



# Weekly Report

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## ***CARABOBO BLOCK TENDER: A STORY OF PRICES...AND IDEOLOGIES***

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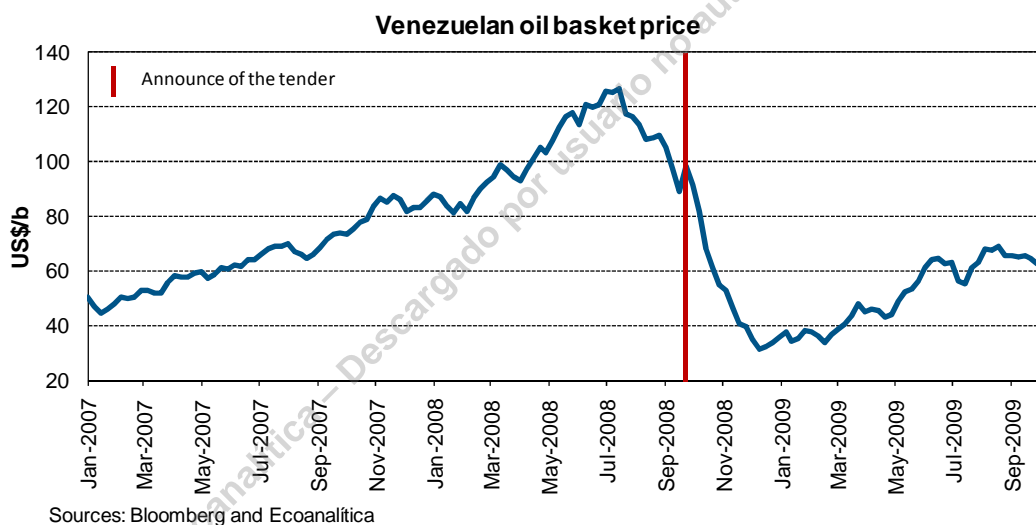
Since the end of October 2008, the Ministry of the People's Power for Energy and Petroleum (MENPET) has initiated a selection process searching for partners to develop the Carabobo Block of the Orinoco Oil Belt. This would make Venezuela into one of the most important oil producing nations in the world. The selection process has been complicated by mainly two variables: the price of the Venezuelan oil basket, and the Administration's ideological position.

### **In the beginning...**

When the tender was just getting started (just as oil prices began to drop during the last quarter 2008, from US\$127.2/bl. at 3Q08 to US\$80.8/bl. in 4Q08), the Venezuelan oil basket was registering a yearly average oil price of US\$109.0/bl, an un precedent amount of US\$74.0 over the value set for the 2008 National Budget (US\$35/bl). Naturally, the Administration took advantage of this extraordinary oil windfall to promote its political-economic agenda. The Administration's strategy, through the MENPET and PDVSA, was based on the exploitation of our *only* competitive good for the *single* purpose of promoting the strategy of "complete oil sovereignty" with respect to the domestic as well as the global market.



PDVSA took advantage of its overflowing coffers produced by the aforementioned increase in oil prices to further the Administration's strategy, both domestically as well as internationally. Abroad, the strategy was focused on increasing Venezuela's influence in areas of geopolitical interest through energy agreements with "allied" countries. Domestically, it seems that with oil prices being so favorable, the strategy focused on developing and expanding the oil industry's infrastructure through international investments to open up and expand operations on the Orinoco Oil Belt and the Delta Platform.



### The Orinoco Oil Belt attractiveness

With respect to the Orinoco Oil Belt, the Minister of Energy and Petroleum, Rafael Ramírez, pointed out the opportunities that were open to foreign investors in developing the Belt, especially when you take into account that in Venezuela, the cost of producing a barrel of oil is very competitive with respect to other oil producing countries. Furthermore, the Orinoco Oil Belt has one of the largest certified oil reserves in the world, as well as having infrastructure already set up due to other projects in the area that have already been developed. These are very attractive qualities for potential bidders.

### The importance of the Carabobo Block

It's estimated that the Carabobo field is one of the most prolific ones found in the Orinoco Oil Belt, and according to the MENPET and PDVSA, it has quantified and certified reserves for 32.0 billion barrels of Original Oil in Place in its seven blocks and in the area of the Orinoco Oil Belt which encompasses 55,314 Km<sup>2</sup>. It's expected that 17.0% of the 1.36 trillion barrels of Original Oil in Place will be quantified and certified, in other



words, 235 billion barrels of the reserves quantified and certified. So far 153 billion barrels were approved.

Based on this last figure, which could make Venezuela the country with most certified oil reserves in the world, Carabobo block represents 21.0% of the reserves to be certified, which according to PDVSA, will be certified by 2010.

In a recent announcement, Ramírez stated that the seven block of the Carabobo field are expected to produce 1.2 million barrels a day. This is a very significant figure since it represents almost 50% of Venezuela's current total oil production. So, it is vitally important that this block, as well as the other areas, be developed. It is expected that jointly, these oil fields will increase national oil production by 3.05 million barrels by day (with Carabobo block responsible for almost 50% of this increase), a figure which could place Venezuela among the top 5 crude oil producing countries in the world, an achievement which is of enormous strategic important to the Administration.

### **The Tender**

The tender process consists of the selection of four areas to develop two integrated projects using crude oil Up-graders with a production capacity of 400,000 barrels each, by 2014. These Up-graders convert extra-heavy crude oil into light crude oil. Each partner will be responsible for building of the Up-graders and the joint development of the project. The commercialization of the crude oil will be carried out by the mixed company that is constituted.

In October 2008, ANCAP, BP, Chevron, CNPC, Ecopetrol, Enarsa, Eni, GALP Energía, Gazprom, Harvest Vinccler, Inpex, JGC, Petrobras, Petronas, Petrovietnam, Repsol, Total Vinccler, and others, were all interested in the project and in agreement on the importance and the potential of the Orinoco Oil Belt.

### **Oil prices drop, and the problems begin**

By the first quarter 2009, oil prices had dropped. Venezuela's oil basket was at an average price of US\$40.14/bl, down by 52.9% compared to the first quarter 2008 price of US\$85.19/bl and the year's average price of US\$86.49/bl.

The drop in oil prices led to the Administration, and PDVSA, having problems with their fiscal accounts and financial statements, respectively. In PDVSA's case, the drop in crude oil prices, growth with it a series of problems of which the following were the most severe: an accumulated debt



with service and contracting companies of US\$7.50 billion, a pending collective bargaining agreement with oil workers, and financial problems with its Citgo branch; all this, without mentioning the added pressure the company faced due to its fiscal responsibilities (contributions to FONDEN and to the Administration).

Consequently, around the middle of April, the Government reprogrammed the schedule for the selection process of the partners to be considered for the Carabobo block project on the Orinoco Oil Belt. Minister Ramírez stated that the modification of the project would allow for clarifications to be made to the companies considering bidding on the project and to listen to proposals as well as introduce the requirements each company must meet in order to be considered for the project.

So, what seemed like a Government's solid strategy to back foreign investment in infrastructure and services for its oil industry in order to expand and increase production, turned into a weaker Government, desperately clinging to its political agenda and one of its main objectives, to achieve "complete oil sovereignty," at the least possible cost. And, if in order to keep costs at their lowest levels, the Administration has to offer contracts which are not very attractive to foreign investors, but which follow the political guidelines of the Government's agenda, then so be it.

## **The Obstacles**

In PDVSA's first contracts, there were a number of obstacles included which made foreign investors take a very serious second look at the project and reconsider becoming involved. Among these obstacles are: the Government not being willing to accept international arbitration, requiring the minority partner to put up all the financing without being able to be in control of the business end of the operation, PDVSA controls the dividends, uncertainty with regard to the rules of the game, and increasing the recuperation factor from 8% to 20%, and all this without mentioning the extremely uncertain environment that exists due to expropriations which took place in May, and the special treatment being extended to industries of other countries.

Plus, the contracts offered to China, Vietnam and Russia (the Government's main allies) pertaining to the Junín block include international arbitration, among other advantages not extended to companies participating in the Carabobo block tender.

This has led to the tender process being postponed three times because the companies participating, apart from objecting to the aforementioned



obstacles, have stated that the time allotted by PDVSA to evaluate the project, being in the middle of an economic crisis and all, is too short, and that the financing aspects involved are very difficult to evaluate for an investment of this magnitude.

On the other hand, PDVSA was continuing to refuse to change its position regarding arbitration and the fiscal schema applied to mixed companies (Royalties, Income Tax, and the Windfall Tax).

**With prices recovering, to homologate is the solution**

After all the problems which have arisen regarding the tender process in 2009, during the last few weeks, with oil prices increasing (Venezuelan oil basket price at XX% over the value set for the National Budget), it seems like Minister Ramírez has decided to put an end to all the controversy and homologate all the contracts for the blocks left to develop, also including the clause which allows for international arbitration. In other words, the Minister stated that the conditions stated in the contracts being offered for the Carabobo block will follow the guidelines of what was established for the Junín block agreements.

**And not only that...**

Plus, Ramírez opened the door (for the first time) to the possibility of reforming the mechanisms established in Articles 44 and 48 of the Hydrocarbons Law in case it was necessary; this in order to guarantee the viability of the projects. According to what is currently established, a royalty of 30% per volume extracted is applied, though the Government may lower it to 20% *"in order to make exploitation more economical,"* and leaving the door open for the Government to increase it to 30% when production levels and operations can tolerate such an increase.

Sources inside PDVSA have also state that companies interested in participating in the Orinoco Oil Belt project will be offered a different fiscal model to follow, one that fixes taxes at 50% and which allows for a special tax regimen set at 34% if a company decided to build a refinery; a four year extension period to build the Up-graders; to extend the project from 25 to 40 years; as well as a bond worth US\$1.0 billion for the right to participate in any of the blocks and the guarantee that the investment will be returned in 7 years.

**The outcome...**

Under these new conditions, November 12 was fixed as the date to turn in the final version of the contract, and January 28, 2010 to receive the bids. This only leaves two months to evaluate the project, which for many companies, is rushed.



At the end, it's important to point out that PDVSA's history of inefficient administrations, plus the questions surrounding the integrity of the contract being offered makes one wonder if the Orinoco Oil belt will ever be developed. In addition to this, there is the related component to the level of risk that every company is willing to confront, in a sector accustomed to operating in troubled countries and unpredictable Governments, since it is the case of Venezuela, where the topic of the juridical safety is a very influential factor at the moment of the decision making process of the companies.

However, at **Ecoanalítica**, we expect that the tender will be carried out this time, for a number of reasons: oil prices look to be on the rise; the MENPET and PDVSA becoming more flexible with regard to negotiations; the information released last week by the MENPET stating that after the Junín and Carabobo block processes were concluded that no more areas will be opened for exploitation; and last but not least, the fact that domestic oil production has been dropping and the Administration hasn't been able to do anything about it, so it has to turn to foreign investment to help solve this problem.

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## Economic Tips

**PDVSA bond issue coming.** According to statement made by PDVSA's vice-president for Exploration and Production, Eulogio del Pino, the company will issue bonds during the second half of October. The issue will be for US\$3.0 billion and will mature in 2 and 3 years. Revenue taken in by the bond issue will be used to pay PDVSA's debt to its suppliers, which is at around US\$1.40 billion.

**More investment in health, housing, and infrastructure.** The Minister of Planning and Development, Jorge Giordani, defined the Government's three objectives: i) jobs and economic growth through investment; ii) Maintaining jobs through financial system, iii) lowering inflation. He pointed out that there is a need to increase investment in health, housing and basic infrastructure so that the people will have a better standard of living. With respect to the increase in the level of human development, in reference to recently released UN Human Development Index, he stated that the countries that ranked higher than Venezuela: Chile, Uruguay, Argentina, Mexico, and Costa Rica, are countries which distribute their wealth differently than Venezuela does.

**Preparing the foreign currency budget.** Another important announcement coming out of the October 8 press conference was Giordani's announcement that the Government was preparing the foreign currency budget for 2010. This will help the private sector plan how it will use its foreign currency resources for investments and other matters of operation. The president of the BCV, Nelson Merentes, said that the foreign currency budget will have an amount that is available as well as amounts which will be granted to companies.

**What else did Giordani say?** He pointed out that according to the Gini index, Venezuela has better references with regard to the distribution of wealth, according to 2007 figures. In reference to the world economic crisis, he pointed out that retired people in Venezuela have a minimum wage and are in a better situation than retired people in the United States; furthermore, Venezuela has maintained its employment level. He highlighted that extreme poverty will be cut by half by 2015, in reference to the Millennium Goals. Said report will be released in the future.

**Another fund.** The head of the Ministry of Economy and Finance announced the creation of a new fund which will be aimed at promoting infrastructure, housing, energy, and food production works, similar to what FONDEN and the Chinese Fund do. He stated that the measures the Government will take are aimed at "productive



intermediation.” He added that actions are also being carried out to strengthen the country’s general capacity, especially in the public sector, given that in some occasions managerial inefficiency implied costs for the country.

**Chacón promises special subsidies.** The Minister of Science and Technology and Intermediate Industries, Jesse Chacón, stated that among the measures being considered regarding employment and economic growth are special subsidies for strategic items: greater efficiency in granting loans; and creating incentives for domestic production. He also pointed out that the Government will once again consider the exoneration of capital goods. The fourth measure is focused on stimulating construction and repairing infrastructure.

**Economic growth at the close of 2009?** The president of the BCV, Nelson Merentes, has announced that in terms of the economic crisis, the country has already touched bottom and a recovery is in progress. By the end of the year, economic growth will reach zero, and the coming year post a growth rate 0.5%. As a means of freeing up resources that are tied up, starting in the last quarter of the year, the domestic debt will be refinanced. This will continue into 2010.

**Bonds are maturing.** According to information released by the Ministry of Economy and Finance, between the second semester 2009 and 2011, around US\$20.0 billion in bonds will be maturing. Domestic debt maturing during the same period will reach US\$9.60 billion, with US\$2.50 billion accumulating in the second semester 2009. Merentes stated that he expects to postpone, depending on agreements reached with banks holding the papers, a minimum of US\$1.0 billion, aiming to exchange certain instruments for others in order to reduce the amounts the Government has to pay in debt service.

**Rates of interest.** According to the BCV’s last available information, the lending rate of interest for the second week of October was 18.8%, which represents a decrease of 171 basis points in relation with the third week of the same month. For its part, the long term rate and the savings account rate placed in 14.7% and 12.6% respectively, which means a increase of 12 basis points for the long term rate, whereas the savings account rate was kept constant.

**International Reserves.** The international reserves showed a decrease of 0.6%, when million passing from US\$33.346 billion at the closing of first week of October to US\$33.3 billion in the second week of October. With regard to the same period of the previous year, the international reserves have diminished 14.6 %.

**Monetary liquidity.** In agreement with the last available information in the BCV, the monetary liquidity at the end of the first week of October registered an increase of 9%



with regard to the fourth week of October, having been located in VEF 241.436 millions. In what goes of the year, the liquidity has increased 24.3% and has increased in 43.5% in comparison with the same period of the previous year.

## Oil Tips

**PETROPAR will pay the debt with its own funds.** According to statements by the President of PETROPAR, Juan Gonzalez Meyer, Paraguay will pay its debt with PDVSA using its own funds. Originally, they said that they would pay the amount of US\$269 million (out of which US\$39 million is due) by purchasing Venezuelan treasury bonds, but, *“the plan was never implemented,”* so, *“we are paying the debt with our own earnings,”* he said. What is still uncertain is what earnings is Gonzalez talking about since PETROPAR is supposedly on the verge of bankruptcy.

**An eye for an eye.** The oil companies PETROBRAS and PDVSA settled the final details of the agreement to build the oil refinery Abreu e Lima which was in plans since 2005, but has been hindered by a number of obstacles. Among the main hurdles is PDVSA's interest in using part of its products to distribute in the Brazilian market at cost. This fact would give them an advantage over other companies in the sector, so PDVSA will be able to act as a distributor as long as it meets the same conditions as the rest of the companies.

**And reimburse.** PDVSA will have to reimburse Petrobras about US\$400 million once the final agreement is signed for a 40% share in the refinery. *“They will have to provide the money. We hired an external consultant to evaluate the refinery's costs until August,”* said Petrobras' Supply Director, Paulo Roberto Costa.

**The State will control oil companies.** With the execution of the Organic Law for the Development of Petrochemical Activities in mid-July; which would have a similar scheme to that of the oil industry, that is, the migration to mixed companies where the State owns half of the shares. In spite of that, the president of PEQUIVEN, Clark Inciarte, explained the mixed system will be only applied to newly-created company, while *“all companies created before the law will remain the same.”*

**Great investments...** Inciarte also stated that, according to the “petrochemical revolution” plan, the estimated investment reaches US\$30 billion and part of it will come from FONEDN, with approximately US\$17 billion or US\$18 billion to be invested



by 2013 and 2014, predicting a 60% contribution by the State and the rest to be allocated by external financing.

**And a god forecast...** For Inciarte, this sector will close this year with positive numbers, in spite of the 5% drop in the demand for resin, production surplus is being exported.

**PDVSA to pull out of Vietnam.** The executive president of PETROVIETNAM, Phung Dinh Thuc informed that Venezuela pulled out of a US\$7 billion project to build an oil refinery in Vietnam. Project Long Son, which would be Vietnam's third oil refinery, is negotiated with an international consortium to invest in said refinery that would produce 200,000 b/d, he said. However, Petrovietnam could invite PDVSA to participate in another project to expand the capacity of the country's first oil refinery which produces 140,000 b/d.

**In spite of the election, oil protests continue.** Since last October 6, oil industry workers have continued with their protests related to the companies' in compliance with labor agreements, as well as other important aspects of the subvention of approximately 600 employees, mainly in the states of Zulia (Petroboscan) and Anzoátegui (PDVSA Gas Anaco), including trips to the headquarters in Caracas. Some representatives indicate that, even though there was an election for a sole Union representation, the winning party answers to *employer's* orders.

**OPEC adjusts crude oil demands for 2010 again.** In its last monthly report, the cartel announced that the crude oil demand will average 28.4 Mbd in 2010, an increase of 300,000 b/d from the number announced in the previous report. Said increase in the demand is based on the recovery of the global economy with the beginning of a new stage that *"goes from a crisis-control period to an economic-recovery period."* Their forecast of global crude oil demand increased as well, expecting a growth of 700,000 b/d, that is, 200,000 b/d more than the previous estimate.

**Production increases too..** The report indicated that the OPEC production is going up, despite last month's agreement to maintain pumping stable. The supply of OPEC'S 11 members subject to production goals, with the exception of Iraq, increased to 26.4 Mbd. This growth represents a 62% drop in goal-compliance, down from 64% in August.

**How is Venezuela?** In the case of Venezuela, the report indicates production dropped by 2.7% compared to the previous month, going from 2.33 Mbd in August to 2.27 Mbd in September, representing a decrease of 63,200 b/d.



**Local oil basket price.** The price of the Venezuelan oil basket increased by US\$1.9 last week to close Friday at US\$64.4/bl compared to US\$62.5/bl the previous week. Meanwhile, the oil basket's yearly average reached US\$52.9/bl, 32.3% over the budgeted value. If this price level is maintained, projections for the end of the year indicate an extra income of about US\$6 billion.

**International baskets overcome the barrier of the US\$75/bl.** The WTI closed on Thursday, the 15th of October in US\$77.6/bl reflecting an increase of 8.2% with regard to the US\$71.7/bl registered to the closing of last Thursday. For its part, the Brent also showed an increase, but in minor proportion, rounding up 7.8% to place in US\$76.1/bl, in relation to the US\$70.5/bl of Thursday, the 08th of October.

## Business Sector Tips

**CADIVI liquidated 66% of its debt with private companies.** Merentes said that the Currency Administration Commission (CADIVI) has responded to 66% of the applications received this year. So far, 5,467 applications have been liquidated, out of a total 8,251, of which 4,313 official dollar applications correspond to ordinary imports and 1,155 were made through the ALADI agreement. Additionally, Merentes stated that future actions will be focused on lowering the exchange spread, so the gap between the official dollar and the parallel market dollar does not reach over 60%. However, the information handled by **Ecoanalítica** points out the debt has reduced by US\$4 billion, leaving it at approximately US\$ 8 billion.

**CADIVI liquidated US\$7.76 billion.** According to Minister Jese Chacon, CADIVI liquidated US\$7.76 billion, US\$2.32 billion more than during the second quarter of 2009. CADIVI'S speedup to liquidate currency is precisely one of the Government's priority measures. Out of the third quarter's liquidations, 23% were destined to the food and beverage sector, 16.4% to the health sector, 14.8% to the automotive sector and 11.3 to the commercial sector.

**The Venezuelan Government will try to increase credit mediation.** One of the main items in the Government's economic measures was the intention to increase credit mediation, since it has decreased compared to 2008. Minister Jesse Chacon said that in order to achieve this objective, the Venezuelan Government will organize the Public Banking Corporation, led by Banco de Venezuela, and will approve a series of measures to facilitate loan application procedures for small and medium-sized



enterprises and emphasizing in the compliance with the bank's mandatory loans portfolio. The goal is for credit mediation to reach 61%.

**12,000 homes to be built.** The Minister of Public Works and Housing, Disodado Cabello, said that the construction of 12,000 homes will begin this quarter, representing an investment of VEF 1.8 billion, and the construction of another 20,000 in will start by January of 2010. Hospital construction projects will be undertaken as well, although there were no comments about that.

**The State will have its own car dealers.** According to statements by the Minister of Commerce, Eduardo Saman, the State will market half of the ten thousand vehicles to be imported from Argentina directly at its own dealers. According to Saman, the first Government-owned car dealers would be located in Caracas and then extended throughout the country, and the first brand to be marketed would be Volkswagen, which already agreed to it.

**A trading State.** According to statements by Saman, the State will actively participate in the trade of all kinds of goods through the Socialist Trading System, to eliminate speculation and lower prices and inflationary pressures. According to the minister, we could see the State selling notebooks, food, television sets, tires, vehicles and any other product.

**Vehicle importing licenses extended until 2010.** Out of the 6,000 licenses granted to Kia to import vehicles from Ecuador, only 900 have become effective. Kia said it is capable of importing all 6,000 vehicles, but since that doesn't seem very likely, the Venezuelan Government extended the licenses' validity so that they can use them next year.

**The Venezuelan Government makes an exception with Colombia.** The Venezuelan Government will import 40,000 tons of sugar cane from Colombia, to be refined at Central Azucarera del Tachira, which was in shortage of raw materials. For the president of Coopecaña, North of Santander, Colombia, this is a first step for Venezuela to resume commercial relations with Colombia.

**Only 31% of the community councils' budget has been executed.** VEF 4.4 billion were assigned to the National Community Council Fund in 2009; however, up to mid-September, only 31% of that amount has been disbursed, that is, approximately VEF 1.3 billion. Community councils are sponsored in 30% by that projected for the Intergovernmental Fund for Decentralization (FIDES) and 30% by the Law of Special Economic Allocations (LAEE), and rely on additional loans authorized by the National Assembly as well as on infraction tickets for the application of the Law of Access to



Goods. A large share of the official housing projects, especially the hovel-for-a-house project, depends on these conditions.

## World Crisis Tips

**Bernanke guarantees the inflation will not rise.** In a FED conference, Ben Bernanke, president of the Federal Reserve System assured the relaxed monetary policy will continue for an extended period, but it will be adjusted on time to prevent inflationary pressures. At *Ecoanalítica* we believe this will not happen until the second quarter of 2010, when interest rates go from the current 0-0.25% to 1%.

**The exchange market needed to hear Bernanke's statement.** It seems the exchange market needed to hear from Bernanke that the FED will do its job of maintaining price stability, since the dollar rose by 0.6% against a basket of six major currencies after his statement, also easing the gold market, putting pressure on the rise of oil prices and dropping the price of American bonds. Since first week of October, the Dow Jones went up by 2.9%, the S&P 500 by 3.2% and NASDAQ by 2.6%. For the first time since the fall of the Lehman Brothers, these indexes show a positive y/y growth. In average, the three main stock market indexes are 13% above their value of 12 months ago.

**Recession is over.** According to a survey of 44 professional economy forecasters released by the National Association of Business Economists (NABE), 80% of the respondents believe the U.S. recession is over and the economy is growing again after four straight quarters of declines. Most respondents believe that the recession has ended but the recovery will be slow, in average projecting a 2.5% contraction for 2009 and a 2.6 growth in 2010.

**But unemployment will remain high.** According to the same NABE survey, only 8% of the respondents expect to regain the 7.2 million jobs lost during the recession before 2012, 54% expect the loss in the labor market to be fully reversed by 2012, and 33% of respondents are more pessimistic and project it will take until 2013. Other NABE survey results show an average forecast that the unemployment rate to rise to 10% in the first quarter of 2010 and to decrease to 9.5% by the end of that year. Inflationary expectations remain low, 1.4% for this year and 1.5% for 2010.

**More stimulus?** The director of the National Economic Council, Lawrence Summers, defended the usefulness of President Obama's economic stimulus plan, saying that



*“there will never be a better time to improve America’s infrastructure than the present.”* With already approved stimulus measures about to expire, the Obama administration is considering expanding them, and Summers implied there will be some kind of extension of the current or new measures (among the options is an increase in transportation spending, for instance) but gave no specific details.

**Confidence in Japan’s economy grows.** According to the Government’s survey of “economy watchers” (taxi drivers, hotel busboys, supermarket cashiers, barbers, etc) the consumers’ confidence is improving, although many are still skeptical about the recovery of the World’s second largest economy. The economy watchers’ confidence index is still below 50 points, but it showed a significant improvement compared to August. The improvement in the index also coincides with the election victory of the Democratic Party of Japan, defeating of the Liberal Democrats who had ruled for over 50 almost uninterrupted years.

**Singapore economy grew by 14.9%.** This Asian economy showed a 14.9% improvement (Seasonally Adjusted Annual Rate, SAAR) during the third quarter of 2009, after having grown by 22% in the second quarter. Singapore’s economy shows a fast-paced recovery after having dropped X% and X% during the fourth quarter of 2008 and the first quarter of 2009. Singapore’s Government projections, though more optimistic than the previous ones, still show an economic contraction for 2009 of 2% to 2.5% (The previous projection was for a contraction of 4% to 6%).

**ECB: interest rates to remain unchanged for a while.** The ECB maintained its interest rates unchanged at 1% for the fifth consecutive month. Trichet’s speech tone in the press conference was moderate, indicating the interest rate level is appropriate, that the recovery is expected to be pretty uneven and to be threatened in a midterm by balance issues in financial and non-financial institutions, and that inflationary pressures will remain moderate in the midterm. To summarize, the ECB has no rush to raise the interest rates.

## Political Tips

**Elections to be brought forward?** The Executive has targeted the elections of parish committees, councils and National Assembly Representatives, and has been studying strategies to guarantee the process’ continuity. One of them is to bring parliament elections forward, from December 2010 to March or May of the same year, in spite of the legal limitations, according to the newspaper *El Nacional*.



**National Assembly swears-in members of the Committee that will choose election rectors.** The National assembly appointed the 10 members of the civil society to make up the Electoral Candidacy Committee that will choose the new rectors of the CNE (National Electoral Council). Ricardo Estevez and Dashel Lopez, spokespersons for the NGO Sumate, said the election of the civil society representatives was corrupted, since article 20 of the LOPE establishes that *“The National Assembly will summon Representatives for the constitution of the Electoral Candidacy Committee and appoint the preliminary commission integrated by 11 Representatives 30 continuous days before the date in which the rectors are to be selected. The official call shall be published at least twice in two nation-wide newspapers”* and the call for the process occurred on September 26 and 27 through the newspapers *Veja* and *La Calle*, and closed on October 2.

**New Law.** National Assembly Representatives approved the reform to the Armed Forces Organic Law, as well as the Military Conscription and Enlisting Law. The president of the Permanent Defense and Security Commission, Representative Juan Jose Mendoza, said the Partial Reform of the Executive Order-Organic Law of National Armed Forces makes the civic-military fusion proposed in several occasions by President Hugo Chavez possible. It is worth mentioning that, according to that established in article 43 of the abovementioned regulation, the Bolivarian Militia will depend directly on the President of the Bolivarian Republic of Venezuela and Commander in Chief of the National Bolivarian Armed Force in all related to operational aspects through the Strategic Operational Commando and for administrative issues will depend on the Minister of the People’s Power for Defense. This instrument grants a legal connotation to the name National Bolivarian Armed Force for the first time.

**The Venezuelan Government puts conditions to the IACHR visit.** The first Vice-President of the National Assembly, Saul Ortega, indicated that the Hugo Chavez Administration will not allow the IACHR to visit Venezuela for as long as Santiago Canton is said organization’s executive secretary, since Santiago Canton and the OAS supported Pedro Carmona’s government. The Representative condemned the student protests requesting the IACHR to watch the alleged violation of human rights taking place in Venezuela.

**International cable channels could be fined.** A Special Law draft ruling Subscription Radio and Television Services being analyzed by the NA proposes for CONATEL to have the faculty to order the cease of transmission to national or international television channels. CONATEL would also be in faculty to authorize, supervise and revoke cable company activities.



**Chavez and Correa reviewed bilateral agreements.** Presidents Chavez and Correa held a meeting last week to assess the bilateral cooperation agenda, which includes 34 commerce, finance, food, energy and tourism agreements. This was the 6<sup>th</sup> quarterly bilateral meeting. The creation of a Grand National enterprise with the purpose of strengthening the food and agricultural industry's sovereignty was signed. Also, Nicolas Maduro and the Ecuadorian Minister of Foreign Affairs, Commerce and Integration, Lautaro Pozo, agreed to the supply of technical support for handicapped people who benefit from Ecuador's Mission Manuel Espejo. The creation of an Ecuador-Venezuela Development Fund (FEVDES) was discussed, with the purpose of promoting and sponsoring projects of bi-national scope in the areas of transportation, health, environment, education, food, agriculture, energy and infrastructure.

**More Ecuador-Venezuela.** An agreement for the prevention of stupeficient consumption through the coordination of both countries was reached. Also, an agreement was signed between the National Venezuelan Telephone Company (CANTV) and Telecomunicaciones Moviles de Ecuador (TELECSA). The mining company Mariscal Sucre and the Iron and Steel Company Siderurgica del pacifico were created. A technical-military alliance was created as well as an "Observatory of Latin American Media." Also, Ecuador was included in the radio of the south.

**Resistance day all over the continent.** The National Assembly approved an agreement "for October 12" proposing the implementation of the "Indigenous Resistance Day" all over South America. Representative Noheli Pocaterra celebrated in inclusion of Indigenous rights in the Bolivarian Constitution. She also explained that Indigenous are not only acknowledged as Venezuelan citizens now, but also as Indigenous with their own culture and traditions.

**Uranium exports to Iran denied.** Ian Kelly, spokesman for the United States Department of State, said recently that Washington is worried about the possibility of nuclear transfers between Iran and Venezuela. The minister of Science and Technology, Jesse Chacon, undermined these statements and assured there are plans to develop nuclear energy only with Russia.

**Brazil to receive Ledezma.** A commission of the Brazilian Senate studying Venezuela's inclusion to MERCOSUR announced the intention to invite Caracas' Mayor, Antonio Iedezma, to participate in one of its sessions. The meeting between the Venezuelan Mayor and members of the Senate's Foreign Affairs Commission would be on October 22, said the president of the parliamentary group, Eduardo Azeredo. Lately, Ledezma has stated his support for Venezuela's inclusion in MERCOSUR.





## ECONOMIC OVERVIEW

