



Weekly Report

Year 9, Number 02
Week III, January 2014

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Restrictions or no restrictions: the dilemma of US oil exports

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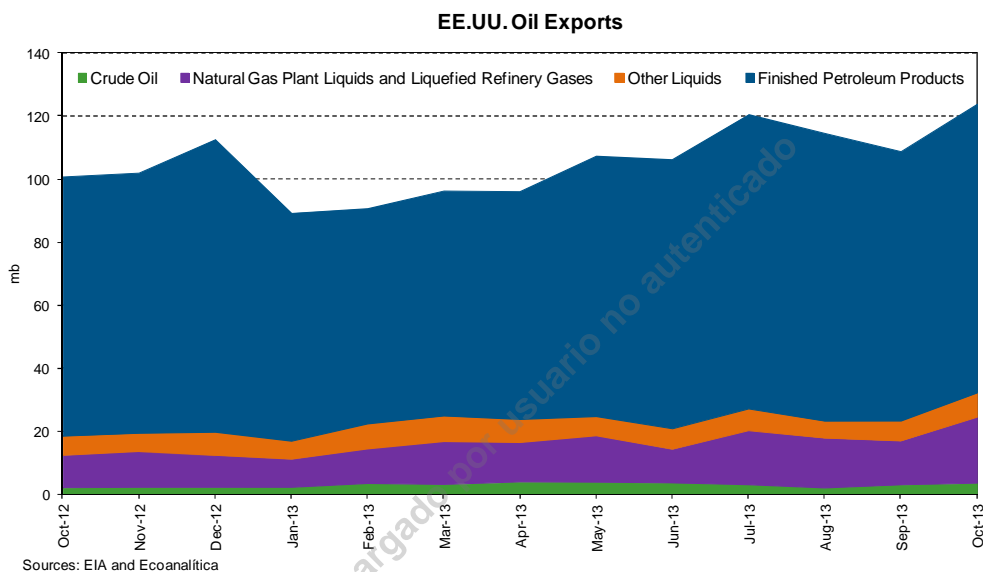
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Optimism for increased production is so high that lawmakers in the United States (US) have reopened the debate this year to lift oil export ban. Restrictions on US crude oil exports have been in place for more than 30 years now with the intention to keep the largest volume of crude oil in the domestic market. Two laws cover this matter: the energy conservation law of 1975 and the export administration law of 1979; however, there are some exceptions.

Exceptions: For years, the Department of Commerce has issued export certificates for certain types of crude oils; this is the case of the Cook Inlet crude oil in Alaska, the oil that is transferred through the Trans-Alaska oil pipeline. The same happens with shipments to Canada for domestic consumption. Another case is the heavy crude in certain fields in California. Meanwhile, exports of oil by-products such as gasoline or diesel are not prohibited. In fact, US refineries are delivering record volumes of gasoline and diesel abroad. Basically, as per the current law, oil producers



have to send their oil to a refinery that will process it into fuel before it may be shipped abroad.



Why should restrictions be made more flexible?

Although some industrial sectors are benefited from the restriction, producers such as Continental, ExxonMobil, and ConocoPhillips, as well as the American Oil Institute, support the idea of reviewing or even fully lifting the restrictions.

Firms in North Dakota and Texas are producing light and sweet oil and cannot find enough refineries to process it, because many refineries on the Gulf coast are prepared to process heavier crude oils. Furthermore, shipping that oil to refineries on the East Coast, which are able to process lighter oil (there are not enough pipelines and Jones Act renders sea shipments more expensive), is not easy. This bottleneck ends up reducing prices for those producers.

Finally, new infrastructure could be put into service to alleviate stagnation and more refineries on the Gulf Coast could be adapted to process lighter crude, but this is being implemented slowly. So that, it would be much easier to allow producers to sell their crude oil to buyers based abroad. This would eliminate a market distortion.





How does the US panorama look?

At present, US refineries are being benefited from economic rents under this scenario, to the detriment of producers, and have used cheap raw material to capture a market share of products from Europe refineries. According to a report by Barclays report: "Soaking up the crude: The outlook for US crude exports", eliminating the restriction would transfer rent to producers. Barclays estimates that in the five months since the big gap between Louisiana Light Sweet (LLS) and Brent, revenues of producers on the Gulf Coast (PADD 3) have dropped around US\$1.4 billion.

Likewise, they allege that if inaction continues pressure on prices of non-US naphtha and LPG¹ intensify, because the US exports more of those products. Therefore, given the lack of policy changes, tight oil producers will have to sell their oil at discount.

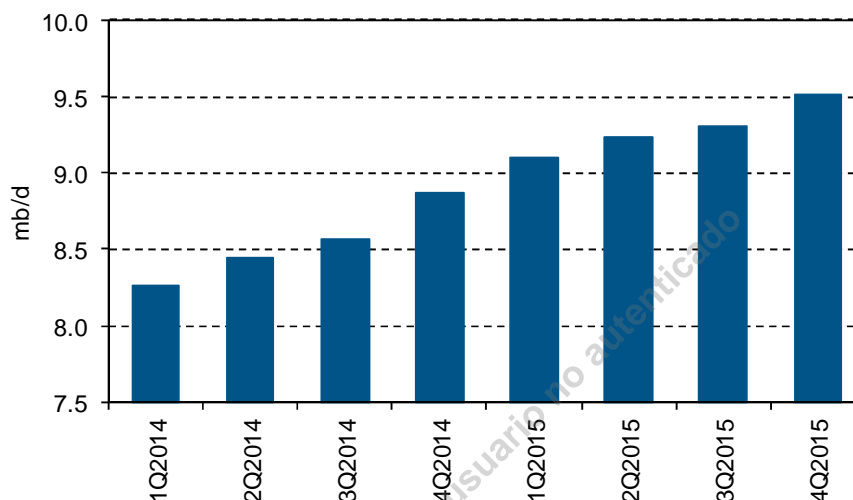
Export restrictions in the US haven't stopped production growth yet. The US is currently refining and exporting 2.9 mb/d. In this regard, the report analyzed that before implementing the legal or regulatory adjustments, market mechanisms will help absorb production increases in the upcoming years, reduce light oil imports, increase refinery use rate and build new infrastructure.

Oil production is expected to grow 2 mb/d next year and 400-600 kb/d by 2015. Furthermore, the Energy International Agency (EIA) estimates that US oil production may reach 8.54 mb/d by 2014 and 9.29 mb/d for 2015, according to its Short-Term Energy Outlook published this month.

¹ Liquefied Petroleum Gas (LPG) is a mixture of light hydrocarbons, mainly propane and butane, that under normal conditions is gaseous and when compressed, it turns liquid, and it's commonly used as fuel for domestic cooking and heating water.



U.S. Crude Oil Production



Sources: EIA and Ecoanalítica

But there are some objections...

Not everybody is convinced. Senator Robert Menéndez, (d) from New Jersey, has sustained that export banning was implemented to “*protect US consumers against price volatility and peaks.*” Allowing more exports, according to Senator Menéndez, could lead to an increase in the US gasoline prices, thereby damaging US consumers.

A second argument is related to the environmental issue. Lifting export banning would perhaps allow US firms to drill looking for more oil and increase global emissions of greenhouse gases; organizations like Oil Change International are against this type of flexible measures. This is a scenario that may not be possible now, because if global supply increases (allowing US crude oil exports) and OPEC production drops, the excess supply would not have any impact.

Finally, many US refineries, as we already mentioned, are being benefited with the current regime, because they can buy oil at artificially low prices and then export gasoline and diesel with good profit margins.

And Venezuela...

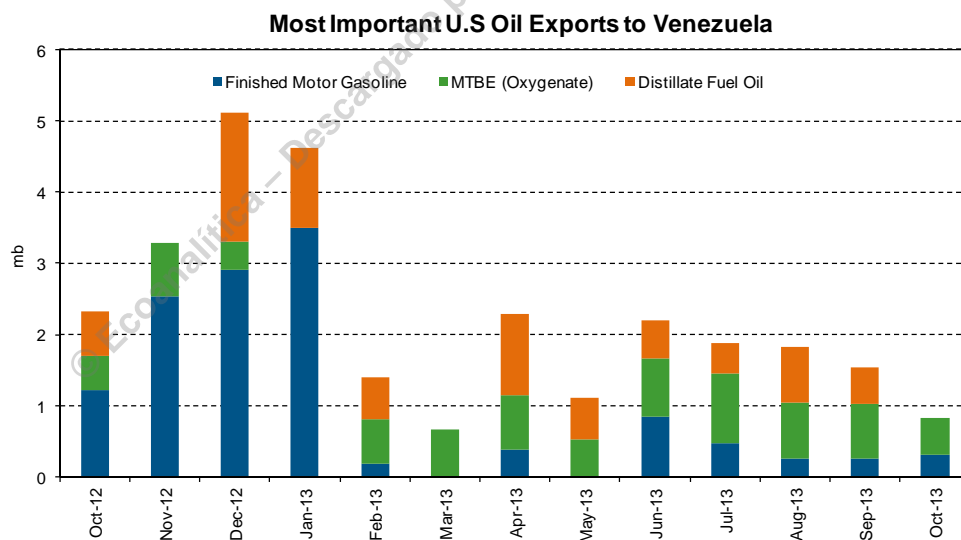
As we have already referred to in other reports, Venezuelan refineries are currently undergoing a problematic situation, with several fires last year that have resulted in several shutdowns. For instance, Venezuela’s main refinery, Amuay, has been working far below its record level since an explosion in August 2012 that severely damaged the refinery. Last November, Amuay was operating at 58.0% of its capacity, refining 377,000 b/d of oil and it is presently operating at 45.0% of its installed capacity of



645,000 b/d because the distillation unit is still shut down and the flexicoker has shut down for maintenance.

Cardón, the refinery neighboring Amuay, has been operating at 77.0%, therefore the entire Paraguaná Refining Complex (CRP), located in the western region of Venezuela, has been working at 64.0% of its capacity, and at less than 74.0% since June, due to shutdowns and lack of spare parts.

This has led to Venezuela increasing its imports of by-products from the US in 2014. According to the EIA, US sales to Venezuela for October 2013 reach 1.6 mb. At **Ecoanalítica** believe that as long as the current situation of Venezuelan refineries doesn't improve, we will continue to imports such goods. In this case, the US, in spite of the political discourse, has been Venezuela's trade ally to cover the country's refining needs.



Sources: EIA and Ecoanalítica

Looking at Venezuela in this context, in the long run, is very likely that the export situation will remain unchanged over the coming years, unless Pdvsa manages to maintain or increase crude oil production. However, if restrictions on US light oil sales are made more flexible, a scenario may occur that it will be more profitable selling light crude oil beyond US borders than using it to mix Venezuelan (heavier) oil in US refineries.

The fact is that the debate to review laws restricting US oil exports has restarted and is gaining more and more support from the US Congress.



Even Ernes Moniz, Secretary of Energy of Obama's administration, reported at a conference in December that *"there are lots of issues in the energy space that deserve some new analysis and examination in the context of what is now an energy world that is no longer like the 1970s."* Some are in favor and other are still against, thus making it evident that in the short term, the US will keep on discussing and evaluating its impact. In the end, after a policy is implemented, there will always be winners and losers.

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Economic Tips

Bon voyage CADIVI. President Nicolas Maduro made several announcements during his last visit to the National Assembly (AN), including removing CADIVI highlighted by the creation of the National Foreign Trade Center as its substitute. Additionally Maduro said that despite this decision, the exchange rate will continue to VEB 6.3/US\$ throughout the year, along with a strengthening currency allocation through Sicad.

New ministers. President Nicolas Maduro reported new changes in the economic cabinet, among which is the one that would be finance minister to again be president of BCV, Nelson Merentes, while the vacancy in the Ministry of Finance (which was merged with the Ministry of Public Banks) is held by Marcos Torres. Another important change occurred when passing José Khan's presidency Cadivi to Commerce Minister, temporarily leaving his old office (until finished Cadivi be absorbed by the National Centre for Foreign Trade-Cencoex-) Alexander Fleming.

More changes. President Nicolas Maduro explained that henceforth the Indepabis and Sundecop be unified to form the Superintendency of Fair Prices, which assume command Andreína Tarazón accompanied by Karlin Granadillo as mayor of Costs and Earnings Estimates and Luis Motta Domínguez as mayor of fair Prices .

Between surprises and disappointments. President Nicolas Maduro announced that the private sector can offer dollars in the exchange system, through the forthcoming reform of the Exchange Crimes Act. While all companies will be forced henceforth to have a profit margin of 30.0 % or less, which will be reflected in the Law of Fair Costs and Prices to come into force soon.

Signs of devaluation? Companies that produce food, specifically cornmeal, rice, and pasta, among others, were invited to take part in the 15th SICAD auction. The companies in question produce basic basket goods whose prices are regulated, as a result of which they have been receiving dollars from CADIVI at the VEB 6.3/US\$ exchange rate. The fact that they were invited by SICAD (where the rate has been in the region of VEB 11.3/US\$) could be interpreted as a sign that the cheaper foreign currency could disappear from the market in the not too distant future.

But they won't see a single dollar. Despite being called on to take part in the 15th SICAD auction, the companies that produce cornmeal, rice, and pasta have no idea why they were invited to do so, as the raw materials they use are imported directly by



the State. What is more, sector representatives pointed out that the amounts to be assigned by this alternative mechanism do not cover the sector's needs and that, in any case, the current regulations prevent them from taking part since most of them receive foreign currency via CADIVI.

The most overvalued: According to a report prepared by the Bank for International Settlements (BIS) in Basel at the close of November 2013, the bolivar was the currency posting the biggest imbalance with an overvaluation of 55.0%. At *Ecoanalítica* we estimate that Venezuela's competitive exchange rate with its five main trading partners (US, Colombia, Brazil, China, and Mexico) should be VEB 14.5/US\$, which implies an overvaluation of 130.2%.

Counting their chickens way ahead of time: The president of the Institute for the Defense of People's Access to Goods and Service (Indepabis), Eduardo Samán, claimed that the government's response to the "economic war" has managed to put a stop to spiraling inflation, the parallel dollar, and the attack on the bolivar. Samán highlighted that, this year, the his agency's efforts will focus on inspecting inventories, avoiding the forming of illegal markets of goods, and preventing smuggling out of the country.

Inorganic printing of money continues. According to Central Bank figures, at the close of the third week of December, its loans to PDVSA amounted to VEB 408.9 billion, up 123.9% from June (VEB 182.6 billion). PDVSA has had to meet a multiplicity of liabilities imposed on it by the Executive, among them the "missions" or social programs and agricultural and industrial development plans, which has meant that the company's financing requirements in bolivars continue to be high.

PDVSA is to pay its debt with the Central Bank. According to unofficial sources, PDVSA has started to look into options for paying off the debt it has been accumulating with the Central Bank. The payment plan that PDVSA is negotiating with the Central Bank apparently contemplates the Corporación Venezolana de Minería-CVM- (a company attached to PDVSA) creating a trust fund that would issue securities; the Central Bank would then purchase these securities, handing over PDVSA's promissory notes in payment; and lastly the CVM would use the trust fund to pay the principal when the securities mature.

Economic Offensive, Part II: The President of the Republic, Nicolás Maduro, revealed that, in the next few days, he will start up a new phase of the "economic offensive" with which he hopes to contain the rise in prices and promote economic growth this year. So far the government's measures have consisted of conducting inspections of stores and slashing prices of items not included in Venezuelans'



typical consumption basket, which has meant that they have been ineffective in curbing inflation.

Food prices sky high: According to the latest figures published by the Central Bank, at the close of November 2013, the prices of food and nonalcoholic beverages posted an increase of 79.3% compared to November 2012, the biggest increase in a 12-month period since 1999. This situation is in strong contrast with that of other countries in Latin America, such as Chile, Argentina, Brazil, and Uruguay, where food inflation was below 10.0%, and in countries such as Colombia, Ecuador, Peru, and Mexico, where it was less than 5.0%.

No letup in discretionary spending: Central Government spending in 2013 came to VEB 676.3 billion in 2013, 70.6% more than budgeted spending (VEB 396.4 billion), after the National Assembly approved supplementary appropriations to the tune of VEB 279.9 billion (60.9% more than the amount approved via this mechanism in 2012). The lion's share of the supplementary appropriations authorized in 2013 went to pay salaries and pensions (VEB 208 billion). The State currently has a payroll of 2.5 million workers, whereas the number of pensioners is in the region of 2.4 million.

Interest rates. The lending rate for the second week of January was at 15.4%, up by 1.3 percentage points (pp) compared to the previous week. The time deposit rate was at 14.5%, down by 0,5pp compared to previous week, while the passive rate, placed at 14.0%, without variation compared to previous week.

International reserves. International reserves decreased by 3.2%, going from US\$21.57 billion during the first week of December to US\$20.87 billion during the second week of January. Compared to the same period last year, international reserves have decreased by 25.5%.

Central government expenditure. On Friday January 10th according to figures from the ONT primary spending was VEB 6.61 billion, which means an increase of 63.9% when compared to the previous week when it was VEB 4.03 billion; when compared to the same period last year we observe a decrease of 38.5%.

Monetary liquidity. Monetary liquidity (M2) decreased 0.4% in the fourth week of December compared to the previous week, settling at VEB 1.21 trillion. The M2 has increased 68.6% in relation with the same period last year.





Oil Tips

Venezuelan oil basket closed the year below US\$100/bl. According to information from the Ministry for Oil and Mining (Menpet), the average annual price of the Venezuelan oil basket in 2013 was US\$99.5/bl, a reduction of 3.8% compared to its price in 2012, when it was US\$103.4/bl. This drop in the price of oil occurs in a situation in which the industry is exporting fewer barrels, which means that the flow of petrodollars is reduced.

And things are not going to get any better. The prices of crude have fallen once again as a result of the recent progress in the negotiations with Iran regarding its nuclear program, which has opened up the possibility of an increase in the world supply of crude. Iran and the United States announced that the provisional agreement on Iran's nuclear program will go into effect on January 20. The opening up of the market to Iranian oil has still not occurred, but investors expect that this crude will eventually reach the market.

OPEC at a price low: On Monday, January 13, the oil barrel price of the Organization of the Petroleum Producing Countries (OPEC) dipped by 0.2% from the previous business day to US\$104.00/bl. This drop brought the OPEC "black gold" reference price to its lowest level since November 13, 2013. In the past three weeks the OPEC oil barrel price has fallen by US\$5.4/bl. In recent weeks it has been affected by the improvement in relations between the United States and Iran, despite the fact that interruptions in supply from Libya continue.

Guaraníes instead of dollars? Paraguay's oil company, Petropar, is going to try to get the debt it has with PDVSA denominated in guaraníes –Paraguay's local currency-, instead of dollars. The president of Petropar, Fleming Duarte, has said that the scheme for repaying the debt, which amounts to US\$271 million, will be discussed at the next MERCOSUR summit. Fleming Duarte explained that, if the debt is denominated in guaraníes, it would not be exposed to fluctuations in the exchange rate at a time when the policy of the US Federal Reserve aims at strengthening the dollar.

Venezuela has not sent fuel oil to the United States. A nonprofit organization in Massachusetts that has been in charge of distributing the gas oil that Venezuela has donated for heating since 2005 has reported that it has not received the fuel for this winter, saying "We hope that the Venezuelans will send the shipments as they did in



the years during the leadership of President Hugo Chávez.”. However, a PDVSA spokesperson said that he had no comment to make on the matter.

More for China: China’s oil company, which receives crude and derivatives from PDVSA in part payment of the loans granted to the Venezuelan Government, has issued a call to bid for the sale of a minimum of three shipments of 250,000 barrels of natural gasoline or light virgin naphtha for delivery between January and March from Venezuela. The products are to be dispatched from Venezuela’s Amuay, Cardón and Puerto La Cruz refineries and also from Jose Terminal. Petrochina had already issued another call to bid earlier this month for the sale of 160,000 barrels of natural gasoline and 90,000 barrels of virgin naphtha for delivery next week.

Amuay under reconstruction: With the purpose of increasing operational flexibility at Amuay Refinery, there are plans to continue the reconstruction of the products storage area at Paraguaná Refining Center (CRP) in the first quarter of this year with an investment of nearly US\$190 million. Steady progress is being made on the reconstruction of CRP’s product storage area, according to Eddie Miquilena, the general manager of PDV Mantenimiento, a PDVSA affiliate.

PetroVietnam says “enough is enough.” On January 13, the Vietnamese oil company PetroVietnam, which holds 40.0% of the shares in the joint venture Petromacareo in the Orinoco Oil Belt, announced that it had stopped the extraction of crude at Petromacareo because of the current difficult economic situation in Venezuela, with inflation of 56.1% in 2013 and a huge gap between the official and black market exchange rates. The news was given by Phung Dinh Thuc, the chairman of PetroVietnam’s board of directors. It remains to be seen whether the Vietnamese oil company will manage to reach an agreement with PDVSA or whether it will leave the country.

International oil baskets. At closing time on January 10th in the New York Stock Exchange, the price of the WTI was US\$93.0/bl, down by 3.9% when compared to the reported the previous week. The Brent decreased by 2.2% when compared to the previous week, to reach US\$106.9/bl.

Local oil basket price. The Venezuelan oil basket price closed at US\$94.3/bl on Friday January 10th, a 2.5% decrease compared to the US\$96.8/bl of the previous week. The annual average price of the Venezuelan oil basket is US\$95.6/bl.





Business Sector Tips

They want everything for themselves: The government is currently moving ahead with its proposal to step up controls on imports. A good example of this is the latest strategy of the state-owned Venezolana de Exportaciones e Importaciones (Veximaca), which has already requested all importers of medical equipment to inform their international suppliers that they must register with Veximaca. This measure is being implemented via a form in which Veximaca requests the data of each of the companies.

Proposing changes: National Assembly Deputy Américo de Grazia explained that, in view of the strong contraction in Venezuela's mining sector in 2013, the proposal is that the government rethink its policy on mining. Last year, the basic industry companies in Guayana operated at only 40.0% or 50.0% of capacity, whereas the production of bauxite, iron ore and gold (to mention just a few minerals) posted negative figures.

From bad to worse: There are two big goals proposed in its Annual Operations Budget for 2013 that SIDOR failed to meet: it produced only 38.0% of the 4,045,000 tons of liquid steel established in its production plan and it also failed to position itself on the international markets. On top of those problems, it had to contend with labor disputes that affected the company from halfway through the year, which undoubtedly made the serious situation it was already facing worse.

Shopping malls shorten opening hours. The president of the Venezuelan Chamber of Shopping Malls, Merchants and Similar Businesses, Freddy Cohen, reported that several of the chamber's members have taken the decision, independently, to close earlier than normal and to not open the doors of all their public toilets. He also explained that what triggered these measures was the reduction in store lease rentals ordered by the government.

Problems with the airlines: The president of the Higher Tourism Council (Conseturismo), Ricardo Cusanno, expects negotiations to be resumed shortly between the international airlines and the government regarding the payment of nearly US\$2.6 billion owed by CADIVI. The situation is so serious that some companies, such as the Spanish airline Air Europa, are already threatening to temporarily suspend the sale of tickets in Venezuela, and while they have not done



so yet, what they have done is to reassign part of their flight capacity between Caracas and Madrid to other destinations.

A return to the 1990s: The bad situation in which the automotive sector found itself in 2012 got worse last year, when it experienced one of its worst moments this century. A simple comparison of the total number of units assembled in Venezuela during 2013 and 2012 reveals a decline of 31.1%. To give an idea how bad this “bad moment” is, we have to go back to the 2003 oil strike and the 1990s to find a performance that is as poor as that of 2013.

Fevearroz reports increase in production. The Venezuelan Federation of Rice Producers Associations (Fevearroz) issued a report in which it explains the behavior of production during 2013, claiming that the sector performed well with growth of 25% compared to 2012, thanks to production of 980 million tons of paddy rice from the planting of 196,000 hectares. In its report, Fevearroz claims that, thanks to these yields, Venezuela managed to become 70.0% self-sufficient in rice.

The problems continue. The president of the National Federation of Flour Industry Workers (Fetraharina), Juan Crespo, explained that “*the flour situation gets more complicated by the day*” and that “*the fundamental element for production is foreign currency. Foreign currency isn’t only for buying the raw material, it’s also for spare parts for the mills, which come from Europe and the United States. As a consequence, if they don’t give the dollars, how can we maintain them (the mills)?*” Crespo stressed his concern saying that, in addition to the shortage of foreign currency, the price of the 45 kg sack of flour has just been increased to VEB 482.2.

Flour wanted: Bakeries throughout the country have started the year facing a difficult situation because of the lack of flour in the market. The Venezuelan Federation of Bakery Industrialists claims that there is a shortfall in flour of more than 30.0%, whereas the president of the Portuguesa Bakeries Association, Marcio Gómez, explained that the evident shortage of flour in Portuguesa has been caused mainly by the labor union disputes at Monaco last year.

Bakeries hit by shortages. The strike at Molinos Nacionales (Monaca) has caused problems in the distribution of flour, which has resulted in some bakeries restricting the sale of regular bread to one loaf per person. Tomás Ramos, the president of Venezuelan Federation of Bakery Industrialists (Fevipan), stated that the strike affected the supply of 410,000 sacks of flour. He also explained that, at the moment, the market is experiencing a deficit of 1.0 million sacks of flour and that shortages are in the region of 30.0% to 40.0%.





To the rescue: The president of Fevipan, Tomás Ramos, said that the government, through Corporación CASA, imported 100,000 sacks of flour from Colombia that are currently being distributed, with priority being given to the states of Mérida, Táchira, Margarita, Zulia, and Bolívar and the Western Region, where the situation is more critical. He explained that there are sufficient stocks to meet demand until February, but that the Executive needs to solve the problems that are affecting production by dialoging with the mills and speeding up the disbursement of foreign currency.

And the chemicals industry is suffering too. Shortfalls in supply are spreading to several key sectors, among them the chemicals sector. The Venezuelan Chemicals and Petrochemicals Industry Association has been warning for months about the depletion of stocks and the problems the sector has been experiencing in obtaining allocations of foreign currency. Juan Pablo Olalquiaga, the association's president, explained that there are shortages of the products that the sector used to produce and that outstanding approvals of foreign currency come to US\$550 million and *“half of last year's imports still haven't been paid for.”*

They've cut charges, but quality too. The president of the Venezuelan Chamber of Shopping Malls, Merchants and Similar Businesses (Cavececo), Alfredo Cohen, said that these establishments have reduced their costs by between 10.0% and 20.0% following the reduction in the condominium charges ordered by the Executive. However, he also explained that, in order to cope with these cuts, they have had to reduce the number of security, maintenance and other staff. He also said that the shopping malls are finding cutting costs further an *“uphill task,”* because they now have to pay the recent 10.0% increase in the minimum wage and the quality of these establishments has to be preserved for the visitor.

Agricultural imports peak. According to figures published by the National Statistics Institute, purchases abroad of agricultural items (both vegetable and animal products), finished food products, beverages, and tobacco came to US\$7.13 billion between January and September 2013, up 18.3% from the same period in 2012. US\$4.62 billion was spent on importing agricultural items alone, an increase of 12.9% compared to the same period in 2012. By way of contrast, agricultural exports came to US\$16 million, with foreign sales of food products, beverages and tobacco amounting to another US\$16 million.





World Economy Tips

Millionaire deal. Democrat and Republican representatives passed a US\$1.1 trillion spending bill that would guarantee US administration's expenses for 2014 fiscal year. In February, both parties will have to reach a new agreement to increase the debt ceiling, which in November surpassed the peak of US\$17.0 trillion. If the Congress doesn't reach any agreement before February 7th to increase the peak, the world's first economy could default.

When higher imports are a good sign. According to China's customs authorities, Chinese exports grew 7.9% (y/y) in 2013 to US\$2.2 trillion, whereas imports (US\$2.0 trillion) expanded 7.3% (y/y) in the same period, with a trade surplus of US\$259.8 billion, up 12.4% from 2012. Imports closed 2013 with an accelerated growth rate, which would hint that domestic demand of the second largest economy in the world would remain sound and robust.

The world's major exporter. China's exports and imports reached US\$4.0 trillion in 2013, according to figures released by China's customs administration; therefore the Asian nation would be the country with the highest trade exchange in the world, before the US. Although complete data on US trade exchange for 2013 aren't still known, a projection based on November data would indicated that the US would have registered US\$3.5 trillion in trade in 2013.

Favorable wind to boost growth. According to data released by China's National Statistics Office, inflation slowed down in China, registering in December 2.5% (y/y), down 0.5 pp from November. The lower inflationary pressure will enable the members of the economic cabinet to focus on policies to support growth (through monetary expansion), as the country implements structural reforms that open up its capital market to the rest of the world.

Still in recession. The Eurozone economy shrank 0.3% (y/y) in the third quarter of 2013 (3Q2013), according to Eurostat, which confirmed that in comparison to the prior quarter, the economy of the Eurozone grew 0.1%, after having recorded a 0.3% expansion in the second quarter.

But prospects are better. According to the OECD, advanced economies would be improving their short-term growth prospects, after the anticipated monthly indicator (designed to detect economic activity changes) increased from 100.7 in October to



100.9 in November. OECD highlighted the “*boost positive change*” in the euro zone, where the anticipated indicator went up to 101.0 in November from 100.8 in October, with better prospects for the three major economies of the bloc: Germany, France and Italy.

Employment doesn't improve. Unemployment rate in the Eurozone in last November was 12.1%, unchanged since April 2013, but up 0.3pp from November 2012. According to Eurostat, 19.2 million people were jobless in November in the 17 countries of the bloc, whereas the number reached 26.6 million for the 28 countries of the EU. The highest unemployment rates continued to be reported in Greece (27.4%) and Spain (26.7%).

And inflation deflates. Based on Eurostat's initial estimates, inflation in the Eurozone was 0.8% (y/y) in December, down 0.1pp from November. The result is due to a deceleration in inflation in the service sector (from 1.4% in November to 1.0% in December), whereas food prices continued to accelerate (from 1.6% in November to 1.8% in December); prices of manufactured goods, in turn, remained stable.

Wait and see. The European Central Bank (ECB) decided not to change the reference interest rates, keeping them at a record low of 0.25% as well as its expansive monetary policy after inflation recently slowed down and a drop in unemployment rates alleviated pressures for the Eurozone monetary authority to take further measures. The Bank also kept its deposit interest rate unchanged at 0.0% and the credit marginal facility rate at 0.75%.

A “too low” inflation. The ECB assured that they are willing to use all the tools available to prevent inflation from being too low, but kept interest rates unchanged, although raise in prices is at a dangerous level below 1.0%. Mario Draghi, ECB president, assured that with these measures, the euro might possibly experience a prolonged low inflation period before a gradual increase toward the ECB's goal takes place.

Political Tips

Iron fist. President Nicolas Maduro expressed his outrage and pain for the death of former Miss Venezuela and actress, Mónica Spear, and her husband Thomas Henry



Berry, and took advantage of the occasion to express his concerns about the current insecurity levels in Venezuela. *“I assume my responsibility, but also say to those who want to kill somebody that they are going to be faced with an iron fist, with democratic authority, with the Constitution, but we cannot accept this kind of things under any circumstance,”* Maduro added.

And what happened with personal security plans? After the killing of Mónica Spear and her husband Thomas Henry Berry, the Democratic Unity Panel (MUD) has assured that this tragedy is nothing but another reflection of the *“uncontrolled crime that day after day leaves dozens of families mourning in Venezuela.”* The MUD published a press note demanding the national government to *“make a deep review”* of policies that have been implemented in relation to personal security, because in their opinion, no positive results have been obtained.

No more hatred. President Nicolás Maduro said that the assassination of Mónica Spear and Thomas Henry Berry unleashed *“in small groups of the international right and fascist extreme right living in Venezuela a hatred campaign against the country.”* Maduro added that he is outraged because *“people who abroad enjoy high living standards say that they don’t come back to Venezuela. I hope God may forgive them, because they don’t know what they are talking about. They’re messing with a sacred country and people. We say: We love Venezuela and are going to fight for it.”*

It’s time for solutions. Governor Henrique Capriles Radonski explained that the country is in an emergency situation due to the serious violence levels that are currently being experienced in Venezuela. Likewise, he stated that the national government should take actions, calling *“people from different ideologies and parties”* to find a solution to this problem. *“This problem has overwhelmed the government (...) and its solution entails changing the government; but as long as they remain there, they have to give an answer to all Venezuelans, not to a sector of the country,”* Capriles added.

Without limits. During his visit to Miraflores Presidential Palace for the meeting of Governors and Mayors with President Maduro to discuss about personal insecurity, Governor Henrique Capriles Radonski stated that he’s willing to *“go wherever it’s necessary”* to put an end to violence in Venezuela. *“I’m at Miraflores. To fight for the security of all Venezuelans I’ll go wherever it’s necessary; this is a national clamor against violence that is killing our Venezuela,”* Capriles posted on Twitter during the meeting.

New faces. President Nicolás Maduro made some changes in several ministries, including new faces like Victor Clark (Youth Minister), Antonio Álvarez (Sports Minister) and Jesús Martínez (Labor Minister). Some old faces that changed posts



were Ricardo Menéndez (Higher Education Minister), Wilmer Barrientos (Industry Minister) and Héctor Rodríguez (Education Minister).

And new structure. President Nicolás Maduro started the year changing the structure of the central administration to adapt it to the socialist model. This includes the creation of new vice-ministries for the areas of economy, agriculture, nutrition, commerce, tourism, petroleum and labor. The most outstanding changes include the Finance Ministry that now has four vice-ministries, whereas the ministries of agriculture, nutrition and petroleum will have five vice-ministries.

Not a good outlook. Deputy Julio Borges explained that the food prices increased 209.0% in 2013, which, according to Borges, does nothing but proving that President Nicolás Maduro and his government don't have the least idea of how to control inflation, because telling the people to leave store shelves empty isn't the solution. Borges talked about the importance of increasing local production to reduce inflation in a real manner; therefore, he demanded the passing of the Law boosting Domestic Production.

Reopening in Venezuela. Paraguay will reopen its embassy at Caracas before the Mercosur summit scheduled for late January, Enrique Lara, who has been already appointed ambassador to Venezuela, explained. *"With five officials, we're going to work and reopen the embassy. This is the only country in the region where we didn't have a diplomatic representation due to 2012 events,"* Lara pointed out. Venezuela broke diplomatic relations with Paraguay as a reprisal for the Paraguayan Congress having dismissed former president Fernando Lugo after a political trial.

Legislatives Tips

Iron fist against youth. Deputy Odalis Monzón informed that the process to reform the Organic Law for the Protection of Children and Adolescents (Lopna) has been started to render penalties against adolescents that commit crimes stricter, with a view to reinserting them to the society. Monzón explained: *"We're going to be tough with those young people who don't want to become aware and be reinserted into the society."*

Election reforms in 2014. Deputy Pedro Carreño stated that *"since no election is scheduled for 2014, we could take the opportunity to present a partial reform of the*



laws of the Electoral Branch of Power and the Election Processes.” Carreño assured that the “new election authorities (CNE) and TSJ (Supreme Court of Justice) judges will be selected at the right time,” pointing out that the designation of TSJ justices and election authorities is subject to the approval by 110 deputies. Carreño stressed that if no consensus is reached at the AN, the decisions will be made by the TSJ.

Enabling Law until November. Thanks to the Enabling Law, the President has powers to legislate until November; however, the AN President, Diosdado Cabello, pointed out that the AN will not abandon its functions of drafting and reforming laws. Even though Cabello refused to prepare the annual legislative agenda ordered by the Regulations on Debates and Interior Affairs, in the practice, permanent commissions have enough material to be busy.

What was done in 2013? Last year, the following laws were approved at their first discussion: antimonopoly; comprehensive artists’ social protection; taxes in the Miranda Insular Territory; firefighters and emergency administration service; and indigenous people education, among others. Laws approved in second discussion include: military recruitment and people’s power communication. These legal instruments could be passed this year, unless Cabello decides to leave this task to President Maduro. There are also 20 other laws that are being drafted, without mentioning those that could be included through citizens’ initiative, like the one promoting homosexual marriage.

Government deputies to chair commissions. The AN consists of 15 permanent commissions, as per article 193 of the Constitution. While the AN regulations provide for that the commissions should be proportionally headed, since April 2013 this hasn’t happened, and prospects for 2014 are that the situation will remain the same. The Unity fraction has 65 deputies, or 40.0% of the AN posts; therefore, they should head at least five commissions.

PCV and PSUV distribute Parlatino directive posts among them. The Latin American Parliament, Venezuelan Chapter, elected the deputy from the Communist Party of Venezuela (PCV), Carolus Wimmer, as its president, and deputy Roy Daza, from the PSUV, as vice-president for the 2014-2015 term. The Parlatino installed its first term of sessions with the election of the new directive body. Wimmer is a political scientist and internationalist, secretary of International Affairs of PCV. Referring to Vice-president Roy Daza, Rodrigo Cabezas, former president of Parlatino, said that he’s an intellectual, militant of PSUV and former member of Causa Radical. party.





ECONOMIC OVERVIEW

