



Volume 3, Number 43
Week II, November 2007

WHAT CAN WE EXPECT FROM THE ENERGY SECTOR IN 2008?

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It is of utmost importance to know what is going on with the energy sector of the economy, especially the oil sector. The oil sector is the engine which drives the Venezuelan economy; a fact that is no secret. However, in the last few months, PDVSA's situation in general and the situation brewing with the domestic oil market have begun to set off the alarms, domestically as well as in the international markets.

PDVSA has enough resources

To date, the Venezuelan oil basket is bringing in an average of US\$62 per barrel, which is to say, US\$33 more than what was budgeted. If we assume that for 2007 the basket will close at US\$65.2 per barrel, PDVSA's total revenues will reach VEB136.1 trillion (US\$63.87 billion), while spending will be at VEB72.1 trillion (US\$33.54 billion). So, PDVSA will have a surplus of VEB64.0 trillion (US\$30.33 billion).

And it has taken on new debt

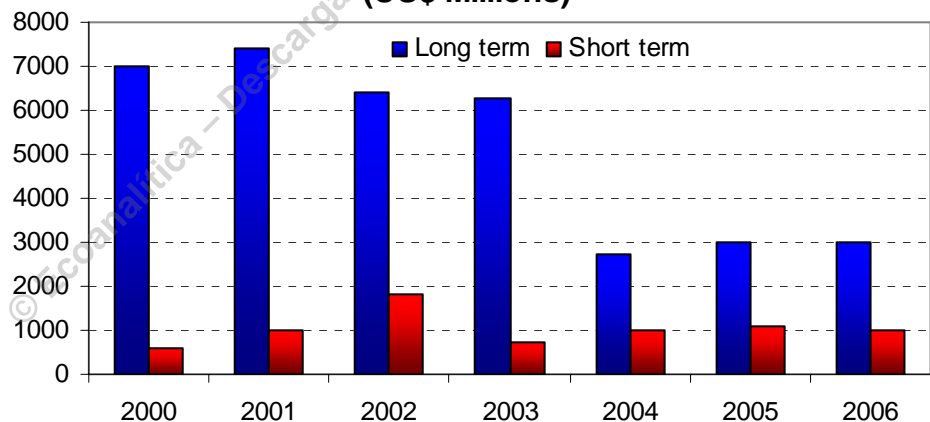
On the other hand, PDVSA has received fresh money from the international markets. First, it received a loan from the French bank, BNP Paribas, for US\$1.0 billion. According to what PDVSA said at the time, the loan was about a syndication of a non-collateralized line of

credit that would be used to develop the "Oil Seeding Plan" which calls for investments totaling US\$56.0 billion between 2005 and 2012.

Second, PDVSA issued bonds for a total amount of US\$7.5 billion; a record number, not only for Venezuela, but among all the emerging markets. And last, it also received resources from the Japanese Government for US\$3.5 billion which is to be paid off with crude oil and oil by-products. Adding it all up, so far this year, PDVSA has received US\$ 12.0 billion.

Up until 2006, PDVSA had significantly reduced its foreign debt. Long term debt went from US\$6.27 billion in 2003 to around US\$3.0 billion in 2006, which represents a 108.8% reduction of debt. Today, debt levels would reach US\$15.0 billion, which, compared to 2003, would represent an increase in debt of 139.4%, but for the sales levels and the assets that a company like PDVSA has, this is very manageable.

**Global Debt - PDVSA
(US\$ Millions)**



Sources: PDVSA and Ecoanalítica

PDVSA hasn't invested enough

So, the oil industry's problem is not about resources. It's a problem of transparency, since to date PDVSA has yet to announce how it is investing these resources; especially those it received through foreign financing. Ideally, these resources would be used to increase production. According to the president of PDVSA, Rafael Ramírez, this year the company is planning to invest US\$10.0 billion. However,

sources from within the industry say that the amount will be considerably less, more around the US\$7.0 billion mark. Up until October of this year, around 65% of this amount would have been invested, which is to say US\$ 4.55 billion.

It's probable that PDVSA will increase investment in 2008

We estimate that in 2008 PDVSA will look to stop the drop in production observed in 2007 and which dropped to average of 200,000 bpd. In fact, the company has already started to reverse this situation during the last quarter of this year, and it will continue to do so in 2008. Investment levels could reach US\$9.0 billion without including the so-called social contributions from industry or fiscal contributions. These last two items could reach around US\$43.0 billion next year.

On the other hand, PDVSA estimates that it will raise around US\$15.0 billion in resources next year through debt, not only by placing bonds but also through bilateral debt, mainly with international banks.

The natural gas sector in the eye of the hurricane

The natural gas sector has been becoming more and more important to this Government along with the petrochemical sector. With 180 trillion cubic feet of gas, Venezuela has 30% of all the gas reserves in Latin America, easily topping the 27% Bolivia has, but far from the 1,700 trillion cubic feet Russia has or the 1,029 trillion cubic feet Iran has.

Currently Venezuela has 150 trillion cubic feet of associated gas (with oil production) on the mainland and around 36 trillion cubic feet offshore. According to preliminary studies, PDVSA expects to add around 166 trillion cubic feet to these figures, most of these new reserves coming from offshore deposits.

The Mariscal Sucre doesn't move forward

However, the main project under development in this field, the Gran Mariscal Sucre, has yet to begin producing.

Since this project began five years ago, not one single molecule of gas has come out of its works. According to official figures, Venezuela has been accumulating a deficit of 1.5 billion cubic feet of gas for a number of years now, while our small neighbor Trinidad & Tobago, in less time, has become the United State's largest foreign provider of Liquid

Natural Gas. This project requires an investment of around US\$7.0 billion.

The Plataforma Deltana has resources estimated at 38 trillion cubic feet of free gas and the Mariscal Sucre reserves that have already been confirmed are at 14.3 trillion cubic feet of gas and an estimated production of 1.2 billion cubic feet daily. These figures are pretty much accepted by all, but to date, these projects have yet to produce anything that makes them be real.

There is nothing concrete

According to PDVSA, by the end of 2010 the first natural gas plant will begin operation. But analysts that specialize in the field say that this is far from being true. Up until now, two tenders have taken place for the Rafael Urdaneta project and there is no news concerning the extraction of gas. The Mariscal Sucre, delayed 8 years during the current Administration's reign and another 8 years during the previous administration, has been redesigned a number of times but it has never gotten off the ground. The partner that was chosen to carry out this project, Petrobras, has since pulled out.

The same dead end situation is occurring at the Plataforma Deltana. Statoil, the company in charge of block 4, had technical difficulties with the drilling equipment and has yet to produce results. Chevron, that operates blocks 2 and 3, has not received the authorization from the Ministry of Energy and Petroleum concerning the commercialization of the field. Block 1 was initially offered to BP, which operates the offshore block bordering Trinidadian territory, but it didn't accept it with all the excuses surrounding the case. The Plataforma Deltana is two years behind schedule.

A new project

But, a few weeks ago PDVSA announce the signing of a contract to drill 21 offshore gas wells. The investment for this contract with a Dutch company Neptune Marine and Drilling, with headquarters in Singapore, is for US\$785 million for a period of four years.

Strengthening the sector is a priority

Within the investment structure of the Oil Seeding Plan, PDVSA expects to earmark around 20% of resources for the development of gas projects. The new projects that the Government plans to carry out, using liquid natural gas for automobiles, the gas pipelines, and other projects, all will require greater volumes of gas than what the country's

production capacity is capable of producing with this level of investment.

Expected investments

The Government expects to invest US\$5.5 billion in the gas sector. However, according to sources within the sector, the most optimistic scenarios see investment reaching US\$3.2 billion.

The president of Petróleos de Venezuela Gas (PDVSA Gas), Félix Rodríguez, stated that US\$18.0 billion have already been tagged for between 2007 and 2012, aimed at carrying out an ambitious business plan which contemplates exploration, production, and transport projects.

Despite the fact that Venezuela invested US\$1.3 billion in gas in 2006, and shot up investment to US\$2.5 billion in 2007, the gas sector is still so poorly developed that production can't even cope with domestic demand, around 2.4 billion cubic feet of gas. PDVSA's strategy for 2008 is to be able to satisfy the domestic market, domestic and commercial use, the petrochemical and metallurgical demand, and the power (electric) sector.

The petrochemical sector under the shadow of nationalization

The first thing that must be pointed out concerning this sector is the rumor about modifications being made to the National Petrochemical Law which would give the State 60% majority shareholdings in all the companies that it is currently partners in business with. This could stop projects that are currently being negotiated and developed and turn away other potential projects that are just in their initial stages.

Quite contrary to the oil business, in the petrochemical sector it's the technology and the market that are the main strengths.

The key is in the gas

In our opinion, PEQUIVEN has other gas supply problems, which hampers its expansion. The Government expects to invest around US\$20.0 billion in the gas sector between 2007 and 2021, which is around an average of US\$1.33 billion a year.

Not enough investment in the power (electric) sector

The power sector changed a lot this year when the Government decided to nationalize it.

The power sector is made up of a number of production phases: to generate, transmit, distribute, and commercialize. 74% of the country's power comes from hydraulic energy and 26% from thermal energy. During the past few years there has been a crisis within the sector due to a lack of investment and therefore the increase in demand (5% annually) has not been able to be satisfied. In order to improve domestic power service, an investment of around US\$6.0 billion will be need over the next three years.

Investment is at 10% the ideal amount

This year, the Government, one has to say, has been very remise when it comes to the investment in this sector. The State has invested in terms of new power projects, through the 100 Days Plan of the National Electric Corporation and the proposals that came out of the Energy tables, total around VEB697.0 billion (only US\$324 million). According to the sources within the sector that we have approached, this year's investments in power may reach US\$600 million, 10% of the total necessary to bring the sector up to adequate working standards. For 2008, it's estimated that investments will be around US\$920 million, mainly coming from PDVSA, which has become the entity which is contributing resources to the sector.

The Government has centralized the sector

Another important aspect to point out is that after the nationalization of the sector, the Government has begun a restructuring process. The MENPET issued resolution 190 that established the territorial reorganization of the power and electrical energy distribution in the country.

Within the framework of this new restructuring, the Government decreed the birth of a new government entity that would be in charge of the country's power policies: the Venezuelan Electric Corporation, a coordinating entity that will bring together the main electric companies nationwide in order to work in a unified manner on sector projects, advances, and developments in a much more efficient environment.

In our opinion, this is a positive event. This new organizational structure of the power sector will concentrate the efforts to eliminate

Weekly Report

the obstacles that sometimes occur when sector criteria and projects aren't unified. However, the sectors main problem will continue to be the lack of investments.

2008 will continue to be critical

In 2008, the power system will be in a critical condition due to the fact that the demand for power is increasing at higher levels than expected. According to a report by the Ministry of Energy and Petroleum, 89% of the available generating plant areas are over 20 years old and the distribution system has completely surpassed its nominal capacity. The diagnostic part of the report established that on December 2005, there were 4,868,388 subscribers (residence, commercial, and industry). It's estimated that to date, this figure has increased by 8% due to the increase in demand for power.

The report points out that in the next few years "it's necessary to duplicate the current power generating facility. The National Electric System reports that power consumption increased at an annual average of 5.74% between 2000 and 2006. In 1994 it grew by 2.3%, in 2000 by 4.8% and in 2006 by 6.5%, always continuing to increase.

Indicators of National Electricity Sector	2002	2003	2004	2005	2006	2007
Accumulated Installed Capacity (MW)	19.569	20.639	21.118	21.767	22.216	22.535
Energy Consumed (GWh)	89.147	89.320	95.944	103.574	110.417	74.839
Energy Generation (GWh)	89.013	89.734	96.431	104.091	110.959	75.192
Maximum Demand (MW)	12.813	13.052	13.807	14.687	15.945	15.535
Population (millions of flats.)	25,2	25,7	26,2	26,6	27,0	27,4
Real GDP Per Capita (Millions of Bs. 1984)	21,9	19,9	23,0	25,0	27,2	29,1

Sources: OPSIS and Ecoanalítica

The MENPET report points out that the increasing demand for power in the last three years surpasses the historic growth reflected in the last ten years. Meanwhile, the system power demand registers an average annual growth of 5.57% between the year 2000 and 2007.

Economic Tips

Ministry of Finance sells bond. Despite the fact that the Ministry of Finance will be selling bonds in US-dollars and bolivars on a weekly basis, everything indicates that the impact this will have on the parallel foreign currency market will be minimal. According to what has been announced, each week the Government will offer small combo offers which will include bonds in dollars for between US\$100 and US\$150 million, and papers in bolivars for a similar amount.

The coupons are changed. The Ministry of Finance changed the domestic local bond coupons yesterday which made up part of the "Venezolano I" combined offer that it issued last week and that it adjudicated for US\$1.52 billion. The Ministry of Finance issued an Erratum to correct the coupon issued with the so-called Vebono 2014 which has a rate of 11.54% and not 11.98%, and that the Vebono 2015 coupon is 9.70% and not 11.54% as was released last week. The 2038 7% international bond coupon which was part of the same issue appears to have remained the same. In our opinion, this is an unbelievable situation.

At 8. According to the figures coming out of the finance department, up until the middle of September, the petroleum industry's US-dollar account in the National Treasury has grown to around US\$8.0 billion. According to the scheme fixed by the Administration, PDVSA sells to the Central Bank of Venezuela all the foreign currency that is generated at US\$29 per barrel, which is the value of the price per barrel of oil fixed for the 2007 National Budget. The revenue that is generated above the US\$29 per barrel price goes into the Treasury account, which the Treasury later sells back to the BCV when it has to settle spending.

SENIAT won't collect oil taxes. The superintendent of the SENIAT, José Vielma Mora, announced that from 2008 the SENIAT wouldn't be in charge of collecting Income Tax declared by the mixed companies nor would it collect any other oil tax. The Income Tax collected by said companies will be collected by themselves and deposited in the National Treasury Office. So the SENIAT will only be in charge of collecting taxes generated by the sale of cigarettes and alcohol, inheritance, fiscal stamps, bingo establishments and casinos, as well as Income Tax from natural and legal persons, the VAT, and the Financial Transaction Tax.

More fiscal rigidity. According to President Chávez, if the Independent Worker Fund were to cover all the people working in the informal sector of the economy, the

Government would have to allocate VEB4.6 trillion annually to maintain it. However, Chávez pointed out that for the first year it's estimated that 25% of those working in the informal sector will be covered and in order to do so it will be necessary to allocate VEB 1.2 trillion each year.

Interest rates go down. According to the BCV, during the last week in October, commercial and universal bank average lending interest rates dropped by 0.3 percentage points to close at 17.9%. The yield for 60-day deposits dropped by 0.1 percentage points to settle at 11.1%; 90-day term deposits were up by 0.5 points and closed at 11.6% and 30-day term deposits remained at 11.2%.

Difference in gender. Venezuelan women receive only 51% of GDP per capita of what men receive, according to the study Índice de Diferencias por Género 2007 (2007 Gender Differences Index) presented by the World Economic Forum. While males receive US\$7,982 per person, each female must be content to receive US\$4,083 of GDP per capita.

Paraguay proposes to contribute bonds to the Banco del Sur. Paraguay proposes to contribute bonds instead of cash to Bancosur operating capital, announced President Nicanor Duarte.

OIL TIPS

Venezuelan Crude oil reaches yet another historic high. Venezuelan crude oil closed the week out at a historic high topping US\$86 per barrel, spurred by market speculation and supply levels just before the upcoming winter season, said the Minister of Energy and Petroleum. The Venezuelan crude oil basket was up US\$2.77 per barrel posting an average of US\$86.30 between November 5 and 9 from the US\$83.53 that it registered last week.

PDVSA and CVG look to optimize imports. By orders from the Administration, PDVSA and its international subsidiary the Corporación Venezolana de Guayana (CVG) will contribute "to unify the State's procurement procedures" on the international market. These two companies will have the role of creating synergies in order to streamline all types of imports, including food items, and to contribute to lowering the costs involved by reducing the number of intermediaries involved in the process.

BARIVEN has been acquiring non-oil items abroad for PDVSA's new subsidiaries, including PDVSA Agrícola and PDVSA Servicios, which is in charge of contracting drilling rigs and other drilling equipment.

Citgo sells its asphalt division. Aiming at only concentrating on its main line of business, Citgo, a subsidiary of PDVSA in the United States, has sold off its two asphalt refineries in Paulsboro, New Jersey, and Savannah, Georgia, to NuStar Asphalt Refining.

More money for the Administration. Just like when CITGO sold off its 41% shareholding that it had with Lyondell Chemical in Texas, the money from the sale of the two asphalt refineries, Paulsboro (New Jersey) and Savannah (Georgia), will end up in the Administrations coffers, said the Minister of Energy and Petroleum and president of PDVSA, Rafael Ramírez.

Petrozumana was assigned its exploration area. The Ministry of Energy and Petroleum published a resolution whereby it assigned Petrozumana an area of 428 km² (266 mile²), located between Monagas and Anzoátegui state, for the exploration and extraction of crude oil. This mixed company is integrated by the Corporación Venezolana de Petróleo and the China National Petroleum Corporation.

Commercialization margin increased for gasoline transportation companies. The average margin that gasoline transportation companies received up until now was VEB8.25 per liter of gasoline and diesel, so the increase of VEB3.10 represents a raise of 37.5% and places the average margin at around VEB11.35 per liter, depending on the route.

BUSINESS SECTOR TIPS

Another exchange restriction. Cadivi issued an agreement with the Venezuelan Airline Association (ALAV) in an effort to control the sale of airline tickets, pre-paid with Cadivi authorized US-dollars. Now, it's prohibited to buy airline tickets with Cadivi authorized US-dollar to any international destination that doesn't require a connection in a Venezuelan domestic airport.

How do Venezuelans spend their money? According to a Venezuelan consumer profile study titled "Estadísticas y datos inéditos del consumidor venezolano"

(Venezuelan consumer statistics and unpublished data) presented by Keystone, around 12.5% of a Venezuelan's expense goes to paying specific debts, among which moneylenders are included. 20.8% of Venezuelan household expenses go to buying food and drink, while 11.3% is used to purchase cleaning items, 10.1% for cosmetics and personal care items, 9.8% for transportation, 8.4% in furniture, and 6.9% on household rent.

The first numbers released by state-run CANTV. The company's figures dropped in the third quarter compared to the previous quarter and only 5% higher than previous CANTV figures when it was still in private hands. Furthermore, it increased operation spending by more than 24%.

Significant increase in spending. During the first nine months of 2007, CANTV doubled operational spending compared to last year, and on average, spending has totaled 26.8% of growth in percentage points in three quarters, while during all of 2006, spending only increased by 14% compared to 2005.

MOVILNET figures aren't very convincing either. MOVILNET managed to add on another 350,000 lines during the third quarter to close with a bit over 8.9 million clients and become the leader of the sector for the first time in its history. However, the fact that it has registered more subscribers does not mean a significant increase in revenues, since the company only increased revenues by VEB25.0 billion during the quarter which placed MOVILNET as the subsidiary which managed the most revenues with almost 50% of the total.

Real State goes up. The Metropolitan Real State Chamber registered a 30% increase in the value of commercialized units during the first quarter of the year compared to the same period in 2006.

Venezuela and China agree to create a financing fund. Both countries signed the constitution of a fund aimed at financing development projects. Venezuela will initially contribute US\$2.0 billion to the fund and China will contribute US\$4.0 billion.

Ship carrying cattle sunk off the coast of Venezuela. A Lebanese ship coming from Brazil sank in the port of Puerto Cabello. It was carrying cattle that were decomposing. It was taken out to sea and sunk at a considerable distance off the coast.

There is still a shortage of milk. Despite the brief resurgence of milk in supermarkets, shortages continue to exist. Given the high demand for this item, the supply that came in wasn't enough to satisfy demand.

New licenses to import milk. In another attempt to solve the milk shortage problem, the Ministry of Food approved licenses for the import of 6,100 tons of powdered milk through the following companies: Génica, Agroéxito, Empaques Guarenas, Zulimilk, Nestlé, and Torondoy.

Mercal subsidy at 40%. Félix Osorio, president of Mercal, announced that the Mercal network receives a subsidy of 40% on average of the food item controlled price. He also stated that Mercal is “the best food store chain” and it deserves a prize for selling all its stock in three of four hours.

Automobile boom continues. Despite the ever increasing restrictions concerning the supply of automobiles, sales don't stop. During the first ten months of the year, a total of 396,891 cars were sold, representing a 48% increase compared to the same period last year. 67% of the units sold were imported vehicles.

Increased tariffs to import cars expected. The automobile industry expects an increase in tariffs to be paid on cars coming into the country as a measure to strengthen domestic production by restricting imports.

Sales increase in shopping centers. The president of the Venezuelan Chamber of Shopping Centers (Cavececo), Arnold Moreno, said that sales have increased by 30% in terms of bolivars collected. Moreno recognized that this is less than what was registered last year, but reminded that the Christmas season was just beginning and that it is the most important sales event of the year, so it was impossible to release accurate figures for this year.

Toy prices increasing. Avi Kreisel, general manager of the company, explained that operational costs as well as raw materials for manufacturing products have gone up this year. This has led to toy prices increasing by between 15% to 20% compared to 2006. Kreisel continued to say that the demand in the toys sector has gone up by 30% during 2007, due to the fact that consumers have more buying power this year than previous years. Around 70% of the toy market is made up of imported products while 30% are domestic goods.

Political Tips

TSJ hands down its decision. The Constitutional Chamber, through a statement read by its president, magistrate Luisa Estella Morales, declared the matter of the appeal concerning the interpretation of article 344 of the Constitution of the Bolivarian Republic of Venezuela resolved, and concluded among other things that “the National Assembly” can decide (with the approval of more than two thirds of its members) on the issue of voting on the constitutional reform proposal in parts and not as a single block, even in those cases in which the initiative has not come from the Assembly, but from a group of voters or the President of the Republic in Ministerial Council.” Judge Jesús Eduardo Cabrera submitted a concurrent vote, whereas his colleague Pedro Rondón Haaz expressed and recorded a dissenting vote.

Tascón kicked out of the PSUV. A chavista political group from the state of Táchira announced during a political event that National Assembly representative Tascón must be eliminated from the United Socialist Party of Venezuela for having sided in favor of former Minister Baduel, despite the fact that the “Party” hasn’t officially been formed. There won’t be any debates. The debates between the political contenders concerning the constitutional referendum to be held on December 2 have been canceled. This information was released by the president of the National Electoral Council, Tibisay Lucena.

Abstention and disinformation. These are the reasons that eventually will give Hugo Chávez his victory on the constitutional referendum to be held on December 2. A public opinion study corresponding to the third quarter of 2007 carried out by Keller & Associates shows the President’s support drop from 50% to 44%, which could be explained by the reform proposal’s weak impact among non-radical chavistas.

AN demands an investigation of university authorities. The National Assembly (AN) unanimously agreed to demand of the Public Ministry that it investigate the conduct and responsibility of the university authorities with regard to the violent events that have been occurring in universities around the country.

Summit incident. The King of Spain, Juan Carlos I, left the plenary session of the Iberian-American Summit, irritated and in protest of the attacks aimed at President of Spain, José María Aznar, his country, and at the supposed actions of its foreign service. King Juan Carlos of Spain was exasperated to the point of saying out loud during the plenary session to the Venezuelan President, “Why don’t you be quite?” because Chavez continued to interrupt Zapatero. The King then left the Session.

Change of Minister. President Chávez appointed Erika Farías as Minister of the People’s Power of the Presidency Dispatch Office by presidential decree N° 5.673 published in the Gaceta Oficial N° 38.808 dated Monday the 12th. Farías Peña has

been vice-minister of Production of the Vice-Ministry of Planning and Minister for the People's Power of Food. Her appointment as Minister of the People's Power of the Presidency Dispatch Office replaces Hugo Cabezas.

Other Tips

The FED injects dollars. The U.S. Federal Reserve injected US\$32.75 billion in liquidity into the banking circuit in order to neutralize the tension in the credit market. This operation, carried out in three separate transactions, is the most significant one since November 1 when the FED contributed US\$41.0 billion, the largest amount since the crisis began in August.

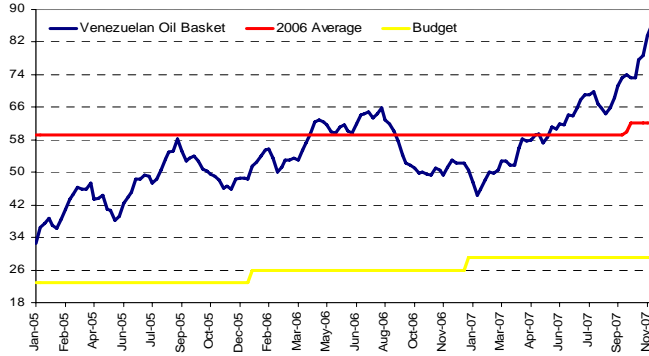
Inequality as a central theme. In its report, "Perspectivas Económicas de América Latina" (Economic Outlook for Latin America), the Organization for Cooperation and Economic Development made reference to the important need for the Latin American region to promote transformational policies concerning fiscal, social, and commercial issues as key elements in the fight against inequality that is affecting our economies.

U.S.: 4x3. The Federal Reserve has concluded its review of the communication process of the Federal Open Market Committee (FOMC) and it announced that from now on it would publish forecasts four times a year (not two as done previously) and with a horizon of three years (instead of two), among other changes (forecasts will be given for general and underlined private consumer spending deflator and risks concerning specific forecasts). This focus will help bring more market attention to these disguised inflation targets.

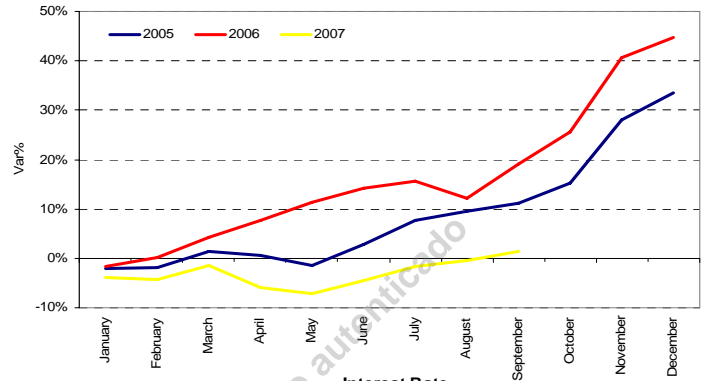
China: The race towards the Olympics. Food prices continue to be out of control in China, increasing by 17.6% in October compared to the same time last year (pork up by 55%, oils and fats up 34%, vegetables up 30%). Meanwhile, and partly due to the increase of these prices, retail sales in terms of value increased by 18.1%, the highest level its ever reached since the series started being published with sales increases of 33% for clothing and footwear, 36% in automobiles, and 31% in electrical appliances. Additional measures to cool off the economy won't be long in coming.

ECONOMIC OVERVIEW

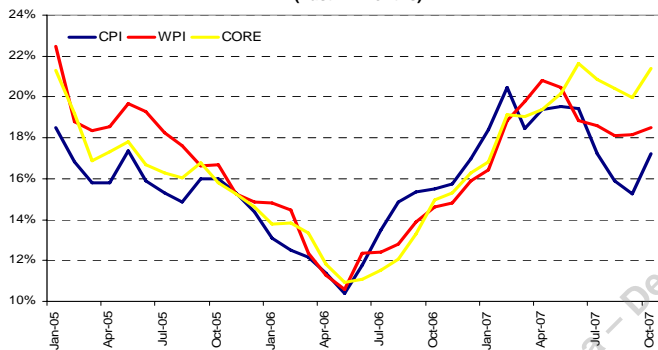
Oil Price
(Venezuelan Basket US\$/pb)



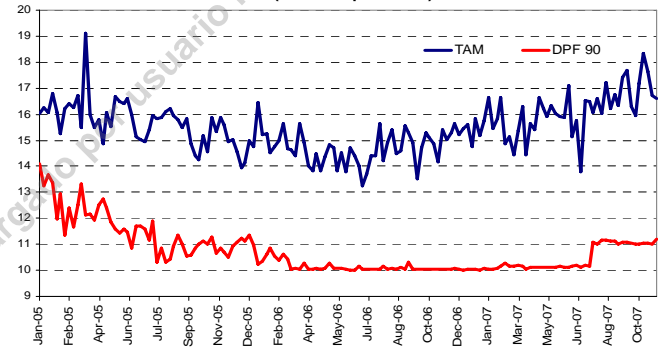
Real Expansion (M2)



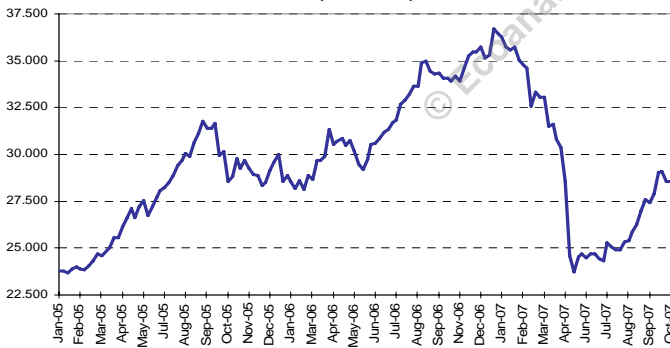
Inflation
(Last 12 Months)



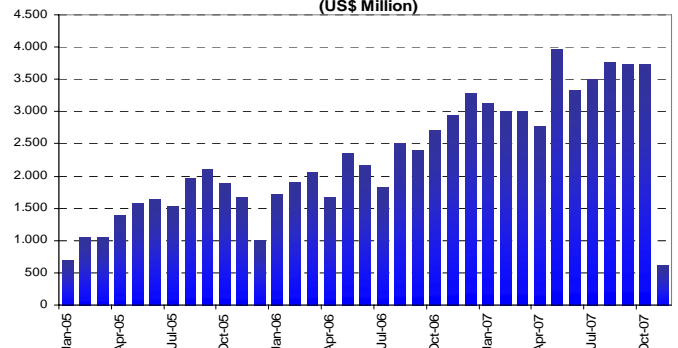
Interest Rate
(Six Principal Banks)



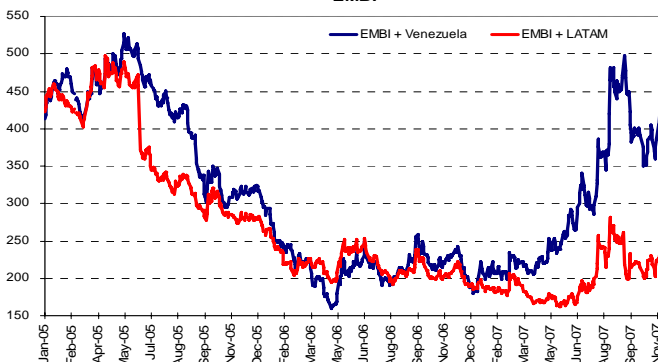
Fx Reserves - BCV
(US\$ Million)



Disbursement
(US\$ Million)



EMBI



Central Government
(VEB Billion)

