
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ECONOMIC OVERVIEW

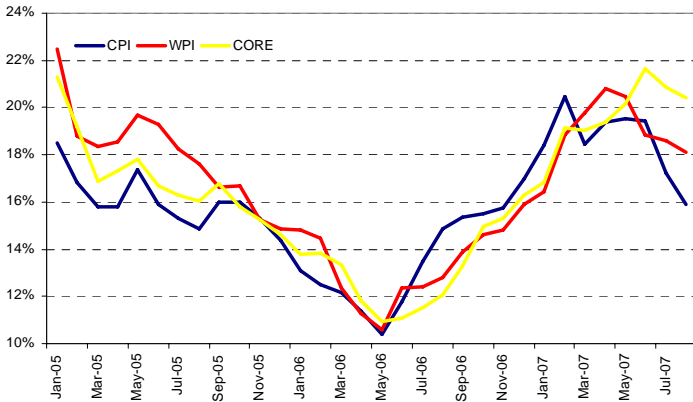
Oil Price
(Venezuelan Basket US\$/pb)



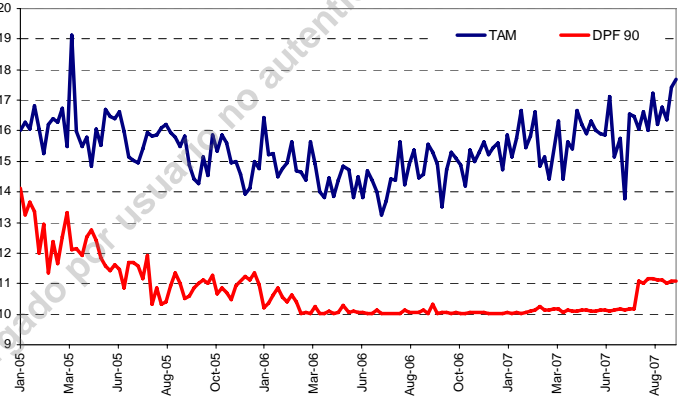
Real Expansion (M2)



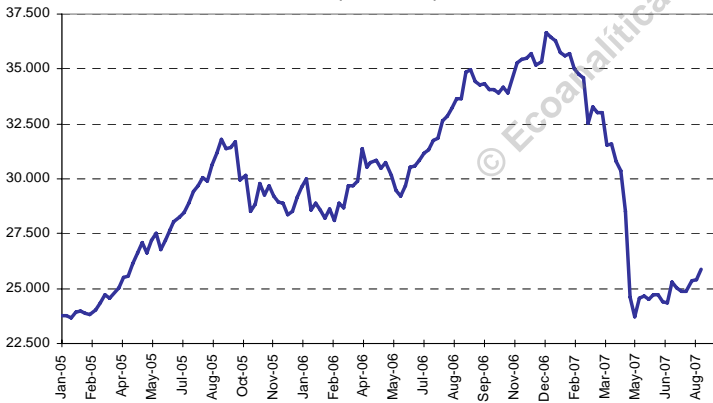
Inflation
(Last 12 Months)



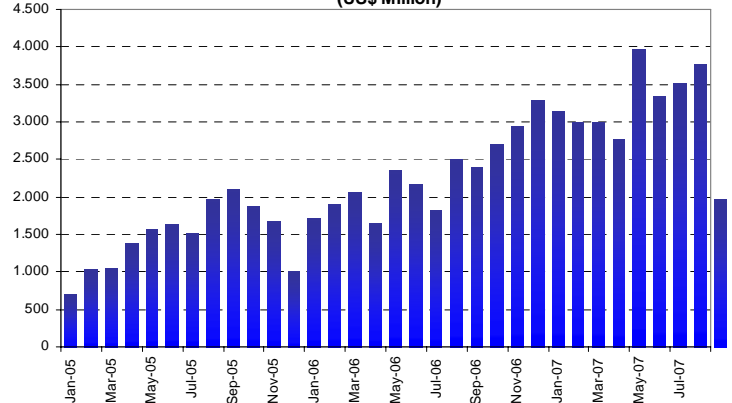
Interest Rate
(Six Principal Banks)



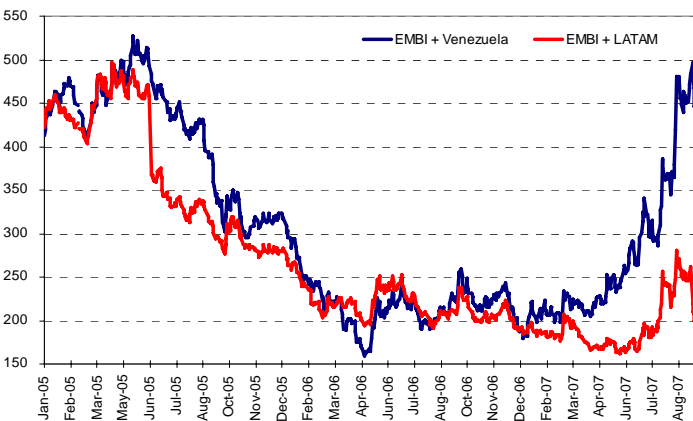
Fx Reserves - BCV
(US\$ Million)



Disbursement
(US\$ Million)



EMBI



Central Government
(VEB Billion)

