



Weekly Report

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***Pdvsa and Ecopetrol:
The Rockefeller paradox***

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"The best business in the world is a well-managed oil company and the second best business in the world is a poorly managed oil company"
John D. Rockefeller, 1839-1937

With its customary delay, last week, Petróleos de Venezuela S.A. (Pdvsa), regarded as the fourth largest oil company in the world according to Petroleum Intelligence Weekly, published its Annual Performance Report for 2011 (IGA2011) and with it, the financial operational results for that year. Ecopetrol, which after its restructuring by the Colombian government in 2003, is in place number 12 in the ranking of the 50 oil companies in the world with the highest stock value according to PFC Energy, did the same almost two months ago to comply with the requirements of the SEC¹.

¹ The Security Exchange Commission (SEC), establishes that companies participating in US stock markets must present quarterly audited reports

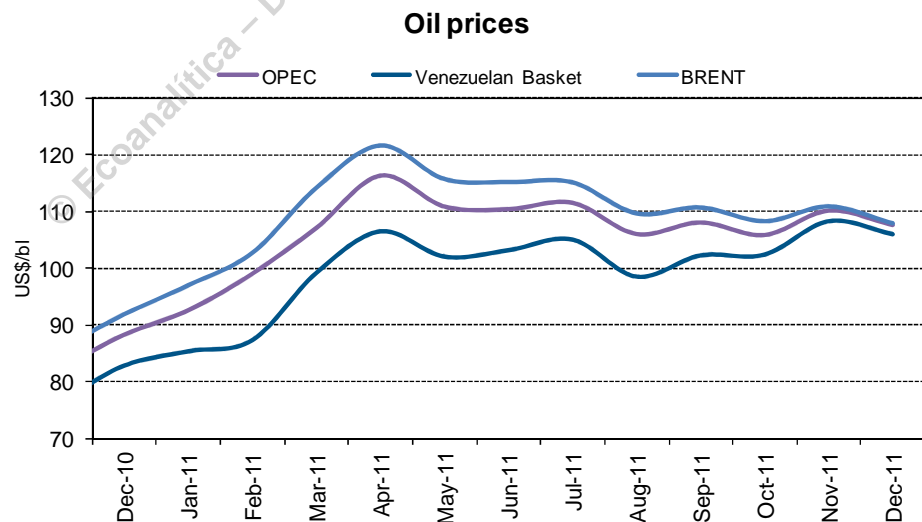


In this report, we will briefly analyze Pdvsa's financing for 2011, but this time comparing the results with those of Ecopetrol for the same period. Although Colombia cannot compare to Venezuela regarding energy potential, and Ecopetrol only produces 1/3 of what Pdvsa produces, the performance of these two companies reveals that the so called "Rockefeller paradox" fits perfectly for these two business models. The following is our approach of the matter.

Holy oil

Throughout 2011, the oil business was marked by two fundamental elements: the problems in the Middle East and Northern Africa, and the world uncertainty regarding financial markets due to fears of a new global recession due to the fiscal crisis experienced in some Euro Zone countries.

However, the increase in demand by China and the emerging markets (1.5 mb/d with respect to 2010) was the determining factor in examining the behavior of oil prices in 2011. Thanks to this, according to IGA11, Venezuelan oil had an average price of US\$100.11/bl last year, an increase of 39% with respect to 2010.



Sources: MENPETand Ecoanalítica

Pdvsa: exploiting the goose that lays the golden eggs

This increase was reflected in Pdvsa's results, with a total income of US\$124.75 billion, an increase of 31.4% with respect to the US\$94.92 billion in 2010. This income level allowed the Administration to once again increase fiscal and quasifiscal spending, a topic we will discuss later on.



As a result, spending increased 36.9% interanually, a difference of US\$32.24 billion, going from US\$87.35 billion to US\$119.60 billion, while the net profit of continuous operations reached US\$3.14 billion compared to US\$3.72 billion in 2010, or a drop of 15.6%. However, considering discontinuous operations, the net earnings for the fiscal year was US\$4.49 billion, or an increase of 42.1% compared to US\$3.16 billion in 2010.

Profit Loss Statement of Pdvsa (US\$ Million)			
	2011	2010	Variation
Total Income	124,754	94,929	31.4%
Purchases of crude oil and derived products	-39,783	-34,017	17.0%
Operating expenses	-14,555	-11,892	22.4%
Depreciation and amortization	-6,871	-6,037	13.8%
Royalties, extraction tax and other taxes	-17,671	-13,904	27.1%
Contributions to social development and Fonden	-3,501	-2,039	71.7%
Other expenses (income), net	-30,079	-7,018	328.6%
Total Expenditure	119,604	87,358	36.9%
Profit before income tax	5,150	7,571	-32.0%
Income Tax	-2,007	-3,849	-47.9%
Net Operating Profit on continuing operation	3,143	3,722	-15.6%
Profit (loss) on discontinued operations, net of tax	1,353	-558	-
Net Profit	4,496	3,164	42.1%

Sources: Pdvsa and Ecoanalítica

Operational Surplus: Pdvsa's Potential

Analyzing earnings before interests, taxes, depreciation, and amortizations (EBITDA) at the end of 2011 it was US\$47.08 billion, an increase of 63.1% compared to the EBITDA of US\$28.87 billion reported during 2010. EBITDA represents a margin of 37,7% compared to total oil income.

EBITDA (MM US\$)					
	2007	2008	2009	2010	2011
Net Income	6,273	9,491	4,394	3,164	4,496
Financial Expenses	1,067	1,780	835	8,810	3,633
Income Tax	5,017	4,280	3,310	3,849	2,007
Depreciation and Amortization	4,018	5,210	5,751	6,037	6,871
Social Development	14,102	14,733	3,514	7,018	3,079
EBITDA (MM US\$)	30,477	35,494	17,804	28,878	20,086

Sources: PDVSA and Ecoanalítica

Pdvsa: the problem of distributing and not producing

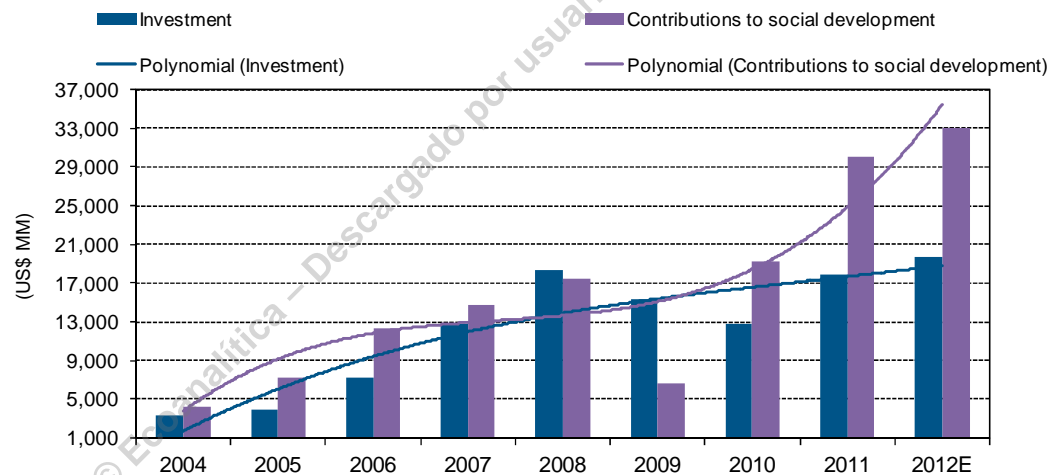
It is no secret that Pdvsa's production has not increased significantly in the last few years, rather, it has remained stagnant, leaving the country in a vulnerable situation before oil price reductions. The purpose of this section



is not to know the reasons for this, because we have discussed this in depth throughout the last years: Pdvsa prioritizes social development contributions (politically linked) over productive investments, knowing that in the event of any unfavorable situation in a highly volatile and unpredictable oil market, said contributions would fall.

The intention is to underscore that, given our economy's level of dependence not only on high oil prices, but also on increasing oil prices, if this policy is not rationalized, any disturbance in the oil market may have a significant impact.

Pdvsa's investments Vs. Contributions to social development



Sources: Pdvsa and Ecoanalítica

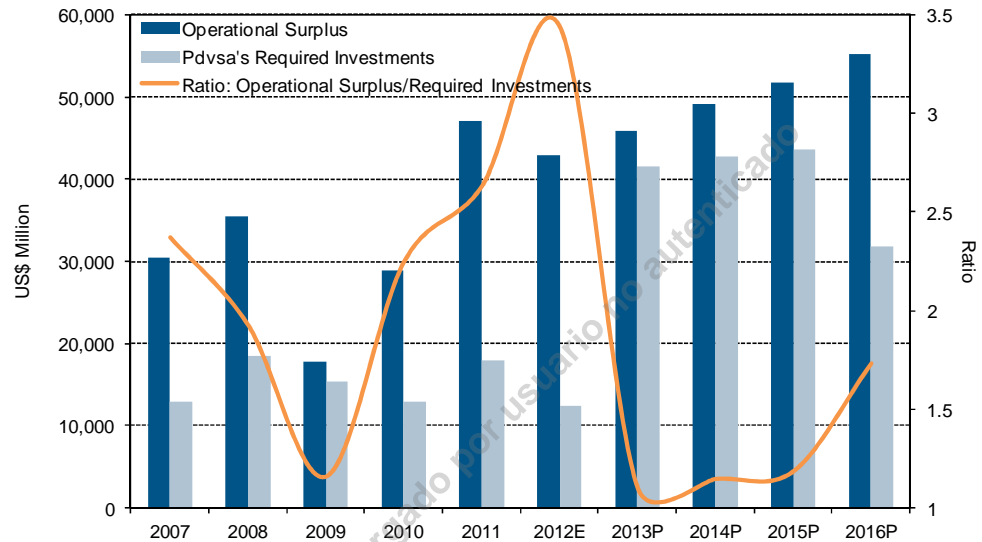
Pdvsa: everything is possible, with oil

Considering the potential of the operational surplus, and that on average in the last five years, contributions for social development account for 40% of this surplus, or around US\$26.54 billion, and that disbursements for investments during that period have been on average US\$15.47 billion, or 40% of Pdvsa's contribution according to its annual investment plan, at **Ecoanalítica** we can say that while contributions to social development are still higher than disbursements for investments, they will only serve to maintain the status quo.

However, considering that the operational surplus is 30% higher than the investments required by the industry, a change in contributions could be done effectively, without a significant social impact (i.e., the sales price of gasoline could continue to be subsidized).



Operational Surplus vs. Required Investments



Sources: Pdvsa, Bloomberg, OPEC, IEA and Ecoanalítica

Pdvsa: cash flow depends on financing

Together with this, we see that the company had a positive cash flow of US\$8.61 billion in the above mentioned period, an increase of 43.1% with respect to 2010 when it was US\$6.01 billion. Although cash at the end of the year has increased in the last years, it is mainly due to the resources obtained from the issue of debt bonds, because the cash provided by operational activities is insufficient despite the increase in oil prices. For this reason, and also because of financing needs, **Ecoanalítica** expects Pdvsa to issue debt bonds for around US\$4.00 billion

Ecopetrol: reaching historical high levels

The total income of the Colombian state owned company for the end of 2011 was US\$30.43 billion, an increase of 57.6% compared to the income of US\$19.31 billion reported during 2010. On the other hand, sales and operational costs reached US\$15.82 and US\$1.60 billion, an increase of 41.4% and 37.2% with respect to 2010, respectively.

Thus, net profits were US\$8.35 billion, compared to US\$4.39 billion in 2010, an increase of 90%. That is, Ecopetrol almost doubled its earnings in 2011.





Consolidated Income Statement Ecopetrol
US\$ Million

	2011	2010	Variation
Total Sales	30,436	19,316	57.6%
Variable Costs	12,095	8,141	48.6%
Fixed Costs	3,728	3,049	22.3%
Costs of Sales	15,823	11,190	41.4%
Gross Profit	14,613	8,126	79.8%
Operating Expenses	1,600	1,166	37.2%
Operating Profit	13,013	6,959	87.0%
Non operational Income/Expenses	-674	-939	-28.3%
Income Tax Provision	3,984	1,623	145.5%
Net Profit	8,355	4,397	90.0%

Sources: Ecopetrol and Ecoanalítica

**Ecopetrol:
doubling the
income**

Analyzing Ecopetrol's EBITDA for the end of 2011, we see that it totaled US\$16.23 billion, an increase of 84.5% compared to the EBITDA of US\$8.79 billion reported for 2010. For the end of 2011, EBITDA represented a margin of 53.3% compared to the total income for the period.

**Ecopetrol:
cash flow
depends on
operations**

Regarding cash flow, we see that the one coming from operations increased 62.8% reaching US\$11.13 billion compared to US\$6.83 billion during 2010. This amount compensated for the outlays of US\$7.46 and US\$2.20 billion for investments and financing respectively. Thus, together with the cash and its equivalents in the beginning of the year, for US\$86 billion, we see that the final cash flow of Ecopetrol increased 177.4% compared to the US\$839 million at the end of 2010, reaching US\$2.32 billion.

**Ecopetrol:
expanding
infrastructure**

During 2011, US\$7.21 billion were assigned to investment, equivalent to the net profits of the fiscal year (86%) or 44.4% of the operational surplus, an increase of 19.6% compared to what was invested in 2010.

Of the total invested, 50.3% was destined to production (US\$3.62 billion), 14.6% to transport (US\$1.05 billion), 14.3% to subordinate companies (US\$1.03 billion), 7.8% to exploration (US\$565 million). The rest of the investment was directed to acquisitions, refining, and petrochemistry, and to a lesser extent to corporate matters, marketing and supplies.



Pdvsa, on the other hand, doesn't state the destination of its investments in the performance report for 2011.

**Ecopetrol:
a promising
future**

When presenting the 2012 investment plan, Javier Gutiérrez Pemberthy, president of Ecopetrol, stated that efforts are focused on *"reaching the goals set for 2015 and 2020. 2012 is critical and fundamental to make the vision of the Business Group a reality, which explains the importance of the approved investment plan"*.

Thus, the investments approved for Ecopetrol S.A. for next year amount to US\$8.47 billion, of which US\$7.45 billion will be invested directly into Ecopetrol S.A. and US\$1.02 billion into companies of the group. 94% of the investments will concentrate in Colombia, while the remaining 6% will be for exploration and production projects in the US Gulf Coast, Brazil and Peru, countries in which Ecopetrol already has investments.

For Ecopetrol, the goal is to consolidate itself as one of the best oil companies of the world. In this sense, the company's strategic plan for 2020 proposes the following:

- Produce 1.3 mb/d in 2020, of which close to 50% is expected to be heavy crude oil.
- Increase the average life of reserves to 10 years, adding 6.200 mb.
- Take the final recovery factor to 34% using EOR/IOR technologies ("improved oil recovery").
- Increase transportation capacity to 1.7 mb/d.
- Expand refining capacity from 300 kb/d to 415 kb/d.
- A production of biofuels of 450.000 tons per year.

The company states that *"considering market conditions, the strength of hydrocarbon prices, and the strong cash flow generation of the company, the plan could be 75% financed with internal resources, 16% through debt, and the remaining 9% by issuing debt bonds"*.

**Two equal
companies,
two different
businesses**

At **Ecoanalítica** we would like to underscore that given the favorable perspectives for Ecopetrol in the medium term (high oil prices, high operational surplus, cash flow, etc.), it could expand the financing of its investments through debt, particularly in international markets, even more so because Ecopetrol is the Latin American company with the least leverage, according to research by Barclays Capital.





Regarding Pdvsa, in our opinion it has to change its strategic business view; otherwise, the company will continue stagnating and declining if oil prices fall. In the past five years, Pdvsa has not increased production, and even worse, it has committed its exports, has increased its debt, its accounts receivable, and its payroll, all for political purposes.

At **Ecoanalítica**, we would like to underscore that we are not criticizing social contributions, but they must be rationalized and mobilized towards government entities, detached from politics, and audited by society. It would be good to consider what Ecopetrol has done in this respect.

However, this situation worries us even more when in its strategic plan towards 2018² political guidelines prevail over business guidelines, with a view to transform Pdvsa into a Socialist State Company. In sum, when we analyze these two oil companies, the only thing we can say is that Rockefeller's paradox is today more alive than ever.

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² According to IGA2011 the first two strategic guidelines of Pdvsa are: (i) keep the hydrocarbon strategies and investment plans subordinated to the Nation's Economic and Social Development Plan, and (ii) the international geopolitical positioning of the Republic.



Economic Tips

Amount of currency authorizations decreased by 3.0% on 1Q2012. The Currency Administration Commission (Cadivi), reported that for ordinary imports, the ALADI agreement and the SUCRE agreement was allocated US\$6,842 million, representing a decrease of 3.0% compared to the same period of 2011, when it approved US\$7,053 million.

Less currency was assigned to imports. Cadivi reported that for ordinary imports, the ALADI agreement and the SUCRE agreement was allocated US\$5,201 million, representing 76.0% of total approvals. The list of authorizations for import is headed by the Food Industry with US\$1,691 million allocated, followed by Health (708 million), Automobile (US\$420 million) and Trade (US\$540 million).

CADIVI's authorized amount (US\$ Million)				
	Q1 - 2012	Q1 - 2011	Var(%)	Market share 2012
Imports	3,703	4,601	-19.5%	54.1%
ALADI Convention	1,272	1,134	12.1%	18.6%
Credit Cards	664	405	64.0%	9.7%
Airlines	302	293	3.1%	4.4%
Sucre	226	22	907.8%	3.3%
Remittances	190	213	-11.1%	2.8%
Students	141	131	7.6%	2.1%
Special cases	109	90	22.1%	1.6%
Cash for travel	107	75	43.5%	1.6%
Telecommunications	52	42	25.9%	0.8%
Insurance and Reinsurance	26	14	79.8%	0.4%
Retirees and Pensioners	22	16	37.1%	0.3%
Consulates and Embassies	19	14	41.9%	0.3%
Foreign Investment	5	1	508.9%	0.1%
Ext Private Debt	3	2	52.2%	0.0%
Services	0	0	-67.5%	0.0%
Total	6,842	7,053	-3.0%	100.0%

Sources: CADIVI and Ecoanalítica

Tax collection for the month of March. According to the figures released by the National Integrated Service for Tax Administration (Seniat), VEB 19.16 billion in taxes



were collected for the month of March. Of this amount, VEB 8.74 billion (45.6%) came from Income Tax, and VEB 8.02 billion (41.9%) from the VAT.

In real terms, March tax collection was up by 7.7% compared to the same period last year. Both the Customs revenue and the VAT increased in real terms compared to the same period last year, by 11.3% and 8.4%, respectively. Revenue coming in due to Income Tax increased by 6.9% in real terms compared to the same period last year.

Concepts (VEB Million)	Mar-11	Mar-12	Var (%)	Real Var	Jan-Mar 2011	Jan-Mar 2012	Nominal Var	Real Var
Total Income	14,277	19,161	34.2%	7.7%	32,436	42,844	32.1%	6.0%
Income Tax	6,561	8,743	33.3%	6.9%	9,782	12,896	31.8%	5.8%
VAT (Internal)	5,935	8,019	35.1%	8.4%	17,651	23,384	32.5%	6.3%
Customs revenue*	1,137	1,577	38.7%	11.3%	3,192	4,094	28.3%	2.9%
Other Internal Revenue	569	719	26.4%	1.4%	1,606	2,145	33.5%	7.2%
Alcohol	44	68	55.1%	24.4%	108	171	57.7%	26.6%
Cigarettes	489	613	25.3%	0.6%	1,391	1,874	34.7%	8.1%
Inheritance	20	32	55.2%	24.6%	52	81	54.7%	24.1%
Random games or bets	15	6	-59.8%	-67.8%	55	20	-64.2%	-71.3%
Others	75	102	37.3%	10.2%	202	325	60.6%	28.9%

Sources: Seniat and Ecoanalítica

* Includes VAT on imports.

IMF forecasts 4.7% growth in 2012. In its report on economic outlook, the International Monetary Fund (IMF) forecasts that Venezuela will sustain an upward trend throughout 2012, registering a 4.7% growth. In 2013, even though the positive trend will remain, the economy growth pace will slow down to 3.2%.

IMF forecasts 31.6% inflation in 2012. In spite of its growth forecasts for the Venezuelan economy in 2012 and 2013, the IMF is concerned about the high inflation rate. According to the IMF projection, inflation in South America will average 7.4% this year, whereas in Venezuela it would reach 31.6%. Concerning this topic, the International Monetary Fund sustains that *“these concerns are particularly serious in Venezuela, where policies have not perceptibly hardened and inflation remains at high levels.”*

VEB 7.2 billion less for the regions. The administration's decision to allocate additional resources to parallel funds impacts finance of the regions. According to calculations developed by some representatives in the National Assembly, governorships and mayoralties received VEB 7.2 billion less in 2011, VEB 2.5 billion for additional oil revenues and VEB 4.7 billion for exchanged differential.





Interest rates. The lending rate for the second week of April was at 17.4%, decreasing by 0.2 percentage points compared to the previous week. The time deposit rate remained since July 2011 in 14.5%, while the passive rate has not experienced any significant variation since November 2011, placing well at 12.5%.

International reserves. International reserves decreased 2.3% going from US\$27,289 million during the second week of April to US\$27,651 million during the third week. Compared to the same period last year, international reserves have increased by 52.5%.

Monetary liquidity. Monetary liquidity in the second week in April increased 0.4% compared to the previous week settling at VEB 465,308 million. The M2 has increased 51.2% year-on-year.

Sitme figures. So far this year, US\$3,052 million have been negotiated through the System for Foreign Currency Transactions (Sitme), averaging US\$40.7 million a day, with an implicit exchange rate of 5.3 VEB/US\$. This represents an increase of US\$772.2 million (33.9%) over the same period of 2011, when were negotiated US\$2,280 million. During the third week of April the amount traded reached US\$228.5 million, US\$25.5 million more than the previous week when US\$202.9 million were traded, with an average of US\$57.1 million a day.

Oil Tips

Japan funds Pdvsa. According to a press release of Pdvsa, the Japanese bank JBIC and a group of financial and commercial institutions from Japan are going to finance the expansion of the El Palito refinery for US\$800 million. Also, they will grant a loan of US\$200 million for the acquisition of goods and oil services in the framework of a project who seeks to adapt domestic refineries for the processing of heavy crude.

Ramírez estimates that production will reach 3.5 million b/d for 2012. Rafael Ramírez, president of PDVSA, inspected the SInovensa Oil Pumping Station on Friday, April 20th, located in Monagas State, which is part of the works intended for the development of the Orinoco Oil Belt. Ramírez informed that production is being estimated at 3.5 million b/d of oil for the year-end and highlighted that attaining this



target is directly related to the expansion of the pumping station located in the eastern region of the country.

PDVSA has complied with 96% of the Chinese shipment target. According to data provided last week by the Venezuelan state-owned company, throughout the different trenches of the China-Venezuela Joint Fund agreement, PDVSA has complied 95% on average with respect to the value agreed upon with Chinese authorities. Together, Venezuela has received US\$32.0 billion from China, whereas US\$27.80 billion in crude and products have been sold to the Asian country and US\$10.48 billion in debt have been repaid. This leaves about US\$11.77 billion to be withdrawn by Venezuela.

Oil exchange for food grew 64%. According to PDVSA 2011 Management Report, trade exchange through the oil bill compensation mechanism grew 64% in 2011 with respect to 2010. The value of goods that compensate for the debt for crude shipments went from US\$301 million in 2010 to US\$493 million in 2011.

Ramírez insists: “Venezuela is not selling oil at discount.” At the presentation of PDVSA 2011 management and result report, Ramírez dismissed the statements made both in Venezuela and abroad, according to which the country is selling its oil at discount to China or the Caribbean islands. Minister Ramírez said that the price that PDVSA is charging for its products is set based on a technical study by the Ministry of Petroleum and Mining and is published in the Official Gazette.

Oil labor force grew 21% in 2011. According to PDVSA management and result report, labor force at the end of 2011 reached 121,817 workers. The document explains that 104,187 workers in PDVSA payroll are engaged in oil activities and 17,000 work in non-oil affiliates. Of the labor force in the oil area, 98,422 people work in the local oil sector and 5,765 in the international oil sector. In total, PDVSA payroll expanded 21% with respect to 2010.

PDVSA’s gains grow thanks to refinery sale? Financial statements reveal that PDVSA gains increased thanks to the sale of PDVSA interest in Germany’s Ruhr Oël GmbH (to Russia Rosneft in October 2010), which accounts for 30% of the total of net profits for 2011.

Treasury Office granted US\$18.5 billion in aid to PDVSA in 2011. Even though in 2011 PDVSA revenues jumped 34% up to US\$ 124.75 billion, the Venezuelan state-owned oil company increased its debt levels and sought financial assistance in public banks and official entities. According to PDVSA financial statements, in 2011 the company issued promissory notes in favor of the National Treasury Office (ONT) for US\$18.5 billion, maturing between 2011 and 2013, so that the ONT channeled those



funds for PDVSA to comply with its commitments. PDVSA balances at the end of 2011 point out that of this amount, PDVSA repaid US\$837 million in 2011 second half.

Venezuela isn't shipping oil to Iran but it will not cover the lack of supply either. Rafael Ramírez, Minister of Petroleum and Mining, stated that Venezuela hasn't shipped oil to Iran and hasn't plans to do it either, adding that new crude oil shipments to Syria aren't scheduled. "*We haven't sent any oil shipment to Iran and have no plans to do it,*" the Minister said. However, Ramírez had already warned in February that Venezuela's government won't supply the oil that Iran may be eventually not selling to its traditional buyers as a consequence of the sanctions adopted against Teheran for it to suspend its nuclear program.

International oil baskets. At closing time on April 20th in the New York Stock Exchange, the price of the WTI was at US\$103/bl, representing a 0.3% increase compared to the US\$102.6/bl reported the previous week. The Brent decreased by 2.2% to reach US\$118.9/bl, compared to the previous week's US\$121.6/bl.

Local oil basket price. The Venezuelan oil basket price decreased last week, closing at US\$113.6/bl on Friday April 20th, decreasing 0.2% compared to the US\$113.9/bl of the previous week. The annual average price of the Venezuelan oil basket is US\$112.7/bl

Business Sector Tips

Food industry output is moving very slowly. The analysis of the private sector prepared by the BCV shows that the sector has started the year at a slow pace even registering important drops in key compartments such as food, clothing and apparel and chemicals. Comparing past January's output with that of 2011, the industry, as a whole, shows a little progress of 0.4%, but food and beverage production registers a significant decline of 6.9% to its lowest level since 2007. Clothing manufacture, in turn, dropped 9.5%, like footwear and chemicals which fell 9.6% and 0.89%, respectively.

Electric demand in January and February gained between 0.8% and 1.5%. Electric power demand in Venezuela reports a slight increase in the first two months of the year with respect to the same period in 2011. Unofficial data points out that this



indicator grew about 1.6% in February and 0.8% in January, to 16,000 megawatts (MW) and 15,800 MW, respectively. The information reports a slightly upward trend in a period when demand has been historically lower and particularly in that period, temperatures were low.

Careers that will be granted foreign exchange to be studied abroad were determined. Resolution No. 3,147 by the Ministry for University Education, published in the Official Gazette No. 39,904 dated April 18, defined the priority areas that as from now will be allocated foreign exchange for graduate and postgraduate courses, certificates, programs and courses abroad. The Resolution includes eight knowledge areas (biology, physics, mathematics and chemistry, engineering, architecture and technology, agricultural and maritime sciences, health sciences, education, sports, social sciences, humanities, letters and arts) and 171 subareas for which foreign exchange can be requested from Cadivi.

Cadivi restricts foreign exchange allocation for medicines. The Ministry of Commerce (Mincomercio) defined the list of medicines that will be considered a priority to be granted dollars through Cadivi. The list includes 121 active ingredients, according to the information provided by the Vice-Ministry of Commerce. The pharmaceutical sector has described the measure as “crazy”, because it guarantees dollars only for 2% of drugs sold on the Venezuelan market, taking into account that the universe of products is estimated at 6,000 drugs.

The administration guaranteed foreign exchange allocation for the pharmaceutical sector. The national government promised to streamline foreign exchange allocation for pharmaceutical firms. After one month of complaints and warnings by spokespersons of the pharmaceutical sector, the authorities met with about 20 top representatives of pharmaceutical firms and laboratories to agree on a “work plan” between the administration and companies in order to “guaranty local production and imports.”

Mattel is leaving Venezuela. Mattel de Venezuela is closing its operations in Venezuela and as from May, it will move to Mexico all trade relations it maintained with Venezuelan companies, Gabriela Iribarren told *El Mundo, economía y Negocios* newspaper. Sources close to Mattel confirmed that the transnational firm is leaving the country. They explain that due to limitations resulting from price and exchange controls, the company modified its commercial strategy last year.

At least 10% of bank loans will be earmarked for the manufacturing industry. President Hugo Chávez approved the Credit Law for the Manufacturing Sector, which provides for that the Ministries of Industry and Finance, after having heard the opinion of the Bank Superintendent’s Office, will fix the mandatory portion of loans



that will be earmarked for the manufacturing sector, which should not be less than 10%.

The administration claims that the Law on Fair Prices and Costs (LCPJ) had a “positive impact” on the economy. Ricardo Menéndez, Minister of Industries, assured that the Law on fair Prices and Costs (LCPJ) has had a “positive impact” on the national economy. At the end of a meeting of the economic vice-presidency, Menéndez pointed out that the legal text has made it possible to adjust prices that “were misadjusted upwards” due to price gauging by some companies.

Rental market in Venezuela is paralyzed due to disinformation. Aquiles Martini Pietri, president of the Real Estate Chamber, stated that “without exaggerating,” the rental market in Venezuela “is virtually paralyzed” at this time. Martini said that those people that need a home for rent cannot find one and those that need to leave a home for any reason “cannot do that (...) That is today’s reality and the drama of the Venezuelan real estate market.” Martini Pietri warned that there is much disinformation due to the Real Estate Law passed more than five months ago.

Home rent freeze will be extended for another six months. The Ministry of Housing and Habitat extended home rent freeze for another six months. Rents have been frozen since 2003. The resolution published in the Official Gazette No. 39,903 provides for that home rents will be frozen and adds that “procedures to fix home rents will proceed as usual until their final resolution.”

The Andean Community (CAN) doesn’t rule out Venezuela’s comeback to the organization. One year ago, Venezuela withdrew from the Andean Community (CAN), upon expiry of the five-year period that according to the Cartagena Pact, the CAN member countries have to enjoy tariff preferences even though they have expressed their decision to leave the Community. The CAN Secretary General, Adalid Contreras Baspineiro, expressed his opinion with regard to this matter. We and Venezuela have common purposes for the construction of South American unity through Unasur, as well as our Great Latin American Homeland through the creation of the Latin American and Caribbean Community of States.

Saber y Trabajo Mission will include now labor force. Vice-President of the Productive Economic Area, Ricardo Menéndez, informed the past week that 21,154 people have been convened by the *Saber y Trabajo* Mission to be incorporated into the country’s production system. Menéndez underscored that this decision further contributes to reduce unemployment rate in Venezuela, which was 7.9% in March.

Venezuela and Vietnam review bi-national agreements. Venezuela and Vietnam negotiating missions opened work teams to evaluate about 50 bi-national projects



under development, including in the energy area. The delegations will assess the development of projects agreed upon by both countries in the areas of electricity, agriculture and lands, oil, mining, transportation and infrastructure and communication and information.

The administration reiterates that the housing problem will be solved. With the participation of a number of members of the ministerial team, the so-called "Housing Thursdays" operation was held on Thursday, April 19th, in several states of the country, to deliver 1,765 homes within the framework of the *Gran Misión Vivienda Venezuela*. To accompany this action, President Hugo Chávez sent support messages through his Twitter account.

World Economy Tips

US economy is cautiously advancing. The US Treasury Secretary, Timothy Geithner, said last Saturday that the "*US economy is getting stronger despite the adverse shocks of the European debt crisis.*" However, Geithner warned that the economy reactivation continues to be fragile in spite of the persistent risks of the euro zone and the high oil prices.

US unemployment rate down in March. US unemployment rate fell to 8.2% in March, although analysts are cautious with regard to the perspective of a sustained economic recovery. According to the US Department of Labor, the US economy recorded a net increase of 120,000 new jobs in March, mainly in the manufacture, food and beverage and health sectors.

Free Trade Agreement between Colombia and the US to go into effect in May. The Free Trade Agreement (FTA) between the US and Colombia, which will enter into effect in May, will lift tariffs for a large part of exports from the US to Colombia, Ron Kirk, US trade representative, said past Sunday.

Worst over for China, economy growth is expected to pick up steadily. China's economy has weathered the worst after reporting its slowest quarterly growth since the tail-end of the great financial crisis in the first three months of 2012, and is heading for a rebound in coming months, a Reuters poll showed. Economists expect the world's second-biggest economy to grow 8.4% this year, unchanged from their



forecast in the last poll in January, and expect growth to steadily tick higher in subsequent quarters to reach 8.7% by April-June 2013.

Mexico and China announce trade and investment agreement. A press note by the Mexican Ministry of Economy explains that the agreement will lay the foundations of a bilateral relation in the long term and stop “*Chinese unfair practices*” in the footwear industry in the short run. China is the third destination for Mexico’s exports, whereas Chinese products account for 15% of Mexican imports. Both countries are trade rivals, because they compete in the sale of manufactures to the US market. The announcement of the agreement coincided with the closing of the meeting on trade of the G-20 in Puerto Vallarta, México.

Spain comes back to negative territory. As stated by most prospects, Spain’s economy got weaker in the first quarter of the year and entered into a recession period due to a persistent drop in local demand and a lower contribution to foreign sector growth, the Bank of Spain said this Monday. According to the Bank, the economy dropped 0.4 percentage points in January-March 2012 vs. the previous quarter and dropped 0.5 percentage points on a year-to-year basis, breaking seven quarters in a row of positive year-to-year growth.

The Spanish administration is looking for proper compensation. José Manuel García-Margallo, Spain’s Foreign Minister, said on Monday that the Spanish administration’s objective is for Repsol to obtain a proper compensation after YPF expropriation by the Argentinean government. García-Margallo is confident that Argentina comes to an agreement on the price of Repsol shares by “dialoguing and negotiating” and noted that the Spanish government is not questioning “Argentina’s energy sovereignty.”

Analysts increase up to 3.2% Brazil’s GDP forecasts for this year. Economists slightly increased up to 3.21% their forecasts for Brazil’s GDP growth for 2012, after the Central Bank of Brazil cut back interest rates for the sixth time in a row, last week. Growth expectations for 2013 dropped to 4.25% from 4.30%. In terms of inflation, different analysts maintained their prospects of 5.08% for this year and 5.50% for the next. Likewise, they kept their expectations (9%) for interest rates for the end of 2012 and 10% for 2013.

Central Bank of Ecuador expects economic growth over 5%. After registering 7.8% growth in 2011, the Central Bank of Ecuador expects the country to record a lower growth rate of 5.35% in 2012. Pedro Delgado, president of the Bank, explained that this can be attributed, among other things, to the shutdown of the Esmeraldas refinery this year, which implies higher imports and lower oil product sales.



Political Tips

The National Electoral Council presented the Integrated Authentication System.

At the launching of the Integrated Authentication System for October 7 elections, the president of the National Electoral Council (CNE), Tibusay Lucena, said that *“assurances and rules are already in place and we are moving forward with the preparation of the regulations for this electoral process. Very soon we will have all this completed, if not this week, probably the next one.”*

All organizations can voice their opinion. Tibusay Lusena stressed that *“there are no surprises; the rules and regulations we have set and the assurance we have given over recent years, developed along with political organizations, are still there; they haven’t changed. We already know this electoral system-”* *“All the political organizations have the right to present proposals; we will consider them all,”* she added.

The administration approved funds for upcoming election. Vice-President Elías Jaua informed that funds worth VEB 2.27 billion were approved for the upcoming presidential election scheduled for October 7th and for the regional election to be held on December 16th this year. These funds will also be applied to implement the plan to oversee electoral propaganda and ads on the media, Jaua said at the inauguration of the Patriotic Council for Farmers and Fishermen. Jaua added that the playing field for next October 7th will be democratic and pacific.

Rumors are a strategy of “majunchismo” (mediocre opposition). To put paid to rumors about the seriousness of his illness, President Chávez spoke from Havana, Cuba, on the phone with Diosdado Cabello, Vice President of PSUV party: *“People of Venezuela, we will unfortunately have to get used to living filled with rumors, because that is part of the dirty war laboratories that have been spread throughout the continent,”* President Chávez said.

“Eladio Aponte Aponte is a criminal”. Reporters could ask questions President Chávez through the phone this past Monday. One reporter asked him about the case of Eladio Aponte Aponte. President Chávez described the case as a *“caliche de piconazo”*. *“Águila no caza moscas... the individual you’re mentioning is a criminal. The Venezuelan State made use of several pieces of evidence that I don’t have with me, because that is not my business as head of state.”*



Chávez approved the reform of the Social Security Law. President Hugo Chávez informed past Saturday via Twitter that he approved the reform of the Law on the Venezuelan Social Security Institute (IVSS) in order to include independent workers into the social security payment system. *“Elías and you all: I received this morning a report from Nicolás. Everything has been approved, including the IVSS law reform to include independent workers!”* President Chávez wrote on his Twitter account @chavezcandanga from Havana where he is receiving the fourth round of radiotherapy.

Chávez will make legal decisions on social security matters. A few days before the reform of the Labor Organic Law (LOT) is passed, the administration has decided that changes should also be applied to the labor benefit system; therefore the appointment of the Treasurer and Superintendent for Social Security will be decided by President Hugo Chávez. Ten years after the passing of the Social Security Law, the administration resumes the structuring of the labor benefit system which, according to that law, will collect payment of workers and employers to the pension, health and job regimes.

Labor Organic Law (LOT) enactment will depend on whether it is ready before next Saturday. President Hugo Chávez announced past Monday that, if it's necessary, the draft Labor Organic Law could be signed into law by him before May 1st, the date for which its enactment was scheduled. *“If the law is ready on Friday the 27th or Saturday the 28th, I'm going to sign it with this my left hand. It is a socialist and fair law. It is a 10-year long debt with workers of the Venezuelan people.”*

Chávez' illness strengthens affective bonds. Oscar Schemel, president of Hinterlaces, presented the results of the most recent poll “Monitor País”. He stressed that President Chávez' illness continues to be the main topic in the country's social-electoral environment. In this regard, Schemel referred that *“one of the components of the government strategy has been personalizing the debate and President's illness continues to be the main topic for the society (...) The President's illness is the main topic of public debate and strengthens affective bonds.”*

More than 50% of the population likes President Chávez' performance. According to the most recent Hinterlaces poll, 66% Venezuelans have a positive opinion with respect to President Chávez' administration. *“This result shows that the critical judgment with regard to Chávez' administration has been displaced by the emotional judgment. Chávez is not the President but a redeemer; he isn't a candidate but a preacher. The affective elements are very powerful,”* Schemel assured.

Presence of President Chávez in October 7 election. Schemel informed that 49% of citizens consider that if the government candidate isn't Chávez, the opposition



candidate would have more possibilities to win. *“Three out of every 4 Venezuelans believe that President Chávez will recover and participate in October 7 elections.”* Schemel added that there isn’t another option but Chávez; however, names like Elías Jaua, Nicolás Maduro and Diosdado Cabello have been mentioned.

Intent to vote. Schemel also stated that the poll shows that intent to vote reflects that 53% of the interviewed is in favor of president Chávez, whereas 34% would vote for the unity candidate, Henrique Capriles. *“These indices reflect that Chávez outnumbers Capriles by 19%.”*

“For the first time, the opposition can defeat Chávez.” Consultores 21’s Luis Christiansen assured that the difference between Henrique Capriles Radonski and Hugo Chávez Frías is only one percentage point (46% vs. 45%). Christiansen explained that this reading is made taking into account all voters. However, he clarified that *“not everybody will vote on the Election Day and if 73% of the citizens go to vote, the difference would be 6 points in favor of President Chávez, with the percentage being 51% vs. 45%”.*

Legislative Tips

Embezzlement in Guanarito mayor’s office. The National Assembly (AN) board convened a regular meeting on Tuesday, April 17, to discuss the alleged administrative irregularities committed by Abel Villalba, Guanarito mayor. Pedro Carreño, chairman of the Finance Control Commission of the AN, explained that reports about irregularities in the control of municipal spending had been received and added that the Commission visited the Municipality and found out a series of irregularities; therefore, past Friday, April 20, the AN declared the political responsibility of Mayor Abel Fernando Villalba for having breached article 141.

Quality of water in the central region will be checked. Experts of the AN Permanent Environment Commission, Hidrológica del Centro (Hidrocentro) and third-party experts will check the quality of water in the central region of the country; therefore, samples will be taken soon from the different reservoirs and treatment plants both in Aragua and Carabobo states, Representative Manuel Briceño, member of the Commission on Environment, Natural Resources and Climate Change of the National Assembly informed. Briceño pointed out that this action is intended to



comply with the agenda developed by the Environment Commission to address the citizens' concerns about water quality and supply.

Law on Missions Equality for everyone. Members of the opposition group at the AN will present, per people's request, the draft law on Missions Equality for everyone, on May 3rd. According to Representative Julio Borges, the draft law *"is intended to depoliticize, decentralize and institutionalize social programs."* According to the draft law, missions should include social audit so that *"they do not depend only on the central government and the President, but are managed with the support of governor's and mayor's offices and community councils, the only way transparency could be attained."*

Proposal to investigate people reported by Aponte. As a result of Aponte Aponte's having charged Generals Clíver Alcalá, Henry Rangel Silva and Raúl Baduel, in addition to the President of the National Assembly, Diosdado Cabello, with having been involved in different crimes, Representative Carlos Vecchio, Voluntad Popular party's political coordinator, urged the former justice of the Supreme Tribunal to present evidence of his allegations and proposed the creation of a special commission of the AN, composed of 50-50 by representatives of the ruling party and the democratic alternative, to determine responsibilities.

Parlatino will meet with indigenous communities. Venezuelan representatives to the Latin American Parliament (Parlatino) will hold a special session on Tuesday, May 8th in Bolívar State, to meet with members of about 18 native people inhabiting Bolívar, Amazonas and Delta Amacuro states. The indigenous representative Yaritza Aray pointed out that *"we (the indigenous people) are proud to be listened to by Latin American parliamentarians, because this reflects the increasingly relevant role that indigenous people play in the growth of the countries in our continent."*

Reform of the Organic Law on Social Security was approved. The AN approved at the first discussion the reform of the Organic Law on Social Security, which will allow President Chávez to appoint the treasurer and superintendent of Social Security without the participation of the National Assembly. UNT party's representative, Enrique Márquez, criticized the lack of independence of the new official, because in his opinion, they will administer more resources than any bank; *"therefore, in 2002, these posts were protected so as to prevent them from being used by the incumbent government."*

Giving in. The Parlatino Board approved a resolution asking the European Union (EU) to reconsider the decision to ban the Venezuelan state-owned airline Conviasa from flying over the EU territory due to security reasons. Representative Rodrigo Cabezas states that the intention is *"that Parlatino requests this restriction, which*



came into effect on April 3rd and bans Conviaa from operating in the 27 countries composing the European bloc, to be reconsidered.

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ECONOMIC OVERVIEW

