



Weekly Report

Year 7, Number 15
Week III, April 2011

***Adjustment to the Special
Contributions Tax:
Understanding 21st Century
Socialism***

By:
Jose Luis Saboin
Asdrubal Oliveros
Ecoanalítica's Team *

*Estefania Peña, Adriana Morillo and
Luis Pulgar

Reproduction or distribution prohibited

This past Easter holiday week stood out for two very memorable events. One the terrible weather, plagued with torrential rains, which in every way clouded vacationers Easter holidays. And two, the modifications made to the Law for Special Contributions on Extraordinary Prices in the International Hydrocarbons Market. This Report will describe the new modifications and analyze their implication.

To begin with

Let's remember that with the imminent collapse of the chavista economic model (due to its significant vulnerability to unexpected drops in oil prices on the international market¹), the Administration began to look into the possibility of making significant adjustments before the impending presidential election set for the end of 2012. Let's not forget the devaluation that was implemented during the last weeks of December 2010 (spun as a measure to "unify" the existing exchange rates). And also remember that the Administration was considering, along with the

¹ That unleashed the economic recession that affected the country for six consecutive quarters



devaluation, to increase the VAT and to reactivate the Financial Transaction Tax; and as if this were not enough, it was also considering increasing the price of gasoline. But, we all know what happened. The price of oil went up significantly on the international market and the Administration's panic attack passed.

Besides the fact that international crude oil prices went up significantly and saved the day or more precisely, the moment, the Administration, was never very keen on implementing the devaluation and the other measures it was contemplating because these "adjustments" were a bit too much like the old economic adjustment packages that previous Administrations have implemented and which the people, due to past experience, associate with an assault on their wellbeing². In other words, implementing these measures would end up negatively affecting those with the least amount of income the most, and with the presidential election in 2012 just around the corner, it would be in the best interest of 21st Century Socialism or help consolidate the movement. So, with oil prices soaring again, these measures were dropped, or shall we say shelved, for now.

The real situation...

As we have mentioned a number of times in past Reports this year, the real situation regarding what is going on in Venezuela is completely different. If you take into account the drop in crude oil production that the Venezuelan oil industry has been experiencing for the last not so few years and the restrictions and added responsibilities placed on PDVSA (and the economy as a whole) due to the reigning political ideology, then what seems like a very good price for a barrel of crude oil for the Venezuelan oil basket at US\$95/bl is not enough to spearhead the economy to higher levels of economic growth, and much less enough to consolidate the 21st Century Socialist movement.

In this context, and given the political cycle in which we are in with the presidential election on the horizon, is what leads the President to issue the most recent presidential decree, immediately signed into law, namely the Law for Special Contributions on Extraordinary Prices in the International Hydrocarbons Market. It's important to point out that although this new law helps the President side-step making adjustments

² We are referring to the political and social connotation that was given during the 1990-1992 period to the package of economic measures carried out, better known as the "Gran Viraje" (the Great Change in Direction), which ended up affecting the popularity of the Administration in power at the time.



which would negatively affect his popularity with the people³; it also puts even more pressure on and already overloaded PDVSA.

**The “end”
justifies the
means?**

According to the decree, this new law is “*born of a series of unpredictable circumstances which push international oil prices to unpredictably high levels, out of control of producers as well as consumers; with said increase in prices significantly affecting the Venezuelan economy. The main point of the new law is to create a mechanism by which unexpected peaks in international oil prices can be taken advantage of to the benefit of the nation and unexpected drops in international crude oil prices will not be able to affect the fiscal, exchange and monetary balance of the economy*”.

In this respect, the resources obtained from this “*special contribution*” will be used giving preference to the Administration’s *Great Missions* as well as infrastructure projects, roads, health, education, communication, agriculture, and food, among other projects. The main beneficiary of these contributions will be the National Development Fund (FONDEN).

**A day in April
three years ago...**

Published in the *Gaceta Oficial* N° 38.910 dated April 15, 2008, the Law for Special Contributions for Extraordinary Prices in the International Hydrocarbons Market, which established a special tax on the export and transportation of hydrocarbons out of the country based on the average price of Brent crude oil. This tax kicked in when the average price of Brent crude oil topped US\$70/bl in accordance to the following percentages: 50% of the difference exceeding the average monthly price of US\$70/bl as long as the price per barrel does not top US\$100/bl. If so, and the price of a barrel of oil tops US\$100/bl then 60% of the difference exceeding the average monthly basket price will be taxed.

In 2008, when this law went into effect, the Administration collected US\$8.2 billion, and in the following years it collected US\$251 million and US\$1.7 billion, reflecting the drop then recovery of international oil prices.

**When
extraordinary
becomes...
exorbitant**

With the publication of *Gaceta Oficial Extraordinaria* N° 6.022 this past April 18, the previous law is taken out of the books and via presidential decree the new Law for Special Contributions on Extraordinary Prices in the International Hydrocarbons Market becomes Law. The first thing that stands out is the introduction of a new price scale, called exorbitant.

³ Because the tax does not affect the ordinary citizen pocket.



The new law defines the two price scales as follows:

1. Extraordinary Prices: are those prices which monthly average price for Venezuelan liquid hydrocarbons traded on the international market is greater than the average price per barrel of crude oil established in the Venezuelan National Budget for the year in question (US\$40/bl this year), but also equal or less than US\$70/bl.

2. Exorbitant Prices: are those prices which monthly average price for Venezuelan liquid hydrocarbons traded on the international market is greater than US\$70/bl.

Now there are two taxes

If we take the definition of both these prices we see that now there are two special taxes to be paid monthly by those that export liquid hydrocarbons, natural or improved, and any subsequent byproducts out of the country. The tax will be paid in the following manner:

1. **Payment for Extraordinary Prices:** When the monthly average price for Venezuelan liquid hydrocarbons traded on the international market is greater than the average price per barrel of crude oil established in the Venezuelan National Budget for the year in question, but also equal or less than US\$70/bl, payment will be 20% of the difference between both prices.
2. **Payment for Exorbitant Prices:** There are three categories of payment:
 - When exorbitant prices are greater than US\$70/bl, but less than US\$90/bl, the tax will be equal to 80% of the total amount of the difference between both prices.
 - When exorbitant prices are greater or equal to US\$90/bl, but less than US\$100/bl, the tax will be equal to 90% of the total amount of the difference between both prices.
 - When exorbitant prices are greater or equal to US\$100/bl, the tax will be equal to 95% of the total amount of the difference between both prices.



**Exemptions:
¿a positive
aspect?**

The new law also includes parameters for exemptions to the aforementioned new taxes. One of the exemptions mentioned is for mixed companies which are working on exploiting new fields or are part of the program to increase domestic oil production. These companies are exempt from paying the new taxes as long as they haven't recovered their investment in the aforementioned projects, with the MENPET being the entity which determines when said investment has been recovered without taking into account cost related to corrective or preventive maintenance.

Another exemption has been created for crude oil exports related to international cooperation and/or finance agreements, for example, deliveries to China and PETROCARIBE which equal around 400,000 barrels a day. There is also the possibility that deliveries associated with new economic policies and international cooperation may also be exempt.

With respect to the first exemption described above, at **Ecoanalítica**, we believe that it is important to point out that the tax is not being collected on oil production related to developing new fields as well as increasing domestic production which will be an incentive for these companies to increase production in these areas. If not, production will continue to stagnate.

**How much will
the
Administration
receive from
this new tax?**

At **Ecoanalítica**, we believe that this measure was implemented by the Administration in order to collect more resources which will give it more freedom to use those resources available. In other words, this is another measure by which the Administration can collect more revenue to use at its own discretion. If the average price of the Venezuelan oil basket remains at US\$95/bl for the rest of the year and exports which at tax should apply⁴ continue at around 1.6 mb/d, we figure the Administration could collect around US\$10.6 billion just with this new tax, and another US\$16.4 billion next year (in a moderate scenario), as the following table reflects.

⁴ Not counting cooperation and financing agreements (approx. 400,000 b/d)





Special Contributions to Fonden Act		2011		2012	
Scenarios	Base	Conservative	Base	Rise	
Venezuelan oil basket price (US\$/bl)	95	80	95	102	
Oil exports (mb/d)	2,1	2,1	2,1	2,1	
Cooperation and financing agreements (mb/d)	0,5	0,4	0,4	0,4	
Exports at which tax should apply (mb/d)	1,6	1,7	1,7	1,7	
How much will collect the new tax?					
		2011		2012	
<i>Extraordinary price</i>	Base	Conservative	Base	Rise	
Portion > US\$40/bl but ≤ US\$70/bl	30	30	30	30	
Aliquot corresponding: 20%	6	6	6	6	
<i>Exorbitant price</i>					
Portion > US\$70/bl but < US\$90/bl	20	10	20	20	
Aliquot corresponding: 80%	16	8	16	16	
Portion ≥ US\$90/bl but < US\$100/bl	5	-	5	10	
Aliquot corresponding: 90%	4,5	0	4,5	9	
Portion ≥ US\$100/bl	-	-	-	2	
Aliquot corresponding: 95%	0	0	0	1,9	
Total exports to a cancel barrel (US\$)	26,5	14,0	26,5	32,9	
Total deposited in the Fonden (US\$bn) [1]	10,6	8,7	16,4	20,4	
How much would the tax collect as it was?					
		2011		2012	
<i>Extraordinary price</i>	Base	Conservative	Base	Rise	
Portion > US\$70/bl but < US\$100/bl	25	10	25	30	
Aliquot corresponding: 50%	12,5	5	12,5	15	
Portion ≥ US\$100/bl	-	-	-	2	
Aliquot corresponding: 60%	0	0	0	1,2	
Total exports to a cancel barrel (US\$)	12,5	5,0	12,5	16,2	
Total deposited in the Fonden (US\$bn) [2]	7,3	3,1	7,8	10,1	
[3] Additional revenue (US\$bn) [1] - [2]	3,3	5,6	8,7	10,4	

Sources: Official Gazette, Bloomberg and Ecoanalítica

Consequences of neglecting to invest in production

At *Ecoanalítica* we wanted to find out how much revenue would have come in if domestic oil production had remained at the same levels it was in 2008, and not continued to drop, leaving the tax as it was and with the new one. The total amount that would have been collected was around US\$2.0 billion more than what will be collected with the new tax this year and up to US\$3.6 billion next year in a price rise scenario.

If production had not fallen...		2011		2012	
Scenarios	Base	Preserved	Base	Rise	
Venezuelan oil basket price (US\$/bl)	95	80	95	102	
Oil exports 2008 (mb/d)	2,4	2,4	2,4	2,4	
Cooperation and financing agreement (mb/d)	0,5	0,4	0,4	0,4	
Actual exports (mb/d)	1,9	2,0	2,0	2,0	
Additional revenue collected with the new tax (US\$ bn)	2,0	1,5	2,9	3,6	
Additional revenue collected by the tax as it was (US\$ bn)	1,4	0,5	1,4	1,8	

Source: Ecoanalítica

This figure leads one to believe that if PDVSA had not neglected investing in domestic oil production than this new tax would never have been implemented or even considered. Consequently, PDVSA wouldn't have



had to use its cash flow earmarked for future investments, and what's even worse, it wouldn't have had to go looking for financing via loans or bond issuances, especially at a moment when finance costs weigh more and more on fiscal accounts. A fact that continues to be so, therefore we still expect a bond issuance during the second semester of the year.

The maximum ceiling = maximum discretion

The new law also establishes a maximum ceiling for the calculation and liquidation of royalties, extraction taxes, and export registry taxes set in the Organic Hydrocarbon Law up until the amount of US\$70/bl.

At *Ecoanalítica*, we believe that this aspect in a way compensates how voracious the measure is since taxes are calculated and are paid at a rate much lower than market price, which in turns gives PDVSA and mixed companies a bit of a space to breathe in. It's also important to point out that the fact that the Administration has chosen to deposit these resources directly into FONDEN, where it has total control to use the resources at its own discretion, instead of going into fiscal coffers which has more oversight.

Along these lines, Article 16 overrides the Central Bank Law which regulates how much PDVSA may transfer to FONDEN establishing the new parameters as defined in the new law.

Conclusion: the cards have been dealt

This brief analysis makes it clear that the Administration has done everything it can to get its hands on as much of the country's oil export revenue as it can and put it into funds that it controls the most thereby allowing it to use this revenue as it sees fit, with virtually no oversight or obstacles.

So, now all that's left is to see is what the Administration is able to do with all these resources. It does not matter the amount, the important thing is: Will government spending have the same effect in 2011-2012 as it did in 2006 when it spearheaded economic growth and elevated the President's popularity figures? And what further steps the government could take? Will know soon...





Economic Tips

Minimum wage increase without recovering real salary levels in 2011. After announcing the 25.0% increase in minimum wage in two stages, the President of the Republic, Hugo Chávez, stated that this would increase the “real” salary level by 26.5%. As of May 1, the minimum wage will be at VEB 1,407 and as of September 1 it will increase to VEB 1,548. This measure will benefit 2,558,613 people and cost VEB 5.73 billion.

New minimum wage covers 96.9% of the food basket. Minimum wage that will go into effect on May 1, VEB 1,407.40 will cover 96.9% of the food basket calculated by the INE which last month was at VEB 1,452.20.

Food coupons mandatory. President Hugo Chávez, announced on Monday, April 25, the Food Law Reform which establishes that all company, no matter how big or small must or how many or few workers on the payroll must give food coupons to its workers. The reform, issued via Special Powers Law, also states that a worker must continue to receive food coupons even if he/she is on leave or vacation.

Investment in gold represents 61.5% of reserves. According to Central Bank of Venezuela (BCV) balance statement at the close of March 2011 gold investment in relation to total reserves represents 61.5% versus 46.0% in March 2010. At the close of April 8, 2011, total reserve levels were at US\$25.92 billion, down 12.0% so far this year and at the lowest level reserves have been since August 14, 2007.

Cost of food basket has increased by 313.7% in six years. According to National Statistics Institute (INE) figures, the value of the food basket went from VEB 351 in March 2005 to VEB 1,452 in March 2011, which represents a 313.7% increase. The BCV reports that the CPI for the Greater Caracas Metropolitan area increased by 263.5% in six years.

National Assembly approves an additional VEB 1.80 billion for health sector. The National Assembly approved supplemental appropriations for VEB 1.8 billion for the Ministry of Health. The information was published in the *Gaceta Oficial* N° 39.654, dated April 12. The funds were earmarked for a number of labor issues pending, with VEB 439 million of the total amount awarded to go to the Social Security.





Seasonal factors slow inflation increase. According to the Minister of Finance, Jorge Giordani, and the president of the BCV, Nelson Merentes, the increase in inflation is slowing down and that the 1.4% increase in inflation for the month of March 2011 was the lowest so far this year. However, there remain some signs of imbalance as the core inflation figures were up 2.4% in March, and for the first quarter an accumulated total of 7.7%, the highest in the last three years.

International reserves at lowest levels since 2007. Despite the fact that oil prices have averaged US\$95 per barrel this year, these high prices are not reflected in Central bank assets due to the fact that PDVSA is only transferring 53.0% of its foreign currency collected from its oil exports to the bank. So far this year, the reserves have dropped by 13.0%, due in part to US\$2.0 billion transferred to FONDEN. According to the president of the BCV, by the close of the year reserves should be at US\$27.5 billion.

Interest rate. The lending rate for the third week in April was at 17.25%, falling by 0.12 perceptual points compared to the previous week. Time deposits remained at 15.0%, while the passive has not submitted any variation since January 2010, placing well at 12.6%.

International reserves. International reserves decreased -0.4% going from US\$25.924 billion during the second week in April to US\$25.830 billion during the third week. Compared to the same period last year, international reserves have dropped by 7.0%.

Monetary liquidity. Monetary liquidity in the third week in April creased 2.0% compared to the previous week settling at VEF 307.794.533 billion. The M2 has creased 30.0% year-on-year.

Sitme figures. To date, US\$7.49 billion have been negotiated through the Integrated System for Foreign Currency Transactions (Sitme), averaging US\$34.0 million a day, with an implicit exchange rate of 5.3VEF/US\$. Last week the traded amount reached US\$189.3 million, US\$2.4 million less than last week when braided US\$191.7 million. So far this year the SITME has negotiated US\$ 2,408 million.





Oil Tips

The consequences of some decisions. The final judgment on the arbitration involving Venezuela and Pdvsa against the oil corporation Exxon Mobil is expected to be reached by May. After a large wave of nationalizations and takeovers that started in 2006, Venezuela accumulates 16 pending arbitrations before the International Center for Settlement of Investment Disputes (ICSID), and a few others before the International Chamber of Commerce (ICC), being the most important, as to the amounts of money involved, the ones started with the American companies Exxon Mobile and Conoco Phillips late in 2007 after not reaching a compensation agreement for their assets, mainly the ones located in the Orinoco Oil Belt.

What's coming could be tough. According to Venezuelan Government sources, both parties are waiting for the sentence before they decide whether to make it public or to wait for the decision of the parallel arbitration being held before the ICSID, attached to the World Bank, which is expected to occur in 2012. According to financial and oil analysts following the Venezuelan case, the amount Venezuela would have to pay to the American company would be close to US\$3.7 billion, much more than the number indicated by Pdvsa representatives. Plus, this would not include the part that corresponds to Conoco Phillips, estimated to be considerably higher.

Loses or wasted earnings. According to Ramon Castro Pimentel, former vice president of Deltaven, a subsidiary of Petroleos de Venezuela in charge of marketing fuels, "*Pdvsa is giving away Venezuelans' gasoline, as the sale price covers only the cost of supply at gas stations and the cost of transportation.*" He also said that "*current prices don't cover production or refining costs, and are not enough to pay taxes and encourage rational fuel consumption.*" He indicates that, based on the fact that the gasoline consumption reached 287,000 barrels per day in 2010, the company reported losses for US\$2.1 billion last year. "*Pdvsa lost US\$250,000 per hour*" he assures.

Investing anywhere. Pdvsa, through Petroandina, a partnership with the Bolivian state-owned oil company, invested US\$115 million as part of a US\$888 million project to last until 2013 to find new natural gas and oil fields in Bolivia. Petroandina invested, since 2008 when the partnership was formed, US\$110 million in a non-traditional zone with hydrocarbon potential north of La Paz, and another US\$6 million



in the southern region of Bolivia, reported Yacimientos Petroliferos Fiscales Bolivianos (YPFB). The company plans to invest US\$888 million by 2013. YPFB already holds 60,0% of the Package in Petroandina and Pdvsa holds 40,0%. The first contributes with the reserves and the latter with the risk capital.

New stage kicked off. The second stage of the Mariscal Sucre project was kicked off with the drilling of well Patao-5, at the namesake gas field located in the Sucre State. The area to be exploited includes eight wells with a joint potential of 4.08 nominal trillion cubic feet of natural gas (TCF). The goal by 2012 is to fulfill the second stage of the plan, representing the drilling of 16 wells and reaching an average production of 600 million cubic feet per day.

Competitors are aware. Ecopetrol, the Colombian State's oil company, announced a new discovery of hydrocarbons in a well located at the Huila department which produced 92 oil barrels per day in preliminary tests. In the statement, Ecopetrol announced they would *"begin the evaluation stage within weeks, planning to make extensive tests in order to determine the area's production potential and the volume of recoverable hydrocarbon"*. Ecopetrol has an investment budget of US\$8.55 billion for 2011, more than half of which will be used for exploration and production activities. In 2010, the company's total investment's reached US\$6.03 billion, reporting earnings for US\$4.4 billion, 59.0% more than in 2009.

International oil baskets. At New York's market closing time this Friday, April 22, the WTI remained at US\$108.3/bl resulting an increase of 1.0% compared to US\$107.3 recorded in the previous week. The Brent decreased by 0.4% to reach US\$122.9/bl, compared to US\$123.4/bl of the previous Thursday.

Local oil basket price. The Venezuelan oil basket price increased last week, to close at US\$108.29/bl on Friday, April 22, up by 1.0% from the US\$107.3/bl registered the previous week. Meanwhile, the basket's annual average is at US\$94.1/bl.

Business Sector Tips

BCV indicates the industrial production grew by 7.5% in January. After two years of strong falls, the Central Bank of Venezuela has reported that the private manufacturing industry, a key sector to generate jobs and diversify exports, has



started to show signs of recovery, according to the latest BCV report, which also indicates that the production volume grew by 7.5% between January 2011 and January 2010.

... **However, the BCV production index still shows negative results for some sectors.** The fields still in negative grounds are textiles, with a 19.8% contraction, non-metallic minerals with a 7.9% fall and vehicles with a 0.5% contraction.

Powdered milk and oil prices adjusted. According to *Official Gazette N° 39,656*, dated April 15, the price of powdered milk in sachet was established as follows: 1 kg VEB 20.9; 900 g VEB 19.2; 500 g VEB 10.4; 125 g VEB 2.5; 1 kg canned powdered whole milk VEB 23.8, 900 g VEB 23.7. As to corn oil, the new prices will be: 1 liter corn oil VEB 7.8; 2 liter mix oil VEB 12.7; 1 liter mix oil VEB 6.5; 500 cc mix oil VEB 4.5; and 1 liter sunflower oil VEB 7.2.

Health and pharmaceutical sector received US\$1.14 billion during the first quarter of 2011. The Currency Administration Commission (Cadivi) authorized US\$1.14 billion for health and pharmaceutical chambers between January and March of 2011, a 6.3% increase compared to the same period of 2010, when Cadivi authorized US\$1.08 billion.

Despite being authorized by Cadivi to use more foreign currency, the pharmaceutical sector is still in supply shortage. The problems to find provisions on time are affecting the pharmaceutical industry and its normal supply of products to the market. According to sources linked to this sector, there are obstacles to import aluminum and PVC, used to make packages and containers.

National Government signed the forced acquisition of 47 apartments in the Carabobo State. The apartments are located in the following complexes: Los Cedros, Apamate, Araguaney A and B, Las Acacias A and B, Los Sauces, Los Jabillos, Los Pinos and Las Palmas, and are part of the residential complex La Arboleda, located in Valencia, Carabobo State

CAN backs the previsions taken in light of Venezuela's withdrawal. The Andean Community (CAN) is confident that the end of Venezuela's commitments with the organization last April 22 will not affect the commercial flow and hopes its impact is mitigated by the bilateral agreements signed.

Venezuela redefines its commercial exchange. The door of the Andean Community of Nations (CAN) is now definitely closed for Venezuela. All commercial and tax advantages have expired, thus putting an end to a relationship that started in



1973, forcing the Venezuelan Government to reach new agreements with the Andean countries.

... Even though Venezuela's withdrawal from the CAN became formal five years ago, only last month the National Administration sealed agreements with Ecuador and Bolivia. In the cases of Colombia and Peru, in lack of a treaty, the Venezuelan Government decided to extend CAN conditions for another three months.

Commercial exchange between Venezuela and Colombia is far from recovering.

According to data provided by the Venezuelan-Colombian Chamber of Economic Integration (Cavecol), during the first quarter of 2011, the bi-national commerce decreased by 3.0% compared to the same period of 2010. According to Covecol's monthly report, between January and March of 2011, Venezuela and Colombia traded products for an amount of US\$441 million, US\$13 million less than in the same period of 2010.

Hosing projects are not going at the expected pace. The Venezuelan Government set itself a goal to build 150,000 homes this year, but the slow contracting by official entities prevents the celerity in the execution of the current plans and programs to generate new housing units.

Minerven's gold production contracted by 56.9% last year. The production of Minerven, a subsidiary of Corporacion Venezolana de Guayana dedicated to gold extraction, closed 2010 in the worst conditions reported in five years, due to the labor protests and the technological obsolescence, so was admitted in the Annual Report and Accounts submitted by the Ministry of Basic Industry and Mining.

Indepabis penalized 1,782 stores during Holy Week. The Institute for the Defense of People in the Access to Goods and Services applied 1,782 penalizations to different goods and services stores throughout the nation during Holy Week. .

Government acknowledges maintenance problems in the electric system. The minister of Electric Energy, Ali Rodriguez, auto-critically acknowledged that the national electric system had problems due to lack of maintenance both in transmission and distribution, ruling out sabotage. Rodriguez also ruled out new electric rationing programs and guaranteed the electric system would be completely recovered by 2012.

Corpoelec to invest more than VEB 21 billion this year. According to the information provided by the Minister of the People's Power for Electric Energy, the National Electric Corporation plans to invest a total of VEB 21.42 billion (US\$4.05



billion and VEB 4 billion) to complete 13 generation projects and several transmission projects that will provide 1,593 Megawatts to the National Electric System (SEN).

Chavez announced national census of homeless families. President Hugo Chavez Frias assured this week would start the Venezuela Housing Mission with the beginning of the national census of families who do not own a home.

World Economy Tips

First estimates. Although it is still impossible to know the real consequences of the earthquake and tsunami that stroke Japan, some preliminary figures have started to arise. The survey Economy Watchers showed a 22.0% fall between February and March, reflecting people's opinion of Japan's current situation. The survey also indicates a 21.0% fall in future expectations, compared to the previous month. Moreover, the Japanese exchange indicator, the Nikkei 225, dropped 1.829 points, going from 10.434 to 8.605 points between March 11 and March 15.

There are definitely a few improvements. The Conference Board's Leading Indicator showed a 0.4% improvement in March, after a 1.0% improvement reported in February. The number also exceeded consensus expectations of 0.3%. This represents a 5.1% increase compared to the same period of 2010.

Confidence returns. After the great decrease in American consumers' confidence evidenced in March when the Conference Board's Confidence Index contracted from 72 points to 63.8 points, by 11.4%, it bounced back by 2.5% in April, reaching 65.4 points. This number is quite positive, given consensus expectations of 64.8 points. The reading represents a y/y increase by 13.3%, quite encouraging, as 2010 average was 54.5 points. Historically, this indicator has proved to have a 77.0% correlation with the real variation in personal spending.

Real Estate sector still down. February's Case-Shiller 20-city Home Price Index reported a new 0.2% contraction, following the 0.3% fall reported in January. This contraction matched consensus expectations. Reviewing y/y results, there is a 3.3% price contraction, not at all encouraging for homeowners, especially after the time elapsed since the crisis. This result represents the lowest level since 2003.



Best contributors. The US cities that have contributed with the fall of the real estate sector are: Phoenix with an 8.5% contraction, Minneapolis with 8.2%, Chicago with 7.5%, Seattle with 7.4% and Portland with 7.0%, all measured in y/y terms with the Case-Shiller 20-City Home Price Index. The cities with the most moderate contractions are: San Francisco, 3.4%; New York, 3.1%; Cleveland, 2.8% and Dallas, 1.2%, under the same terms. While surprisingly, Washington D.C. recovered by 2.8% y/y.

Still improving, although not enough. The unemployment has been improving since early in the year, but the numbers are still not encouraging enough. The latest figure to reflect this was the mass layoff index, published by the US Department of Labor, indicating that the number of layoffs of 50 or more employees decreased by 21.3% in March, compared to March of 2010. Also, the number of mass layoffs reached 1,286 cases, the lowest level since 2007, a quite positive fact. The main promoter of the improvement is the US Government, reflecting a 29.2% y/y decrease in mass layoffs. The non-farming private sector also reported a 24.0% decrease.

Staying strong. The UK industrial sector keeps showing improvement, although the economy hasn't still shown signs of a solid recovery. The index of purchase orders to British companies reached 5 points, being 13 the highest level. This places the industrial sector in percentile 89, also showing the strongest recovery since 1989 going from -8 in February to 5.

Political Tips

TSJ urged to raise minimum wage to VEB 5,141. Union representatives for the National Autonomous Front for the Defense of Employment, Salary and Unions (Fadess) appeared before the Supreme Court of Justice (TSJ) to demand the entity to order the National Government to raise the minimum wage to VEB 5,141, as the current amount of VEB 1,200 set in May of 2010 was not enough to cover the needs of the average household.

The increase is "all but a gift to workers." According to recent statements issued by the Mayor of the Metropolitan Area, Antonio Ledezma, the current minimum wage is not enough for a Venezuelan household to cover its basic needs, so he proposed "establishing an integral salary that allows Venezuelans to face the fierce, ever-increasing inflation devastating household's economies."



They assure President Chavez made a bad copy of an opposition proposal. Representative Alfredo Ramos showed his inconformity with the announcements about the minimum wage increase and the modifications in the food stamp plan for workers, and claimed the Government had left out 2,200 senior citizens and pension holders after he had promised to meet their vindications. Ramos also assured that the Administration had made “a bad copy” of a proposal submitted by opposition representatives regarding the law of nutrition.

Minister of Labor applauds wage raise. Mari Cristina Iglesias, Minister of the People’s Power for Labor said the recent minimum wage increase by 26.5% announced by the National Administration maintains the people’s purchasing power and benefits families by allowing them to “live with dignity.”

Soto Rojas rejects taking Makled case to the Parliament. “This is a problem of common justice, what kind of deliberation can we (the Parliament) provide? Whoever is accused, we’ll just solve it in court,” said the president of the National Assembly (AN), Fernando Soto Rojas, after being asked about the aspirations of the alleged drug dealer Walid Makled of being interrogated in the National Assembly.

Especial oil contribution violates the Constitution. The leader of Voluntad Popular, Carlos Vecchio, rejected yesterday the decree signed by President Hugo Chavez, within the framework of the Law of Special Powers, as in his opinion, the announcement went beyond the faculties of the Law of Special Powers and was unconstitutional.

Law of Special Powers denounced in Inter-parliamentary Union. National Assembly Representative, Alfonso Marquina, participated with Latin-American Parliament (Parlatino) Representative, Delsa Solorzano, in the 124th Inter-parliamentary Union Meeting held in Panama, where they denounced the violation of parliamentary immunity and the severing of legislative functions for the approval of an “unconstitutional” Law of Special Powers.

National health system strike proposed. The representative of the Inter-union Block of Health Professionals, Juan Brando, stated that unless the National Government gave an answer, from the Lara State they were proposing a general strike of the health sector for the next few days.

Second meeting of Latin American and Caribbean Chancellors. The objective is to create a set of proposals, a Latin-American-Caribbean doctrine able to propose ideas in a central document to Chiefs of State and Government.



Sumate proposes schedule for primary election. The preliminary schedule of activities designed by Sumate proposes 7 days of campaign for the opposition's primary election. It also recommends a period of two weeks after the election to carry out system audits and submit the respective reports.

Attorney General's office urged to investigate the irregularities presented at Banco Industrial de Venezuela. Primero Justicia representative, Ramon Muchacho, urged the Attorney General's Office and the General Comptrollership's Office to investigate the irregularities denounced by the US Federal Reserve against the State-owned Banco Industrial de Venezuela. Muchacho urged the two instances on behalf of his party to investigate the situation in the BIV, the third largest state-owned bank.

PPT is not happy with the figures. According to statements issued by Simon Calzadilla, member of the national directorate of Patria Para Todos, *"over the last four months, US\$4 billion have disappeared from the international reserves."* In Calzadilla's opinion, *"it's unjustifiable that, reporting the highest revenues in history, the nation's savings in foreign currency are not enough for even three months."*

Antitrust Law to restrict the Venezuelan productive sector even more. Democratic Unity Table (MUD) representative for Lara and former president of Conindustria, Eduardo Gomez Cigala, assures that the Antitrust Law draft to be discussed in this legislative period by the National Assembly *"aims to controlling and regulating, it's a mechanism to restrict the Venezuelan productive sector."*

AH1N1 cases reach 1669 in Venezuela. Vice-minister of Health, Miriam Morales, indicated that as of last Thursday they were handling 1669 cases of AH1N1, with the highest incidence in the states of Merida, Miranda, Carabobo and the Capital District.

Legislatives Tips

The investigation will be with the people. According to Congressman Diosdado Cabello, representative of the United Socialist Party of Venezuela (Psuv), the members of the National Assembly's Service Administration Commission are touring several states looking to discuss with the people about the real estate fraud cases and trying to find immediate solutions. *"The commission is working, so we invite any opposition congressman staying home to come work with us"* he said.



The list keeps growing. The list of goods considered as strategic or priority for the National Government keeps changing to be extended in ways that are not necessarily predictable. Such is the case of cocoa beans, declared by President Chavez as a first necessity product. With this connotation, the production of cocoa and chocolate products and byproducts becomes a priority, as a strategic product for the Venezuelan people's nutrition. This measure was taken within the framework of the President's Law of Special Powers as Presidential Order Law N° 8,157, published in *Official Gazette N° 39,655* dated Wednesday, April 13 of 2010, in order to guarantee the product's availability, and the nation's agricultural-nutritional security and sovereignty.

And what's next. With cocoa now being a priority product for the nation, the Ministry for Agriculture and Lands (MAT) will dictate the Socialist Cocoa Plan to boost production. The ministry of agriculture will then have no more than 60 days to create by resolution a Single Registry of organizations, companies and any kind of partnership, public or private, devoted to the production, processing, distribution or marketing of cocoa, chocolate, their products and byproducts. Farmers, communal councils and the private sector, along with their workers, shall favor a strategic alliance with the National Administration to consolidate cocoa production nationwide as a world power in cocoa production.

International accusation. For the first time since the last National Assembly with opposition participation, congressmen from other countries of the Parliamentary Union, heard accusations and other versions about "attempts against the legal system and the democratic state in Venezuela."

No hearing in the National Assembly. The president of the National Assembly, Fernando Soto Rojas, already announced he would not allow a hearing in the Parliament for Walid Makled, as he had requested to present alleged evidence of the accusations he made against the Government of President Chavez. The alleged drug dealer made the formal request to congressmen Miguel Angel Rodriguez and Julio Montoya, both of whom were in Colombia investigating the case.

Apparently they will all be consulted. The Ministry for Electric Energy's Legal Department made public consults about the General Regulation of the Organic Law of the Electric System and Service, looking to guarantee people's participation in the instrument. At the headquarters of Corporacion Electrica Nacional (Corpoelec), they compiled the proposals of communal councils, working tables on energy, workers and people in general through the four tables installed: fundamental provisions, people and activities, economic regime and sanctions and obligations. These consults took place in the states of Zulia, Táchira, Anzoátegui, Bolivar and the Capital District.



ECONOMIC OVERVIEW



