



Weekly Report

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*What will happen with oil?:
Iran is now moving the
market*

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In mid-January, the United States (US) imposed sanctions against the Islamic Republic of Iran, banning foreign financial institutions that negotiate with the Central Bank of Iran (CBI) from making transactions in that country, as well as the freezing of funds and assets that the CBI had in the USA, and the inability of having these resources available, possibly including the payment of Iranian exports.

Also, last January 23rd, the member states of the European Union agreed to embargo the import of Iranian crude oil to the block's member states. However, the decision allows countries that depend on Iranian oil to build inventories and find alternative sources. Likewise, the EU's sanction includes measures against the CBI, banning the financing of oil related and insurance activities, although it considers exemption clauses in specific cases.



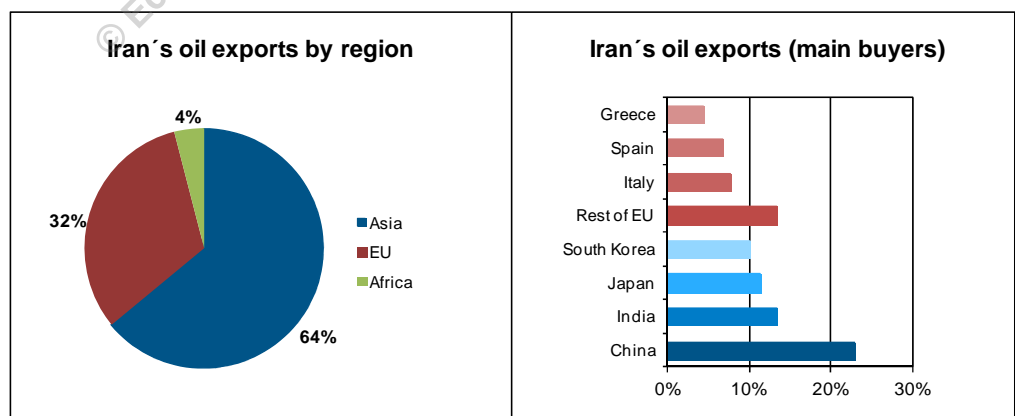
Meanwhile, Japan made the commitment to take concrete actions to reduce their dependence on Iranian oil, although South Korea is looking for a temporal exemption from the US's sanctions.

As access to Iranian crude oil becomes more complicated and costly, European countries and several Asian countries will face the need to find other suppliers. This situation may affect these and other countries to such an extent that the change in demand and the interruption of supplies may affect prices. This report analyzes whether the impact of these sanctions will affect the price of oil.

Who are those most affected?

It is obvious that the implementation of such measures may affect those countries that depend on Iranian oil significantly. The EU as a block is a large consumer of Iranian oil, a 32% share, while Asian clients represent around 64% of the total crude oil exports of the Islamic nation.

In the European block, Italy, Spain, and Greece are the main buyers, while in Asia, China, India, Japan, and South Korea are the main beneficiaries. Regarding Iran's largest buyers with long duration crude oil contracts, China is in first place, consuming around 0.55 mb/d, followed by India (0.32 mb/d), Japan (0.27 mb/d), and South Korea (0.24 mb/d). All these countries cover approximately one tenth of their oil imports through Iranian crude oil, while the rest depend largely on Saudi Arabia and other Gulf States (United Arab Emirates, Qatar, Kuwait, and Oman).



Sources: International Energy Agency and Ecoanalítica

Plucking up courage was not the way out for Iran

As a reaction to the sanctions imposed by the west, Iran threatened to close the Strait of Hormuz if more sanctions were imposed against the

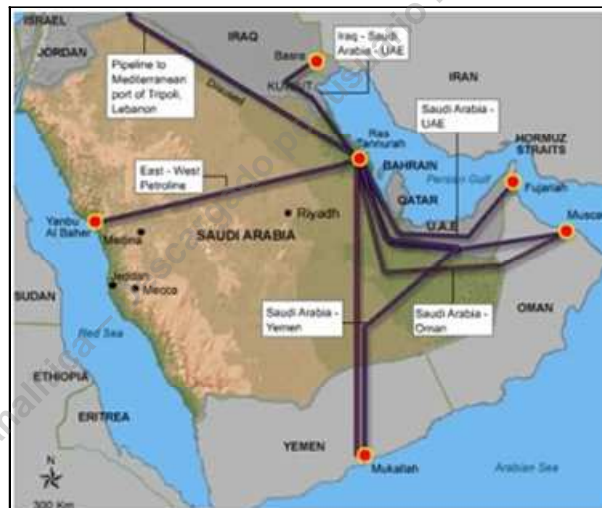


country. Given this situation, the fifth US fleet said that they would not allow any transit interruption in the Strait.

What does the Strait of Hormuz mean?

The Strait of Hormuz is a water channel separating Iran from Oman to the north and from the United Arab Emirates (UAE) to the south. Its narrowest point is 54 kilometers, quite narrow. All the countries with boundaries in the Persian Gulf, known for being rich in oil, use this water strait to transport their crude oil to the rest of the world: Iran, Iraq, Saudi Arabia, Qatar, UAE and Bahrain.

Strait of Hormuz



Sources: Voltairenet.org and Ecoanalítica

The Strait of Hormuz is presently considered the world's most important export route. According to the US Energy Information Administration (EIA), in 2011, the canal had a daily flow of approximately 17 million barrels of oil. The circulation through the Strait represented approximately 35% of the total oil that is traded through maritime ways, and 20% of the crude oil sold in the world. Most of the oil related shipments were destined mainly to Asia (Japan, China, and India), then the US and Western Europe. In other words, almost 75% of the oil that Japan imports, and 50% of the oil that China imports go through that valuable Strait.

But Hormuz is not the problem

Ecoanalítica believes that blocking the Strait won't alter crude oil supplies, except for increasing travel time and accumulate a greater volume of oil in transit. There would not be a loss of supply, although prices would skyrocket (maybe reaching US\$200/bl, according to several raw material



analysts), because it would be perceived as a reprisal by Iran, a sign of direct confrontation and the failure of diplomacy.

Even more so, several alternatives are available to move oil from the Persian Gulf without having to go through Hormuz, but they have limited capacity, and in many cases they are not presently operational, and if they are, it would cause higher transportation costs and logistical problems. However, it is obvious that given the presence of the US fifth fleet in Bahrain's waters, the government of Iran would look for a diplomatic solution.

In our opinion, the closing of the Hormuz Strait was a momentary concern, due to the impact that this situation could generate in international markets, however, beyond Hormuz, the sanctions are the ones that could alter the trade flows and hydrocarbon supplies. In this sense, as sanctions flourish, the question we must ask is how the sanctions will affect oil market balances, and thus oil prices.

What would be best for Iran?

A highly probable consequence of the EU's embargo would be to push Iranian oil more towards the east, which wouldn't thwart Iran's capacity to market the totality of its crude oil available for export. In other words, the concentration of Iran's buyers would increase (China, India), but the total volume is unlikely to be affected.

Both China and India have opposed the sanctions and have increased their purchases from Iran. In the case of China's Iranian crude oil imports, they increased 12% interannually (a/a) up to November, 2011. If Iran stops selling crude oil to the west, China and India would continue being its main markets, and would even get the advantage of some shipments affected by the embargo, to increase their inventories and strategic reserves.

What is more likely?

The situation could become more difficult if Japan and South Korea follow the steps of the EU. However, China and India would still have the capacity to absorb almost all of the 2.3 mb/d that Iran exports, although this could harm some contracts these countries have with other producers in Africa and the Middle East (Saudi Arabia). In this case, the adjustment in these contracts would be absorbed by Europe, which receives approximately 0.8 mb/d of crude oil from Iran. In this case, the markets would remain nervous and trade flows would take some time to adapt, but in general, there wouldn't be any change in the supplies or in the balances. However, it is very unlikely that the measures imposed by the west won't have any effect on Iranian exports (income).



A more likely situation would imply that Japan and South Korea follow the line of the EU in the application of sanctions, or at least restricting their imports, given the risk that is implied if their banks don't follow the sanctions and are unable to carry out business with the US. The last trips of Treasury Secretary Timothy Geitner have focused mainly in encouraging Asian countries to comply with the sanctions, particularly Japan, China, and South Korea. Although as we said before, China and India could in theory increase their imports to fill the gap, we believe that it is unlikely that it will be at the expense of the reduction of volumes from countries like Saudi Arabia, the one with present and future idle capacity, and the most influential producer of the market.

If this happens, that is, China and India maintain their present volumes but not necessarily increase their consumption, Iran would lose a market worth almost 1.4 mb/d. This volume would have to be replaced by countries with idle capacity, to wit, Saudi Arabia, followed by the United Arab Emirates, Qatar, and Kuwait.

The issue is that at present, the oil market is operating with very low inventory tops (30 mb below the average of the last 5 years) and idle capacity (2.5-3.0 mb/d). If Saudi Arabia and other holders of additional production increase supplies to compensate the Iranian loss, the available capacity would drop around 1.5 mb/d, or 1.6% of world oil demand.

Therefore, the lack of buffers to absorb any other shock would drive prices upward, particularly considering that at present, the additional supplies coming from Nigeria and Iraq are risky. All of this provided that the growth of world oil demands for 2012 is around 1,18 md/d, and the world economy doesn't fall into a recession. Even more so, if the macroeconomic data continue performing better than expected, which would reduce the pessimism in financial markets, oil prices could increase 17.3% and reach US\$130/bl.

Beyond the sanctions...

Beyond short term effects, the ratchet of sanctions against Iran has serious implications for the oil sector. Iran has already had difficulties increasing their crude oil production given the existing sanctions, and is facing one of the highest decline rates in the world¹.

¹ Its fields have a natural annual reduction rate estimated at 10%, with recovery rates of 20-25% (at least 10% less than the world average). Thus, in 2011, Iran's oil production dropped by 91 kb/d with respect to 2010.

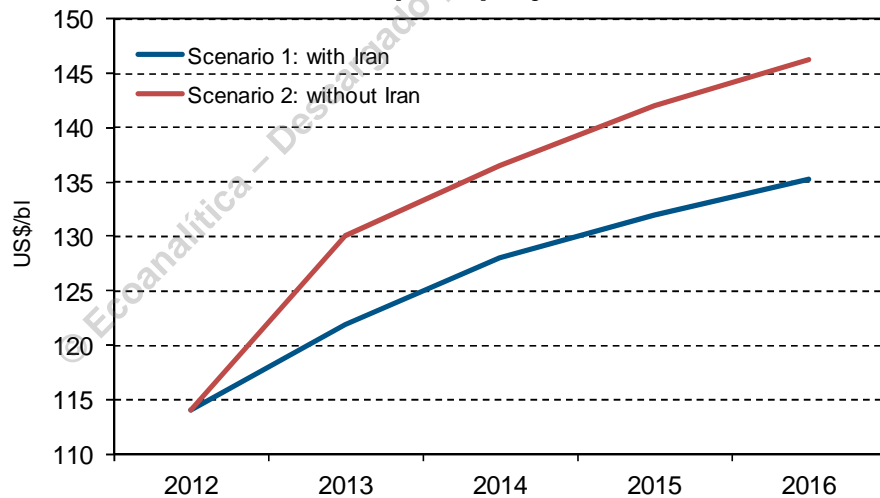


But the worst is that the Iranian government warned last year that Iran needs US\$25.0 billion per year in investments to maintain its crude oil production levels, otherwise, production would quickly fall. Moreover, Rostam Qasemi, Minister of Oil of Iran, recently added that the oil infrastructure requires an investment of US\$50.0 billion to achieve the goals of the 20 year development plan.

The future: a market on the rise...

Given the geopolitical environment that has been created and the sanctions imposed, it is likely that the situation of the Iranian oil industry will worsen, so the great challenge for a nation characterized by not recognizing the weaknesses caused by its radical posture, will be to maintain its crude oil production, given the restricted access to capitals and technology, otherwise, the loss could be around 0.25-0.50 mb/d per year, with its respective implication in income.

Oil price projections



Sources: Bloomberg and Ecoanalítica

With this situation in Iran, the problems mentioned with respect to Iraq and Nigeria, and an idle capacity controlled by Saudi Arabia, country which requires levels of increasingly high oil price to sustain its economy², the mid-term perspectives point towards a Brent price of US\$145/bl. Nevertheless, we have to remember that in the oil market anything can happen.

² From US\$70/bl in 2008 to US\$100/bl in 2011.





Economic Tips

Inflation reached 1.1% in February. According to figures published by the Central Bank of Venezuela (BCV), National Consumer Price Index (Índice Nacional de Precios al Consumidor - INPC) variation for February was 1.1%, or an accumulated inflation of 25.3% since February 2011. According to the press release by BCV, these figures represent the best monthly result observed since the index was published.

Meanwhile, core inflation registered an increase of 1.3% in February. The accumulated inflation since the last 12 month registered 25.1%

Alcoholic beverages and tobacco had the highest inflation in February. Among the 13 categories studied by the BCV, in February alcoholic beverages and tobacco had a higher accumulated inflation than the national inflation, with a variation of 2.2%, followed by Health with 1.8%, restaurants and hotels and education with 1.4%, and Food and non-alcoholic beverages with 1.2%.

CPI reached 1.0% in February. According to figures published by the Central Bank of Venezuela (BCV), consumer price index for the Metropolitan Area of Caracas (IPC-AMC) variation for February was 1.0%, or an accumulated inflation of 24.8% since February 2011. According to the press release by BCV, these figures represent the best monthly result observed since August 2007.

Higher inflation for the poor. Although the accumulated inflation in February since the same month last year in the consumer price index for the Metropolitan Area of Caracas (IPC-AMC) had a variation of 24.8%, during the same period, inflation for class I of the population, which includes the poorest families, increased 30.6%. Classes II, III and IV registered a variation of 27.7%, 26.0% and 22.1% respectively.

Inflation in controlled products increased 28.9%. The price of these products increased 1.0%. At the same time, non-regulated goods had an inflation of 1.1% in February, resulting in a variation of 28.9% for controlled goods and 22.9% non-regulated goods since January 2011.

Geographical results. Of the 11 cities surveyed in February, the greatest variations were observed in Valencia, Maracay and Merida with an inflation of 1.4%, followed by Maturín and San Cristobal with 1.3%. The areas with the least variation in February were Barcelona-Puerto La Cruz with 0.9%, and Barquisimeto and Caracas with 1.0%.



Scarcity index decreases. In February, the scarcity index decreased from 16.2% to 14.4%, which means that out of every 100 products that consumers requested in stores, supermarkets and the establishments throughout the country, 14 were not available.

Additional credits at full speed. In February budget shortages and the need to maintain spending levels has been made that the National Assembly speeds up in the expansion this year's budget. In the second month of 2012 were approved additional credits for VEB 3,972.7 million, which together with the amount approved in January, give us a balance of VEB 4,172.1 million approved so far this year.

Unemployment rate at 10.3%. According to numbers released by the National Statistics Institute (INE), unemployment rate decreased 0.1 percentage points in January, as compared to the same period in 2011, when unemployment rate closed at 10.4%; this means that in the first month of the year, 1,364,956 people didn't have a job.

Women unemployment at 10.9%. Unemployment impacted more women than men. January unemployment rate among women was at 10.9%, down 0.2 percentage points from January 2011. All this means that 571,517 of the 5,223,395 women belonging to the economically active population were unemployed in January 2012.

Men unemployment, in turn, was 9.9%, meaning a 1.1% drop throughout the year, from 801,986 men unemployed in January 2011 to 739,439.

Inactivity rate increases. According to inactivity rate figures published by INE, the number of inactive women increased 4.4%, from 5,061,097 in January 2011 to 5,285,837 in January this year. Men inactivity, in turn, experience a significant increase, from 2,090,191 of inactive men in January 2011 to 2,337,032 in the same month in 2012, or an increase of 11.8%

More men are doing household work. In January, although students accounted for 50.1% of inactive men, the number of inactive men doing household work increased 24.5%. In January, 59.5% of women were doing household work; however, inactive women studying grew 7.6%.

More public sector jobs. According to INE's figures, at end-January, 2,416,852 people were employed at the public sector, up 4.1% from January 2011, when this sector employed 2,321,732 people. Private sector, which employs 79.7% of working population, dropped 1.4% with respect to the same period in 2011.





Investment doesn't recover. According to statistical data published by the Central Bank of Venezuela, investment in machinery and equipment, which is the kind of investment that leads to production expansion, after falling in 2009-2010, recovered 4.4% in 2011; however, it's still 10.3% below 2008's level. Although the BCV doesn't publish private and public investment figures and only provides consolidated data, between 2007 and 2010, private investment dropped 43.6%, i.e. less employment in the formal sector and lack of capacity for industry to increase production and diversify exports.

Borrowing increases. According to figures released by the Ministry of Finance and PDVSA, Central Government and PDVSA's debt in 2011 amounted to US\$114.72 billion, up 18.0% from 2010, when obligations were at US\$96.6 billion. Of this amount, US\$79.92 billion correspond to central government's debt and US\$34.8 billion to PDVSA's, and don't include Venezuela's debt to China, Russia and Brazil. Both balances recorded 10.5% and 39.8% increases, respectively, since 2010.

Plans to increase 40% debt to China. Venezuelan debt to China closed 2011 at US\$21.3 billion; however, recent loans signed by the Minister of Petroleum and Mining, Rafael Ramírez, plus the renewal of the Heavy Fund0 financing, to be paid over three years with oil shipments, has raised debt by US\$12.5 billion. Subtracting payments that are estimated at US\$4.0 billion for this year, debt is expected to increase 39.9% to close 2012 at least at US\$29.8 billion.

"Foreign currency inflow and outflow tally." BCV's president, Nelson Merentes, informed that international reserves are about US\$28.0 billion, *"of which, almost US\$20.0 billion are in gold; the rest is in other placements and foreign currency, which are known as operating reserves."* Merentes stressed that the sustained increase of the Venezuelan oil basket, which averaged US\$114.6/bl. this week, suggests that more foreign currency will be earmarked for international reserves. This *"guarantees that (foreign currency) inflow and outflow will tally."*

Increased resources transferred to states and municipalities. Vice President Elías Jaua said at his annual report to the National Assembly (AN) on February 28 that during 2011, the allocation of resources to municipalities and states, both from revenue sharing and transfers from the Interterritorial Fund, grew 36%, from VEB 39.7 billion in 2010 to VEB 53.98 billion in 2011.

BCV's financial assistance to PDVSA continues. Monetary base figures published by BCV show that financial assistance from BCV to PDVSA in January reached VEB 95.36 billion; this figure was similar to that of December 2011, VEB 96.06 billion. However, compared to the same period in the previous year (VEB 25.01 billion) BCV assistance to PDVSA was 281.2% higher.



Spending and liquidity go parallel. Government spending closed February at VEB 57.08 billion, up 28.6% from the same period in the previous year, according to figures from the National Treasury Office. This increase resulted from disbursements made by the administration to pay public servants' wages and past due labor obligations. The increase had a strong impact on liquidity which closed January at VEB 446.45 billion, up 51.8% from January 2011.

Interest rates. The lending rate for the fourth week in February was at 16.5%, decreasing by 0.8 percentage points compared to the previous week. The time deposit rate remained since July 2011 reach 14.5%, while the passive rate has not experienced any significant variation since November 2011, placing well at 12.5%.

International reserves. International reserves increased 7.9% going from US\$26,493 million during the third week of February to US\$28.598 million during the fourth week. Compared to the same period last year, international reserves have increased by 7.8%.

Monetary liquidity. Monetary liquidity in the fourth week in February increased 0.4% compared to the previous week settling at VEB 446,459 million. The M2 has increased 51.8% year-on-year.

Sitme figures. So far this year, US\$1,763.8 million have been negotiated through the System for Foreign Currency Transactions (Sitme), averaging US\$39.2 million a day, with an implicit exchange rate of 5.3 VEB/US\$; this represents an increase of US\$480.8 million (37.5%) over the same period of 2011, when negotiated US\$1,283.0 million. Meanwhile, in February negotiated US\$775.6 million, representing an increase of 162.1 million (26.4%) compared to February 2011. Lastly, during the fourth week of February the amount traded reached US\$214.6 million, traded US\$101.3million more than last week when US\$113.3 million were traded.

Oil Tips

Price for Citic's participation in PetroPiar hasn't been fixed. Rafael Ramírez said that the price to be paid by China's Citic to acquire 10.0% of shares of PetroPiar at the Orinoco Oil Belt hasn't been determined yet. The inclusion of the Asian giant in PetroPiar was agreed last week, after several agreements were signed between the



Venezuelan government and the representatives of China's state-owned oil companies.

Orinoco's Junín-10 block will be the first to produce. Junín-10 block in the Orinoco Oil Belt, certified by PDVSA with proven reserves of 10.5 billion barrels of XH oil, will be the first of the Orinoco's new development to start early production in 2012.

At mid-year. Eulogio del Pino, vice president of Exploration and Production at PDVSA, informed that the first barrels of oil will flow from Junín 10 block in next June. This area has been developed by PDVSA alone. It's worth recalling that the partner selection process for this block was terminated on January 21, 2010, because *"the proposals presented by France's Total and Norway's Statoilhydro didn't meet the required conditions,"* oil industry sources informed at that time.

The second block to start early production will be Junín 2, which is operated by JV Petrocumarebo (PDVSA, 60%; Vietnam's PetroVietnam 40.0%). PetroVietnam paid US\$584 million for the right to participate. Junín 2 has proven reserves of 7.5 billion barrels and will have an upgrader with a capacity of 200,000 b/d of oil (kb/d).

In consideration of financing, Venezuela is currently shipping about 460 kb/d to repay loans granted by Beijing to Caracas, Rafael Ramírez, Minister of Petroleum/President of PDVSA, informed at the presentation of the Ministries' annual reports to the National Assembly. Ramírez noted that the target of sending 500 kb/d of oil and byproducts to China could be reached in early 2013. *"Of the 460 kb/d we sent, we have used about 200 kb/d for the agreements, at market price. We aren't selling at discount; not even through PetroCaribe,"* Minister Ramírez highlighted.

Brazil demands speeding up construction of refinery in Pernambuco. Brazil's President, Dilma Rousseff, stressed that it's urgent that Petrobras completes the construction of the Abreu e Lima refinery in Pernambuco, which originally called for a joint investment with PDVSA, AP reported. The refinery is valued at US\$14.0 billion (PDVSA 40%; Petrobras 60,0%).

However, PDVSA's contribution has been postponed many times because the Venezuelan state-owned oil company has failed to present the required financial guarantees. Rousseff warned that Abreu e Lima is the refinery that registers the worst backlog among the refineries Brazil has plans to build and assured that her administration is trying to complete the refinery within the scheduled time (by 2013).

Crude-for-money agreement. The recent financing agreement for US\$4.0 billion signed with the Industrial and Commercial Bank of China (ICBC) will be paid with oil



also. Minister Rafael Ramírez pointed out that the ICBC loan will be repaid with oil, *“because the price favors us; the higher the price, the fewer barrels we will need.”*

Refineries in good operating conditions. Minister Rafael Ramírez said last week that *“there has been a systematic campaign by some media that pick out any quote and begin to talk things about Paraguaná Refining Complex (CRP). CRP is a steel city, with thousands of valves, pipelines and equipment and we are permanently doing repair works. Our professionals, who reactivated the system during the oil strike, are operating according to the industry quality standards.”*

El Palito is operating smoothly. PDVSA said in a press release that El Palito refinery, in Carabobo State, is operating *“fully normal.”* Its atmospheric distillation and vacuum distillation units, treatment, intermediate conversion, naphtha reforming (PTR), BTX (benzene, toluene and xylene), as well as piers at the marine terminal and the product distribution system that supplies distribution plants in Yagua and Barquisimeto are all operation seamlessly. The press release was the response to statements by union leaders from the Federation of Oil Workers, who claimed that crude oil reception had been stopped and that a gas leak occurred in El Palito.

PDVSA is collecting crude oil traces spilled at Jose. PDVSA informed that on March 3, a breakdown was addressed in the crude oil hose couplings of the monobuoy of the storage and embarking terminal at Jose, which was caused by the breaking of the berth ropes of the Bahaman oil tanker Harabi. The incident provoked a spill of crude oil traces. The oil industry press release explains that after the incident, *“the immediate response plan was activated to address the operational contingency provoked by the automatic uncoupling of the hoses.”*

PDVSA paid part of the wage compensation bonus. After a number of deferrals and protests by oil workers, last week, PDVSA paid part of the commitments provided for in Clause 34 of the oil collective bargaining contract, which calls for the payment of longevity compensation.

International oil baskets. At closing time on March 2nd in the New York Stock Exchange, the price of the WTI was US\$108.1/bl, a 2.6% increase compared to the US\$105.3/bl reported the previous week. The Brent increased by 2.0% to reach US\$124.0/bl, compared to the previous week's US\$121.5 bl.

Local oil basket price. The Venezuelan oil basket price increased last week, closing at US\$117.1/bl on Friday March 2nd, a 2.2% increase compared to the US\$114.5/bl of the previous week. The annual average price of the Venezuelan oil basket is US\$110.1/bl



Business Sector Tips

Automotive industry recovers. According to data from the Automotive Chamber of Venezuela (Cavenez), over the two first months of the year, 16,694 autos have been assembled, up 13.5% from the same period in 2011, Only in February, 10,974 units were assembled.

Costs of pharmaceutical products, construction materials and car spare parts will also be reviewed to set fair prices, Karlin Granadillo, National Superintendent for Costs and Prices (Sundecop) informed. Granadillo added that information is currently being gathered.

However, it's too soon to talk about price increase or stabilization, the Superintendent said. Granadillo pointed out that everything will depend on the results of the cost structure evaluation.

Cadivi modifies procedure to apply for foreign currency for imports. Through a press note, Cadivi informed that starting from March 15, importers will be able to apply for foreign currency on Cadivi's web portal. Applications will be made under a new scheme so as to streamline procedures and improve Cadivi's technological processes.

4,000 megawatts more in 2012. Hector Navarro, Minister of Electric Energy, informed at the marathon for the World Day of Energy Efficiency, that this year 4,000 megawatts (MW) consisting of new generation and equipment rehabilitation will be incorporated to the power grid.

He stated that peak demand, according to the National Center for Dispatch (CND) will reach about 17,000 MW, similar to 2011 behavior.

Great power generation works are being planned. Minister Navarro informed that the construction of electric power plants in Tocomá, Termozulia, Cumaná, La Raisia, among others are underway. These works "*will guarantee enough power supply for the country,*" the Minister said.

Mérida, Trujillo and Barinas with scheduled power rationing. According to Corpoelec Trujillo, a breakdown in the 100-MW self-transformer No. 1 at José



Antonio Páez generation plant, along with another breakdown in the 115KV line, resulted in a contingency that could last 21 days.

Rains impacted power service in the eastern part of the country. The northeast region of Anzoátegui state was affected by light rains on March 4. Rains provoked more than 35 power outages. Power lines suffered by the strong breeze that accompanied the rain and by sea water in the coast area, which resulted in different short circuits.

Sidor production lost 14,000 ton iron bars, workers at Sidor, where the iron bar train was out of line for two weeks, reported. The breakdown was provoked by a failure in a transformer, which affected the manufacture of iron bars, a vital element to meet construction targets of the “*Gran Misión Vivienda Venezuela*”. Operations at the bar train were restarted on March 5.

More tourists are visiting Venezuela. According to Alejandro Fleming, Minister of Tourism, in January-February 2012, 140,641 foreign tourists visited Venezuela, up about 30% from the same period in 2011. Minister Fleming pointed out that most foreigners come from Colombia, Brazil and Argentina.

Funds for basic industries authorized from Cuba. President Chávez authorized VEB 129 million for Venezolana de Cemento (Vencemos) and VEB 953.3 million to relaunch the socialist basic company Servicios de Laminación y de Aluminio in Caicara del Orinoco (Serlaca).

Likewise, President Chávez also authorized the disbursement of 79.2 million euros from the National Development Fund (Fonden) to import machinery from Portugal for the factory of clay blocks to be established in Falcón state.

New board at Sidor. President Chávez informed via telephone from Havana that the Sidor new board will include the vice minister of basic industries, Ramón Ernesto Perdomo; vice minister of Intermediate and Light Industries, Carlos Farías, and Carlos de Oliveira.

Venezuela among the main buyers of coffee from Nicaragua. According to Nicaragua’s Center for Export Processing (Cetrex), Venezuela paid US\$13.1 million for the purchase of Nicaraguan grains from 2011-2012 crops, which, along with beef, constitute the first export product of Nicaragua.

Corn: losses estimated at VEB 39,000,000 are assumed by private corn industry, according to the Venezuelan Association of Precooked Corn Flour Industries (Venmaiz). The association states that this is due to the imbalance between the set



rice and the steep increase in production costs fixed by the State. Venmaiz is expecting and adjustment in price of corn before the start of the sowing cycle.

Beef availability per capita increased 23% in 2011. According to figures published by *Gaceta Ganadera*, apparent beef availability was 24.2 kg. last year. Furthermore, endogenous cattle (born and raised in Venezuela) slaughter increased 31% with respect to 2010.

Less imported beef. Beef imports dropped 16% in 2011. Last year, beef was bought from Colombia and despite the foot-and-mouth disease outbreak, 9,992 tons of beef came from Nicaragua.

Authorization to import milk requested. Trina Michelangeli, executive president of the Association of Cheese Industries (Aniquesos), informed that the industry recorded a 10% drop in raw material supply. Furthermore, Michelangeli explained that importing milk is necessary to control the drop in the production of industrial cheese, avoid shortages, stabilize prices and boost supply.

World Economy Tips

Euro zone GDP contracted in 4Q2011. The eurozone economy contracted 0.3% in the fourth quarter of 2011, after growing 0.1% over the three previous months, Eurostat informed on March 6. On a year-to-year basis, the economy grew 0.7%, vs. 1.3% in the same period the previous year. According to a survey by Reuters, a quarterly decline of 0.3% and a year-to-year expansion of 0.7% were expected.

Signs of EU economy improvement. The eurozone is immersing in a moderate recession period, but there are signs of economy improvement, according to the European Union Economic and Monetary Affairs Commissioner Olli Rehn. *"While the euro area is currently in a mild recession there are at the same time signs of stabilization. I am convinced that, as a result of our collective efforts, and if we keep up our recent decisive action, we can witness a turning of the tide in the coming months in the European economy,"* Rehn said at a press conference.

Greek default would cause huge damage. A disorderly default in Greece would probably leave Italy and Spain needing outside help to stop risks spreading, and cause more than € 1.0 billion damage to the euro zone, according to a group of bond



investors. *"There are some very important and damaging ramifications that would result from a disorderly default on Greek government debt,"* the IIF said in a document. *"It is difficult to add all these contingent liabilities up with any degree of precision, although it is hard to see how they would not exceed € 1.0 billion."*

China's growth forecasts lowered. Speaking at China's annual parliamentary session, the country's Premier, Wen Jiabao, cut his nation's growth target from 8.0% to 7.5 percent for 2012. *"Slower Chinese growth means a negative impact on the world and commodity markets. In the short term, this is probably a negative for risky assets,"* said Philippe Gijssels, head of research at BNP Paribas Fortis Global Markets in Brussels.

European stocks tank on China's growth cut. European shares fell past Monday, March 5, as China's move to set its lowest annual growth target in eight years and uncertainty surrounding Greece's bailout prompted investors to sell riskier assets. Mining shares topped the decliners' list, with the basic resources index down due to China's cut in its growth outlook.

China should widen yuan rate band. According to the Council of the Central Bank of China, the country could and should widen the daily trading range for its currency, but a slew of other financial sector reforms are needed before the yuan becomes fully convertible and freely traded. *"The central bank should widen the yuan daily trading band step by step, say first expand to 0.7 percent or 0.75 percent from the current 0.5 percent and then be further expanded later,"* Li Daokui, an academic member of an advisory body to the People's Bank of China, told reporters.

Brazilian economy grows 2.7% in 2011. Brazil's economy grew just 2.7% in 2011, a figure that could signify a new setback in the first year of government of Dilma Rousseff, although data released on March 6 hints to a mild acceleration in this year's growth. The GDP of the largest economy in Latin America expanded 0.3% in the fourth quarter of 2011, in a recovery a little better than expected since a revised contraction of 0.1% in the third quarter, the Brazilian official statistics agency (IBGE) informed.

Slow growth will impact interest rates. Brazil's growth way below the growth pace the country was registering would reinforce reasons for the Central Bank to introduce deeper cuts in interest rates. The bank is expected to cutback rates by a half percentage point in its board meeting this week, although some analysts bet to a more aggressive cut after the recent signs of economic weakness both at the local and external level.





Colombian exports grow 24.0% in January. According to an export report published by Colombia's Statistics Institute, Dane, Colombian exports grew 24% in January with relation to the same period in 2011, from US\$3.78 billion to US\$4.69 billion. Growth was mainly due to the 36% increase in fuel and extractive industry products exports, a behavior that was basically the result of an increase in sales of petroleum oil and oil obtained from crude bituminous minerals.

Political Tips

Election pre-campaign should be regulated. Last Tuesday, March 6, Vicente Díaz, member of the National Electoral Council (CNE) board, said that election pre-campaign activities should be regulated. However, Díaz warned that activities of political parties should not stop because the legal period hasn't officially started. *"Political parties should contact people and present their offer,"* Vis-à-vis accusations between PSUV and opposition, Díaz explained that they are anticipating to the campaign.

The administration is investing more in Cuba. Representative Verónica Barboza, president of the Finance Commission of the Legislative Council of Miranda State, informed that the current administration is investing more in Cuba than in the victims of heavy rains. *"Only in 2010, Cuba received from Venezuela US\$1.6 billion. Reviewing statements by vice president Elías Jaua, in 2011, VEB 150 million were invested, with only ten thousand families that had been victims of the rains being benefited. About 26 thousand families are still homeless after one year of promises,"* Barboza said.

Barboza also questioned the lack of effective public policies. Barboza (Un Nuevo Tiempo party) stated that the Venezuelan State has been retaining funds, as well as suffocating municipalities and states. *"Aren't resources enough? I don't think so; the administration has these moneys deposited in Fonden and has used them for gifts abroad,"* Barboza claimed. She added that the oil windfall revenues law not only was suffocating the states, but the very same National Public Power.

Chávez is demanded to justify oil surplus movement. Representative Carlos Ramos announced on Tuesday, March 1, that President Hugo Chávez should be summoned to the Supreme Tribunal of Justice (TSJ) to explain management of oil rent surplus revenues. *"Minister Jorge Giordani admitted that a large part of the funds*



that Fonden has received has been sent to other countries, which is a crime, because Fonden is merely a parallel budget they are managing,” Ramos assured.

National government’s disagreement with illegal occupations is ratified. Vice President Elías Jaua reiterated on Thursday, March 1, the National Government’s disagreement with invasions as a way to obtain lands to build homes. *“It’s not necessary to invade; invasions only worsen the problem,”* Jaua said on Venezolana de Televisión channel.

Jaua and Cabello seal Alliance and call for unity. Elías Jaua and Diosdado Cabello came to the parliament on Wednesday, February 29, where Vice President Jaua would present his report for 2011. When Jaua took the floor, he greeted Cabello *“comrade representative Diosdado Cabello, president of the AN, and when I say comrade, I really mean it, because we are comrades in our loyalty to Chávez, to our people and to the construction of the socialist homeland.”*

At his turn, Cabello thanked Jaua. *“We do know about true unity; brotherly unity,”* Cabello stressed. The Representative highlighted that “some” (i.e. opposition) could be uncomfortable with their friendship.

MUD blames the administration for recent invasions. The Democratic Unity Panel (MUD) blamed the *“resounding failure of Hugo Chávez’ administration to solve the housing problem”* for the violent invasions of private properties, which have gained momentum over recent days. The alliance blames the administration for promoting these actions and for *“clashes among Venezuelan borders.”*

Adán Chávez urged his comrades to report traitors among them. Barinas governor, President Chávez’ brother and member of the PSUV party’s board, Adán Chávez, contrasted the concepts of loyalty and treason and urged his comrades to detect traitors within the Bolivarian process. He referred to the need of a *“true unity”* and *“revolutionary loyalty”* for October 7’s victory.

President’s health is adversely affecting foreign policy. Venezuelan foreign policy is one of the areas being negatively affected by President Chávez’ absence. For example, there is the possibility that President Chávez isn’t able to attend the Summit of the Americas, to be held in April in Cartagena, Colombia.

Voto Joven reports that people registered in the Electoral Roll didn’t appear in the primary election rolls. Alberto Kabbabe, member of Voto Joven, reported a few days ago that some of the people registered in October didn’t appear in the electoral roll for the primary election. *“We are processing about 300 reports concerning*



February 12 election and went to the CNE to find out what will happen to these people,” he added.

Legislative Tips

Weapon banning was already published in the Official Gazette. Provisions concerning weapon regulation, suspension of weapon imports and sales were published in the Official Gazette No. 39,873 last week. According to Representative Ricardo Sánchez, these measures “*will be successful as long as they are enforced and isolated, but, instead, they are part of a series of comprehensive measures that should be taken by all branches of power,*” Sánchez stressed.

The Commission for Justice and Truth was entrusted to investigating tortures and disappearances occurred between 1958 and 1998. This Commission was created upon approval of the Law to Punish Crimes, Disappearances, Tortures, and other Violations to Human Rights for political reasons in 1958-1998.

The Commission is expected to be installed shortly and according to Gabriela Ramírez, the Ombudswoman, the members of the commission will fulfill their functions for three years (extendable if necessary) to investigate facts and establish the corresponding responsibilities; however, Ramírez explained that relatives of the victims of repression at those dark times aren't expecting a compensation by the State, but that truth and justice be served.

The Supreme Tribunal of Justice will revise the term of the Enabling Law. The Supreme Tribunal of Justice will revise the term of the Special Powers Law granted by the former National Assembly to President Hugo Chávez. The Constitutional Chamber announced yesterday that the plea for annulment of article 13 of the Law introduced by lawyers Edgar Núñez Alcántara and Rayda Riera Luzardo on January 13, 2011, was admitted by the Tribunal. Article 13 provides for that the Special Powers law will be in force 18 months. The plaintiffs claim that the term of the law is unconstitutional, because it has extended beyond the period of the Assembly that granted it, which was in sessions until January 5, 2011.

Provisions for gas supply in bordering states entered in force. Provisions to control the automated system for the control of fuel supply in bordering states, aimed at counteracting gas resale, were published in the Official Gazette No. 39,875, dated



March 5. The system is intended to guarantee continuous and efficient fuel supply in gas stations located in the bordering areas of the country and calls for registration of buyers, who will be allocated an identifying number at the direction of Automation, Computer and Telecommunications of PDVSA regional offices.

Only supplementary appropriations. March 6 plenary session of the National Assembly only discussed supplementary appropriations for the Ministries of the Interior and Justice, Education and Labor and Social Security.

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ECONOMIC OVERVIEW

