



## Weekly Report

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*Mercosur: more than an opportunity, a challenge for the Venezuelan economy*

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Venezuela's integration process to the Common Market of the South (Mercosur) started, overshadowed by the recent political events. The first step was adopting the nomenclature used in the trade block, process that is expected to end this year and will be the preamble of adopting the Common Foreign Tariff (Arancel Externo Común - AEC), the core of the South American customs union. However, tariffs are just *"the tip of the iceberg"* in an integration that will have a significant impact on the economic life of Venezuelans.

We will now analyze the structure of Mercosur, to uncover its true potentials, focusing on those aspects that could be more important, both positively and negatively, for local consumers and entrepreneurs. Finally, we will see that rather than a series of opportunities for a fast industrial development, Mercosur will reveal the issues of a model that has buried the national production apparatus in underdevelopment.



## Mercosur an economic power

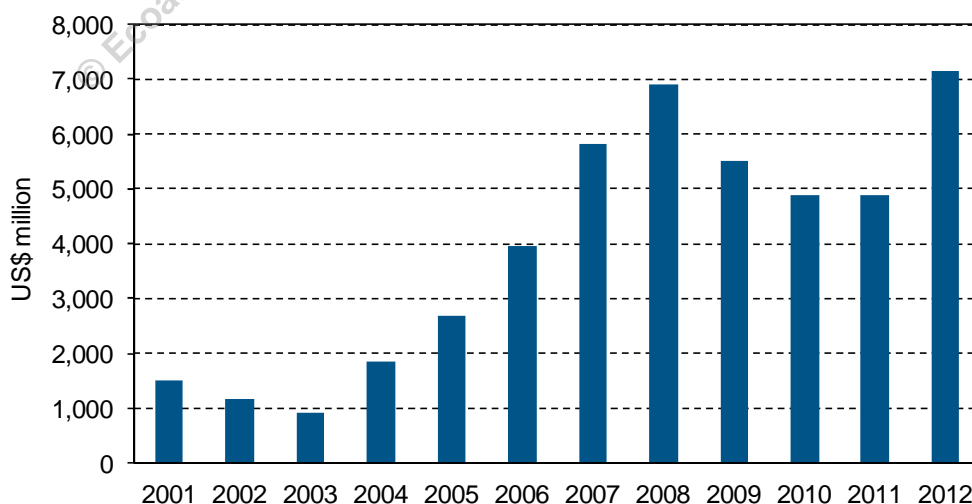
The 12.771.174 km<sup>2</sup> that comprise the five member States of Mercosur (after Venezuela's entry) gather the main forest and energy reserves of the world, around 6,145,230<sup>1</sup> km<sup>2</sup> of jungle area, and around 314.061<sup>2</sup> million barrels (mb) of oil. Also, Mercosur has countries that are large exporters of agricultural and agro-industrial products. According to figures of the United Nations Food and Agriculture Organization: by 2011 Brazil was the second exporter of meat worldwide, and Argentina was fifth among the exporters of dairy products and raw materials. Likewise, the democratic qualities of Uruguay stand out, for the institutional enrichment of the block.

Beyond Mercosur's natural, energy, and food resources, the union of countries represents the fifth economy of the world, with a Gross Domestic Product (GDP) of US\$3.3 trillion, three middle income countries classified as emerging economies (Argentina, Brazil and Venezuela) and a population of 276 million people, which should make the region an appealing market for global capitals.

## Why Mercosur?

Undoubtedly, Mercosur's potential and the expansion of the domestic market have been the main arguments of the government, which since 2006 started fostering the entry of Venezuela, and that from now on will benefit trade exchanges with two of the main trade partners of the nation during the era of the 21<sup>st</sup> Century Socialism, Argentina and Brazil.

**Venezuela-Mercosur Trade Flow**



Sources: INE and Ecoanalítica  
Note: 92.4% of trade share relates to imports

<sup>1</sup> World Bank figures.

<sup>2</sup> OPEC figures.





But Mercosur is more than just exchanges, and the government has promoted it *“for everybody”*. For consumers, it could mean accessing a greater variety of products, which would imply a more competitive supply, better quality of products, and lower prices; for producers, the access to a larger market and lower import costs (particularly for the food industry).

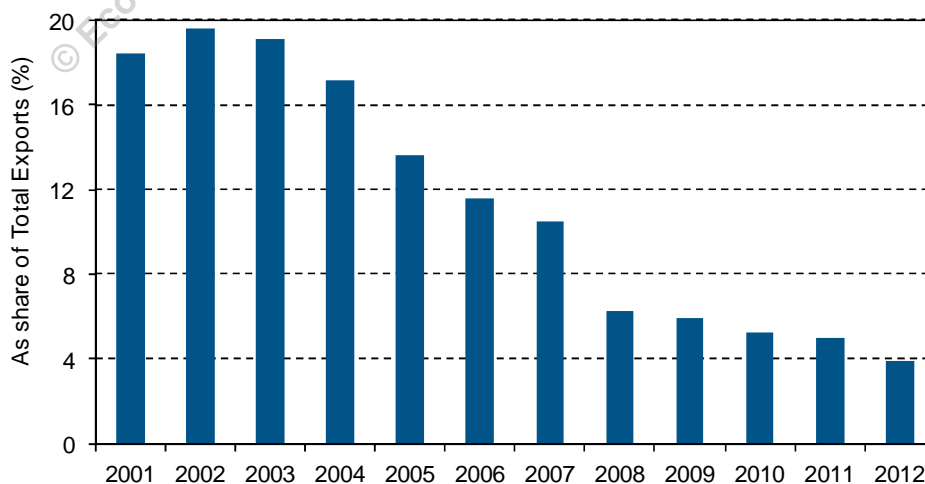
We must also note that Venezuela is a net importer of manufactured and intermediate products, while the rest of the countries of Mercosur need to guarantee, more than anything else, a reliable and safe supply of oil, natural gas and electric power, so the Venezuela-Mercosur trade would complement both.

Mercosur is also an important market for the national petrochemical industry, which could become its main supplier of fertilizers and other products for agriculture.

### The myth of complementarity

Although integration to Mercosur is also an opportunity for the development of economies of scale in manufacturing, we should also ask, what good does it make to have a larger market, for a country whose (non-oil) exports have not yet taken off? And if Venezuela just exported its product par excellence, why is it necessary to have a free trade agreement for a country to be more competitive exporting oil?

#### Non-oil Exports



Sources: BCV and Ecoanalítica

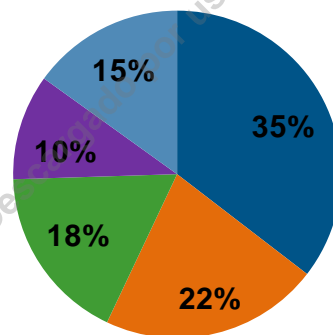
Another significant aspect, which knocks down the so-called complementarity of Venezuela in its entry to Mercosur, is the difficulties



that Venezuela has had in oil production. In 2012, Venezuela exported on average around 2,062 thousands of barrels per day (kb/d), of which 215 kb/d were sent to China, which in exchange lends us money for the different development funds; 445 kb/d were sent to Curaçao, for the Isla refinery (rented to Pdvsa), and 730 kb/d for the U.S.; these three destinations amount to 67.4% of our oil exports. Oil exports to Mercosur countries were only 19.7 kb/d last year, even less than the amount sent to Cuba, or 93.2 kb/d.

### Oil Exports by Destination (2012)

■ USA ■ Curaçao ■ India ■ China ■ Others



Sources: Petrologistics and Ecoanalítica

**Ecoanalítica** considers that oil production should increase considerably, as a necessary step before exporting it to Mercosur, otherwise, this could be accompanied by a reduction of sales to traditional destinations, specifically the U.S.

#### Trade or geopolitics?

As we have seen, the economic advantages of the integration to Mercosur have lost their glitter given the limitations of the national industry (oil and non-oil), making us believe there is something else behind it.

In the last years, countries in all parts of the world have formed trade blocks, which not only provide economic advantages, but also a greater political negotiation capacity in the international arena, the entry in Mercosur is no exception.

Venezuela's entry to Mercosur is also part of the postulates of the Plan for the Homeland 2013-2019, which among its *"historical objectives"* includes



the search for a multicentric and pluripolar world, and the elimination of the so-called “*neo-colonial system of imperial domination*”, eliminating or reducing Venezuela’s economic and technologic relation with the “*imperial centers of domination*”, so it is very likely that once fully integrated, the imports from the block will be favored, to the detriment of those coming from the “*North American empire*”, an aspect that our clients must take into account. As we can see, beyond the economic potential, there is a political game behind integration to Mercosur.

**What does Mercosur bring that is new?**

The central point of the integration to Mercosur is the adoption of new customs tariffs. Noteworthy is the total waiver for the export of Venezuelan products to Mercosur, which started on January first of this year, and in the case of Paraguay will start in 2018. Regarding imports, the total tariff waiver for goods coming Mercosur will be finalized in 2018. This has been finalized for goods coming from Uruguay and Paraguay, and it will start in 2014 for Argentina (with the exception of 610 products) and for Brazil (with the exception of 777 products).

**Mercosur Intern Tariffs**

	<b>Exportaciones hacia:</b>	<b>Importaciones desde:</b>
<b>Argentina</b>	Zero tariff starting on January 2013	Zero tariff starting January 2014 (610 exceptions)
<b>Brazil</b>	Zero tariff starting on January 2013	Zero tariff starting January 2014 (777 exceptions)
<b>Paraguay</b>	Zero tariff starting on January 2018	Zero tariff starting on January 2018
<b>Uruguay</b>	Zero tariff starting on January 2013	Zero tariff starting on January 2013

Sources: Mercosur and Ecoanalítica

We must emphasize the preferential treatment for the automotive and sugar sectors within Mercosur, which are protected and are ruled by the bilateral agreements between member states. In the case of the automotive sector, this year there should be negotiations to agree on a specific trade regime that establishes the conditions for the national industry. In the meantime, the same trade conditions presently in force will be followed.

Regarding the agro-food sector in the negotiations of the Trade Liberation Program with Brazil and Argentina, preferential treatment was obtained for highly sensitive items for Venezuela like: beef, pork, and poultry, milk and its products, raw oils (soy, sunflower seed and palm), margarine, pasta, mayonnaise.



Regarding the adoption of the common foreign tax which **Ecoanalítica** estimates will fall from 12% to 10%, the average rate that imported goods from non- Mercosur countries, with a significant adjustment to agroindustry, were there will be a reduction of tariffs from an average 16.0% to an average 10.7%. The schedule to adopt 100% of the AEC is the following:

- Phase I: 28.17 % starting on April 5, 2013 (already adopted).
- Phase II: 18.39 % starting on April 5, 2014.
- Phase III: 14.01 % April 5, 2015.
- Phase IV: 37.01 % April 5, 2016.
- Transitory Phase: 2.42.

Undoubtedly, this tariff reduction for both, products from Mercosur member and non-member states shall imply lower costs for importers, lower prices for some imported products, particularly agro-industrial, and the loss of a significant commercial protection, and thus affecting the competitiveness of national products. The scourge of competitiveness won't affect all areas, since the imperfect character of the customs union of Mercosur will allow Venezuela to apply different AEC starting on 04/06/2016 to a group of 475 products, basically industrial products and imported food.

Besides adapting the nomenclature, being part of Mercosur implies the free circulation of goods, services (they are working on a total liberation of the trade of services for 2015) and capitals. To this we must add the free mobility in the labor market, which would allow citizens from member states find work in any of the five countries.

**More competition  
than  
complementarity**

Together with the higher competition derived from the reduction of tariffs, by adopting the AEC, from the moment the country enters Mercosur, the country is part of a trade block that has free trade agreements with Israel, Egypt and Palestine, as well as economic complementation and preferential trade agreements with China, Cuba, the Andean Community of Nations (CAN), Chile, Mexico and India, among others. These agreements must be adopted by Venezuela before July 31, 2016. This is one of the most critical aspects, because the fact that Peru and Colombia signed free trade agreements with the U.S.(FTAA) -and our country's supposed endorsement- was the reason why relations were severed with CAN, something that is not criticized to Mercosur, leaving more in evidence the political game behind Venezuela's entry to the customs union.



Given the increase of competition, particularly from Mercosur, we wonder: Will our national producers be able to compensate the tariff reduction with an increase of productivity? **Ecoanalítica** considers that the answer will depend on reducing certain blocks and imbalances that today affect their performance, among them, over valuation, restricted access to hard currency, price controls, the need to have met domestic demand permits to be able to export, a work day that puts national producers of Venezuela at a disadvantage (44 hours per week in Venezuela while in Brazil and Uruguay it is 44 hours per week, and in Paraguay and Argentina up to 48 hours per week), as well as having one of the highest minimum wages of Latin America (US\$389).

On top of this, considering data like the number of days that an entrepreneur needs to create a company (141 days in Venezuela, 119 in Brazil, 26 in Argentina, 35 in Paraguay, 7 in Uruguay), or the number of days required to export a product (49 days in Venezuela, 13 in Brazil, 13 in Argentina, 33 in Paraguay, 16 in Uruguay), or even import products (71 days in Venezuela, 17 in Brazil, 30 in Argentina, 33 in Paraguay, 18 in Uruguay), we realize that the differences go beyond macroeconomics and enter bureaucracy, which more than harming the competitiveness of Venezuelan companies, limits the opportunities for capitals from Mercosur to invest in the country.

#### The Trade Competitiveness of Venezuela Vs. Mercosur

	Exporting time (days)	Costs for Exports (US\$ per container)	Importing time (days)	Costs for Imports (US\$ per container)
Latam	17	1,268	19	1,612
Argentina	13	1,650	30	2,260
Brasil	13	2,215	17	2,275
Paraguay	33	1,440	33	1,750
Uruguay	16	1,125	18	1,440
Venezuela	49	2,590	71	2,868

Sources: Doing Bussines 2013 and Ecoanalítica

#### An opportunity we cannot let escape

Integration with Mercosur is a big challenge, requiring from the government not only the reform of commercial rules and procedures, but the acknowledgement of problems that may exist both in our economic and in our political system, which threaten our industry given the entry to an expanded market that although presenting a wealth of opportunities, also demands higher levels of efficiency.

Venezuela still has time to adapt its macroeconomic and regulatory environment, in order to have a more competitive industry. Although





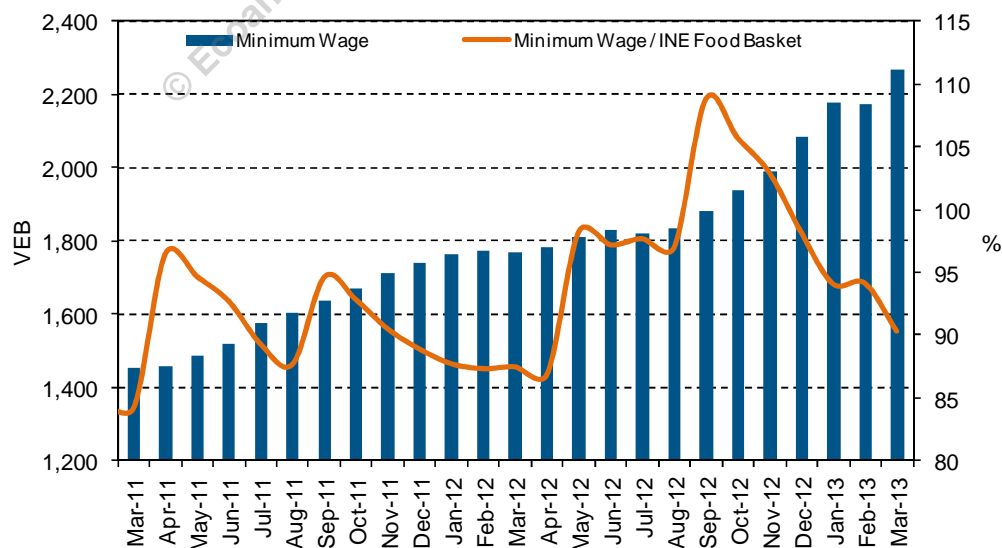
## Economic Tips

**Food basket decreased by 4.2% in March.** According to figures released by the National Statistics Institute (INE), the food basket value was VEB 2,266 in March, up 4.2% from February and up 27.9% from March 2012, thus meaning that the reference food basket increased VEB 494 in one year.

**Melons and eggs registered the highest increases.** The item that had the highest increase was melons recording an increase of 18.9% compared to February. The second most expensive was watermelon (17.9%), followed by chicken eggs, carton of 12 units (16.9%), white cheese (15.8%), beans (13.7%), *corocoro* –fish- (12.6%), *cazón* –fish- (12.2%), mortadella (8.8%), meat (7.8%) and margarine with an increase of 5.3%.

**Minimum wage only covers 90.4%.** The above signifies that minimum wage isn't enough to buy basic foodstuffs, because a worker earning the minimum wage (VEB 2,047) could only buy 90.4% of the basket estimated by INE.

INE's food basket Vs. Minimum wage's purchasing power



Sources: INE and Ecoanalítica





**Unemployment rate at 7.7%.** According to numbers released by the INE, unemployment rate decreased 0.3 pp in March, as compared to the same period in 2012, when unemployment rate closed at 7.9%; this means that in the third month of the year, 1.050.085 people didn't have a job.

**Inactivity rate increases.** According to inactivity rate figures published by INE, shows that increased 0.1 percentage points (pp) compared to March 2012, to settle at 35.9%. Within this, men inactivity decreased 0.1 pp, and stood at 22.1%. By the other hand, women inactivity, increased 0.3 pp, and stood at 49.9%.

**Informality rate at 40.6%.** According to INE's figures, at end-March, 5.138.440 people were employed at the informal sector (40.9% of working population), decreasing 0.7 pp compared to the same period in 2012. For its part, formal sector, employs 59.4% of working population.

**Special economic zones.** Last week, President Nicolás Maduro went to Zulia, where he presented the project on "Special Economic Zones", which is nothing new for his team, because it has been present for eleven years in the country's agenda. Initially, the project strived to achieve specific territorial goals, trigger production expansion, and take advantage of natural resources.

**New changes.** In the beginning, the Special Economic Zones were to be implemented in different states: Aragua, Guárico, Portuguesa, Zulia, Barinas, Anzoátegui, Miranda, Mérida, Táchira and Cojedes. Now, Maduro decided to make changes, establishing two types of zones: "*socialists and investment zones*" and "*production and ALBA-Mercosur export zones*".

**New rules for legal reserves.** The Central Bank of Venezuela (BCV) published in the Official Gazette the resolution establishing a new way to reduce the legal reserve requirement for financial entities. This method is based on the acquisition of "*Dematerialized*" Share Certificates 2013 issued by the Simón Bolívar Fund (in charge of financing the Gran Misión Vivienda Venezuela - GMVV). Banks are forced to freeze 17 out of every VEB 100 received as deposit for the legal reserve, but now this can be used to purchase certificates.

**New plans between Venezuela and Cuba.** Nicolás Maduro signed a memorandum of understanding to create and adopt an economic agenda in the mid and long term, with Cuban President Raúl Castro, at the 13<sup>th</sup> Inter-governmental Meeting between both countries. This agenda contains 51 projects based on the principles of the previously signed integral agreement.





**Foundations of the project.** The 51 new projects between Venezuela and Cuba are in health, energy and education, plus joint investments, for US\$2.000 million. According to Raúl Castro, these projects are created to establish economic links, guided by the 2013-2019 Plan for the Homeland of the Bolivarian government, the Guidelines of the Economic and Social Policy of the Party, and the Cuban economic plan for 2012-2016.

**INE Report.** The latest official data of INE on the food basket present an outlook of inflation, which the country has been experiencing for some time. According to the last reports, the basic food basket increased 28.09% in one year, and some individual products are well over that percentage, for example eggs, which increased 131.3% in the last 12 months, because monthly family consumption went from VEB 31.37 to VEB 72.56.

**New savings fund in hard currency.** President Nicolás Maduro informed last week about the future creation of a national savings fund in hard currency, to attract investments to the country. *“The goal is that the money that for different reasons went abroad, returns, and invited entrepreneurs to be part of these plans, to create an economic, financial and productive dynamic”*, said Maduro.

**More foreign currency.** Regarding the new savings fund in hard currency the head of state said that a program to accelerate the delivery of hard currency will begin, to finalize the applications pending since 2011 and 2012, and will inject resources for this year. Thus, the Venezuelan President is trying to solve the great problems related to the delivery of hard currency and strengthen Cadivi and Sicad.

**VEB 6.5 billion given to the domestic industry.** According to information from Patricia Febles, vice-minister for Industry and the Bicentenario Alba-Mercosur Fund, the fund has so far financed 625 national industry projects, with an investment of VEB 6.5 billion; this includes the recent investment made in Zulia in different companies like the PCV pipe plant, basic chemical products companies, among others.

**An atypical quarter.** Beyond spending expansion in 1Q2013, the drop in monetary financing of fiscal spending, which was reflected in a decrease in public sector financing by the BCV, has resulted in a contraction of 11.0% in the monetary basis and of 1.5% in liquidity, both in real terms, during the first three months of the year, something that hasn't happened since 2010.

**Making use of the reserves.** The slight contraction in monetary aggregates (in real terms), accompanied with a faster pace in credit granting by banks (which is typical in



quarterly portfolio closing) has resulted in a 15.1% contraction in surplus bank reserves in February-March, and has made them shrink 29.6% in April-December.

**Interest rates.** The lending rate for the third week of April was at 16.7%, down by 0.2 pp compared to the previous week. The time deposit rate was at 14.5%, without variations compared to the previous week, while the passive rate has not experienced any significant variation since November 2011, placing well at 12.5%.

**International reserves.** International reserves go down by 0.6%, going from US\$26.59 billion during the third week of April to US\$26.43 billion during the fourth week of April. Compared to the same period last year, international reserves have decreased by 0.7%.

**Central government expenditure.** On Friday March 26<sup>th</sup> according to figures from the National Treasury Office (ONT) primary spending was VEB 4.24 billion, which means a decrease of 54.8% when compared to the previous week when it was VEB 9.39 billion; when compared to the same period last year we observe a decrease of 57.1%.

**Monetary liquidity.** Monetary liquidity (M2) was increased 0.6% in the third week of April compared to the previous week, settling at VEB 765.41 billion. The M2 has increased 62.5% in relation with the same period last year.

## Oil Tips

**Minor fire in Cardón.** A minor fire occurred in the delayed coke plant of the Cardón refinery in Falcón, which was immediately controlled by the firefighters of the Paraguaná Refining Complex (CRP). According to the workers, it was an incipient fire. This is the third event reported at CRP Cardón in 12 days. So far the causes are unknown.

**Oil sales to the U.S. dropped 33% in February.** U.S. Government statistics suggest that this year the pre-eminence of partners like China has generated a change in the relevance of Venezuela's oil clients. According to the U.S. Department of Energy, Venezuela sent in February de 2013 around 601 kb/d of crude oil and by products. This is a 33% drop compared to the 898 kb/d sent in January, 2013.



**Reactivation of the Atmospheric Distillation Plant No. 5 in Amuay.** Pdvsa informed in a press release that the 180 kb/d Atmospheric Distillation Plant No. 5 was reactivated, which was damaged and shutdown since the explosion in the Amuay (Falcón) refinery on August 25, 2012. Pdvsa said that with the startup of PSAY-5 distillation unit, the crude run of Amuay was 492 kb/d. Likewise, the CRP increased its processing run from 597 kb/d to 725 kb/d.

**Public and private sectors hand in hand.** Alfredo Hernández Rafalli, President of the Venezuelan Oil Chamber, ratified the desire to participate and expand the production base of the oil sector. Rafael Ramírez, Minister of Oil and Mines, has met with entrepreneurs or Zulia and other States to establish which projects can be implemented and not contracted abroad.

**Merentes appointed for Pdvsa's Board of Directors.** Besides his responsibilities as Minister of Finance and member of the Directory of the BCV, Nelson Merentes now adds his appointment as member of the Board of Directors of Pdvsa, according to decree n°20 of the Presidency of the Republic, in the hands of Nicolás Maduro.

**OPEC countries concerned.** Oil prices are falling, particularly during the third week of April, when the average value of the Venezuelan crude oil and products fell US\$4.96/bl. The present situation of the oil market is concerning for OPEC members, and some ministers, including Rafael Ramírez, are calling for an extraordinary meeting to cut production two to three million barrels per day (mb/d) so prices recover.

**New bond issue of the Argentinean company YPF.** The Argentinean oil company YPF will place in the market its third issue of bonds on May 6 for small savers who safeguard the value of their money purchasing dollars for ARS 100 million (US\$19.3 million). The issue will be for ARS 100 million, expandable to ARS 300 million, and the amounts can be from ARS 1,000 (US\$200) to a maximum of ARS 250,000 (US\$48,000).

**Pdvsa pays interests of bonds 2014, 2015 and 2016.** Pdvsa paid on April 29 the interests for holders of bonds that mature in 2014, 2015 and 2016, corresponding to the semester that ended in April, 2013. Payment was done according to the pre-established conditions in the bonds issued on October 28, 2009, for US\$3.26 billion. Pdvsa says that the holders of said bonds must go to the institution where they acquired them to get information about the status and method of payment.

**Petrobras earnings fall 17% due to more imports.** In, 1Q2013 Petrobras recorded net earnings for US\$3.98 billion at the present exchange rate, a drop of 17% compared to the same period in 2012, said the oil company. This drop was due to the



increase in the import of products, the depreciation of the real, and the increase in exploration costs. Meanwhile, domestic production was 1.9 mb/d, 8% less than in 1Q2012.

**Venezuela calls for a Petrocaribe Summit.** Foreign Affairs Minister Elías Jaua, called Petrocaribe members for another Summit of Heads of State, to be held in Margarita on May 4. *“President Nicolás Maduro invites all Petrocaribe members (...). We hope you come, to continue contributing to the strengthening of the Association of Caribbean States”*, said Jaua in his final statement during the 5th Summit of the Association of Caribbean States (ACS), held in Haiti.

**OPEC crude oil production increases.** According to a survey by Reuters, OPEC's supplies could be 30.46 mb/d on average, an increase compared to 30.18 mb/d in March. The survey indicates that supplies have increased due to a reduction in export interruptions in Iraq and Libya. OPEC's production in March was the lowest since October 2011, when the group extracted 29.81mb/d. This month, OPEC is pumping 460kb/d more than its supply goal of 30mb/d, established in January, 2012.

**International oil baskets.** At closing time on April 26<sup>th</sup> in the New York Stock Exchange, the price of the WTI was US\$90,3/bl, a 1.9% increase compared to the US\$88,6/bl reported the previous week. The Brent increased by 1.0% to reach US\$101.1/bl, compared to the previous week's US\$100.1/bl.

**Local oil basket price.** The Venezuelan oil basket price closed last week at US\$97.2/bl on Friday April 26<sup>th</sup>, a 0.7% increase compared to the US\$96.5/bl of the previous week. The annual average price of the Venezuelan oil basket is US\$102.7/bl.

## Business Sector Tips

**Gruma still operating.** Although the economic report of Gruma, owner of Monaca, indicates that the elimination of operations of the ten Venezuelan plants from its finances implied a 10% reduction of its total assets; a spokesperson of Gruma said that in fact, the company is still operating the enterprises, as they have since the expropriation and have not negotiated yet with the government the terms of its expropriation, decreed in 2010.



**Electric power rates will be “reviewed”.** Jesse Chacón, Minister of Electric Power, said that with the Misión Eléctrica the consumption of large users will be reviewed, as well as their payment for the service. Chacón said that *“there is a deficit between the cost of generation, transmission, and the income that Corpoelec and the electric power system receives”* and said that although it is believed that the issue lies in illegal connections, according to studies of the corporation that only represents 5% of the problem.

**Pay more.** *“There are shopping malls that have onerous contracts with Corpoelec, made by officials that rather than work for the company, are making business with them. We have shopping malls that pay residential rates for electric power, and pay only ‘cents’ for a large consumption”*, said Chacón and explained that he will meet with the large energy consumers to discuss the rates that they must pay according to the law.

**Misión Vivienda needs 1,710 Mw.** The plan to build and deliver 380,000 housing solutions this year, within the framework of the Gran Misión Vivienda Venezuela, will imply the incorporation of 1,710 megawatts (MW) more generation for the National Electric Power System (Sistema Eléctrico Nacional - SEN). The estimate is made assuming that the projected average consumption per housing unit of 4.5 kilowatts is valid, made by Héctor Navarro, former Minister of Electric Power last April 13, before leaving his post.

**Open to dialog.** Shopping malls are willing to talk to Jesse Chacón, the new Minister of Electric Power, to reach an agreement regarding electric power savings. This was informed by Claudia Itriago, executive director of the Venezuelan Chamber of Shopping Malls, and said that the sector she represents has complied with the energy savings plan. *“Since 2009 we have been talking to the ministers, and have worked with the government. We are one of the few sectors that have truly saved energy”*, she said.

**Cifar doesn’t lose hope.** The Pharmaceutical Industry Chamber (Cifar) celebrated the announcement of President Nicolás Maduro, about *“regularizing the injection of hard currency in Cadivi”*. The companies that are part of Cifar owe US\$470 million to their suppliers abroad, and the average time for the liquidation of hard currency is around 180 days, according to data of the Chamber. Tito López, President of Cifar, said in a communiqué that *“paying the debt is the way to reactivate and maintain the operations of our affiliates”*.

**Consecomercio wants cash.** Mauricio Tancredi, President of the National Trade and Services Council (Consejo Nacional del Comercio and los Servicios - Consecomercio), said that it is essential to have a hard currency delivery mechanism



for businessmen and importers. *"Companies are surviving while a way is found to import again"*, said Tancredi. He said that the trade sector requires around US\$150 million per day to maintain their operations, and a proper supply pace for the local market, but neither Cadivi or Sicad are delivering that amount.

**An outburst.** In *Ecoanalítica* we believe that this is an exaggerated amount, because a disbursement of US\$150 million per day for the commercial sector, as Mauricio Tancredi called, would translate in US\$54,000 million per year, which represents 91% of the amount of total imports in 2012, which includes all sectors, and 63.1% more than Cadivi and Sitme liquidated last year.

**Sicad must be for all.** Miguel Pérez Abad, President of the Federation of Industrialists (Federación de Industriales - Fedeindustria), mentioned the need to speed up the process to approve hard currency and said that proposals have been made to expand access mechanisms to Sicad for small and medium producers. *"Some (producers) had already adapted their productive system to the access of hard currency through Sitme, so we consider convenient to have a conversation, it is a topic on the discussion table"*.

**Together as siblings.** The Venezuelan Chamber of Food Industries (Cámara Venezolana de Industrias de Alimentos - Cavidea) announced with satisfaction the invitation of the government to work together, and proposed the implementation of five work groups by areas of action. Pablo Baraybar, President de Cavidea, who trusts that *"working together we can solve the problem in 180 days"*, reminded that 76% of the food consumed in the country is produced locally, and that the food industry generates around 100,000 jobs.

**A not so sweet fruit.** The regulation imposed 15 months ago to the price of pasteurized juice is affecting citric food growers, who are selling their products at a price that doesn't cover production costs. Marcos Guiñando, President of the National Federation of Fruit Growers (Federación Nacional de Fruticultores - Fedenafrut), explained that production costs have increased 40% since December, and said that they asked Sundecop to review the price of pasteurized juice, so that the industry can guarantee a profitable price for producers.

**"It is basically paralyzed"**. That is how Carlos Larrazábal, President of the Venezuelan Confederation of Industries (Conindustria), described the situation of the country's manufacturing sector. He said that this situation *"has worsened given the lack of timely decisions and the lack of hard currency by Cadivi"*. Larrazabal explained that they have more than 200 days of delays to pay suppliers, and the closing of many credit lines is preventing the replacement of inventories in the country.



**And the cheese sector also.** The National Association of Cheese Industries (Asociación Nacional de Industrias del Queso - Aniquesos) will request a meeting with the new ministers in the sector, to give them a document that explains the critical situation of the sector and makes proposals to overcome it. They say that the industry's production costs have not been revised in more than 16 months, and in that time, inflation has been more than 30%, besides the lags accumulated both in pasteurized white cheeses and yellow cheeses.

## World Economy Tips

**Spending cuts in the U.S. will have global consequences:** The International Monetary Fund (IMF) warned that spending cuts in the United States (U.S.) will affect the growth of the global economy, if they enter into force this week. The cut is expected to be around US\$85.00 billion. William Murray (IMF spokesman) informed that this cut will negatively affect mostly Washington's largest trade partners. It is even possible that growth estimates for the U.S. will be lower than estimated.

**U.S. grows 2.5% per year:** The US economy had an annual growth rate of 2.5% in 1Q2013. The US economy has been characterized in the last two years for having a large consumption market, evidenced by the 3.2% increase reported by official figures in that area. Likewise, these figures are lower than expected; however, there was an improvement comparing the last quarter of last year with the first quarter of this year.

**Letta places the Italian economy as a priority.** The new Italian Prime Minister, Enrico Letta, said that one of his priorities is to revitalize the indebted Italian economy. In his speech in parliament, the Prime Minister said that he will travel this week to several of the main European capitals to discuss with political leaders about changes in economic policies to foster growth in the region. The Prime Minister also said that the European Union (EU) is suffering from a crisis of illegitimacy.

**Spain still stuck.** The Spanish economy is still stuck in a recessive cycle: the GDP has accumulated seven quarters of contraction, between January and March of this year, and its economy is still weakening, so much so, that today it is supported by countries abroad. Despite this, the Spanish risk premium has dropped to 294 points, a level that wasn't seen since 2012 and is an improvement.



**Inflation drops and unemployment rises.** Inflation in the Euro zone fell to its lowest level in three years and unemployment reached a historical maximum level, which consolidates the cuts by the European Central Bank (ECB). Inflation fell to 1.2% in April and in the same month, unemployment reached 12.1%. Inflation was well below the ECB's target, of 2%, while the EU tries to eliminate budget cuts and lower unemployment.

**Elections in Greece.** The Greek Parliament will vote this Sunday for a new law that will allow the dismissal of 15,000 public officials for the end of next year. This large dismissal would be due to the budget cut that could be implemented if the law is voted, and would be the first time that a measure like this is authorized under the Greek constitution. The budget cut is a condition to create new financial assistance.

**Remittances to Latin America and the Caribbean increase.** According to the Inter-American Development Bank (IDB) since the constant flow to Central American nations compensated the drop in other large recipients, like Mexico. Remittances to South America dropped 1.1%, while those to Central America increased 6.5%. The flow of hard currency to the region amounted to 61.30 billion dollars, reaching the historical record level of 2008.

**PMI drops in China.** The anticipated Chinese Purchase Managers Index (PMI) by HSBC fell to 50.5% in April compared to the previous month. The growth of the manufacturing sector of China also fell in April with the reduction in export requests. Added to the drop in exports to important consumers, this reveals that the environment is still unfavorable for the Chinese.

**Unemployment circles around the Spanish economy.** According to official figures, unemployment in Spain reached 27.2%, or more than 6 million unemployed, the highest figure in the last 37 years. President Mariano Rajoy will announce new measures to try to counteract the impact of the crisis, but given the last results, these measures are expected to be less harsh.

**Cyprus adopts adjustment measures.** The Parliament of Cyprus approved with 29 votes in favor and 27 against, the adjustment measures proposed by the troika in exchange for a financial rescue. A first disbursement for EUR 10.00 billion is expected for May. Among the measures are salary reductions for the public sector and tax increases.





## Political Tips

**Through official channels.** Gerardo Fernandez, lawyer in representation of the Simon Bolivar Command (CSB), said that the opposition coalition introduced a legal dare to the presidential elections of April 14 in the Supreme Court of Justice (TSJ). The CSB impugns not only the process of 14-A, in which they assure there were incidents that affected the results, but also the campaign and the electoral register.

**Miranda without its share of the national income.** Henrique Capriles Radonski, governor of Miranda, said that the region is the only one in the country that hasn't received resources for its operation, its share of the national income. The governor said that *"it is the only state in the country that hasn't collected its share"*. He also warned the government that it must release the funds because its political and personal activism shouldn't affect the people.

**Appeal to election results introduced before May 6.** Henrique Capriles Radonski, former candidate for the Mesa de la Unidad said that the Comando Simón Bolívar is working on appealing the elections of April 14 of this year, which should be presented before May 6. He said: *"I have no doubt that this will go to international entities. And sooner rather than later, our country will have another election"*.

**Claims of abuse galore.** After the multiple claims by public officials, given that the government suspects that they committed the crime of voting for Capriles Radonski, Ramón Guillermo Avelo, Executive Secretary of Unidad, called for union in the movement of workers, particularly on May 1st amid circumstances that call for reflection, mobilization and defense of employment as a right and a value.

**Two rallies on May 1st.** The ruling party rally route was modified (it was going to start at the Parque del Este) and now will start at the Av. Libertador near Cantv, with a second gathering point at the La Bandera terminal; both groups will finish at the Plaza O'Leary. The opposition will rally from the Unicentro El Marqués up to the Plaza José Martí in Chacaíto.

**More political prisoners?** Guillermo Heredia, lawyer of General Antonio Rivero, said that his client will be accused for crimes of *"conspiracy and public instigation"*. Rivero was imprisoned on Saturday, April 27, and has been since then in the facilities of Sebin. According to Carlos Vecchio, leader of Voluntad Popular, the recent cases



of Henrique Capriles Radonski and Antonio Rivero, have used doctored or edited "videos" as proof of their instigation to violence.

***"The audit must satisfy the party with doubts."*** Vicente Díaz, director of the National Electoral Council (CNE), acknowledges the right of former candidate Henrique Capriles to request a full audit of the presidential elections, given the small difference. He said that a limited audit doesn't eliminate the doubts that have the voters have expressed. *"Accepting a review of the voting books would bring peace to the country"*, he said in an interview. He also insisted that *"the audit must satisfy the party with doubts"* that is why it is in the law.

***Audit without the opposition?*** The CNE will start on Monday the audit of the presidential elections, with a technical representation of the political parties, where the presence of the opposition isn't expected, after its leader Henrique Capriles rejected the review process because it isn't thorough. The audit won't include the issue that the opposition considered a key element to prove the alleged irregularities: the review of the electoral books that contain the voter registry.

***Peace and love madness.*** Within the framework of the Plan Barrio Tricolor, President Nicolás Maduro visited the Palo Negro barrio in Maracaibo, Zulia, and said that *"The communities cannot feel that this is a strange project, it has to be incorporated with your own work and effort; the idea is to make all barrios be dignified places"*. He said that children must be well educated to guarantee the homeland. *"Capitalism doesn't guarantee that, it is pure violence (...) Let them continue in their madness. We will continue in our peace and love madness"*, he said.

***"Mister Correa stepped out of his boundaries"***. Henrique Capriles rejected the statements of Ecuadoran President Rafael Correa. *"Yesterday, Mr. Correa was out of line. He has no right to qualify any Venezuelan. If he has something to say, he has to present evidence. Others are the coup mongers"*, he said. He added that it isn't convenient for the head of state that the truth is known, because *"the truth would imply a change of government, and to reveal all the presents given to presidents around the world. What presents has Mr. Correa received?"*





## Legislative Tips

**New executive secretariat of Fonden.** Temir Porras, so far vice-Foreign Affairs Minister for Europe, was appointed Executive Secretary of the National Development Fund (Fondo de Desarrollo Nacional - Fonden), according to *Official Gazette* N° 40.153 of April 25. The official, who holds a bachelor's degree in Political Science, was Vice Foreign Affairs Minister for Europa since 2010 and for Asia and the Middle East. He had to represent Venezuela in its regular universal Human Rights test in 2011.

**On the wire!** 12 days before the entry into force of the work day reduction, the draft of the partial regulation of the Organic Labor Law was finished (Lottt), regarding the specifications about work schedules. Carlos López, member of the Superior Labor Council, said that during Wednesday's meeting they defined the text. The President Nicolás Maduro approved it in May 1, labor day.

**But there are still things to be done.** The document approved last week only has to do with the implementation of the work day, according to the characteristics of the companies. In the following meetings of the Superior Labor Council, they will move ahead gradually on other aspects of the legislation, until the Labor Law Regulations are fully adapted to the regulations in force.

**Sale of medications with prescription postponed.** The entry into force of the resolution regulating the sale of medications with a prescription, which must state the active principle of the pharmaceutical product, was postponed to May 10. Freddy Ceballos, President of the Venezuelan Pharmaceutical Federation, said that the measure, which had to enter into force on April 18, was postponed due to partial changes made by the Ministry of Health to the articles in the regulation, and the issue of a second list of medications that can be sold over the counter.

**Polar wins one.** The Constitutional Hall of the Supreme Tribunal of Justice (TSJ) admitted the annulment petition presented by Cervecería Polar, C.A. against the Law Reforming the Revenue Stamp Law of Aragua. The company had presented the appeal in 2012 saying that it violates articles 49, 115, 133 and 317 of the constitution, demanding the proportionality of rates and sanctions, and included *"a precautionary measure to protect immediately the company and the job posts that depend on it"*.



**NA will investigate Capriles.** The governor de Miranda, Henrique Capriles Radonski, is the target of the National Assembly (NA), since it installed last April 24 a commission, formed 100% by ruling party representatives, to investigate the violence that occurred after the presidential elections of April 14, which according to the balance of the Public Ministry left 9 dead and 78 injured

**In search for an olive branch at the NA.** Ruling party supporters and opposition members met twice in 48 hours trying to reactivate dialog in Parliament, which was broken the week before last. Given the request for a meeting by the heads of UNT, AD, Copei, Independents, Avanzada Progresista, and Proyecto Venezuela to the board of directors to restore normality, the Block of Socialist Parliament Members of Venezuela called on the opposition to try and reconcile and reach an agreement to try to resume the sessions. The meetings were on April 22 and 24 but there was no white smoke.

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## ECONOMIC OVERVIEW

