



# Weekly Report

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*PDVSA and its goals: How much to believe of what Rafael Ramírez says?*

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For some time now, PDVSA's announcements regarding: daily production; company and project goals; investments made; projects being carried out and when their supposed to be completed, have been anything but informative and have been the source of much speculation and questioning by local oil industry analyst as well as international oil agencies and watchdog groups. At **Ecoanalítica**, we have often highlighted how PDVSA has become involved in the development of other sectors, such as the construction of houses, the financing of infrastructure projects, and even the purchasing and distribution of food items. This week, we will focus on analyzing how PDVSA is doing with regard to its main responsibility, which if anyone can remember, is the oil industry. Is the company truly meeting its production goals? Is it investing what it says it will invest? These are some of the questions we will focus on in this report.

In this report we will try to grossly analyze the Venezuelan labor market, to then tackle the impact of the amendment both for the private and the



public sector, as well as from the macroeconomic perspective in the short and mid-term.

**Oil production goals: are we getting there or not even close?**

The first thing to analyze is the credibility of PDVSA's oil production goals. In the company's Report for 2006, it set a goal to be producing 5.8 million barrels a day (mb/d) of crude oil and liquid natural gas by the year 2012. Well, 2012 is here, and the most recent official oil production figures (from 2011) put oil production at 3.1 mb/d<sup>1</sup>. This falls short of PDVSA's production goal set in 2006 by 2.7 mb/d, and there is no way that the company can increase oil production by this amount in what's left of the year.

With respect to other oil production goals set after 2006, we find that in 2007, oil production was at virtually the same level as it was in 2006, and the company continued to aim for the oil production goal set for 2012. The following year, 2008, oil production increased compared to the previous year by 10.4%, reaching almost 3.4 mb/d. However, the company's 2008 Yearend Report announced that it would be scaling back on the production goals set the two previous years. Now, it would focus on oil future production reaching 4.9 mb/d by 2013 instead of 2012.

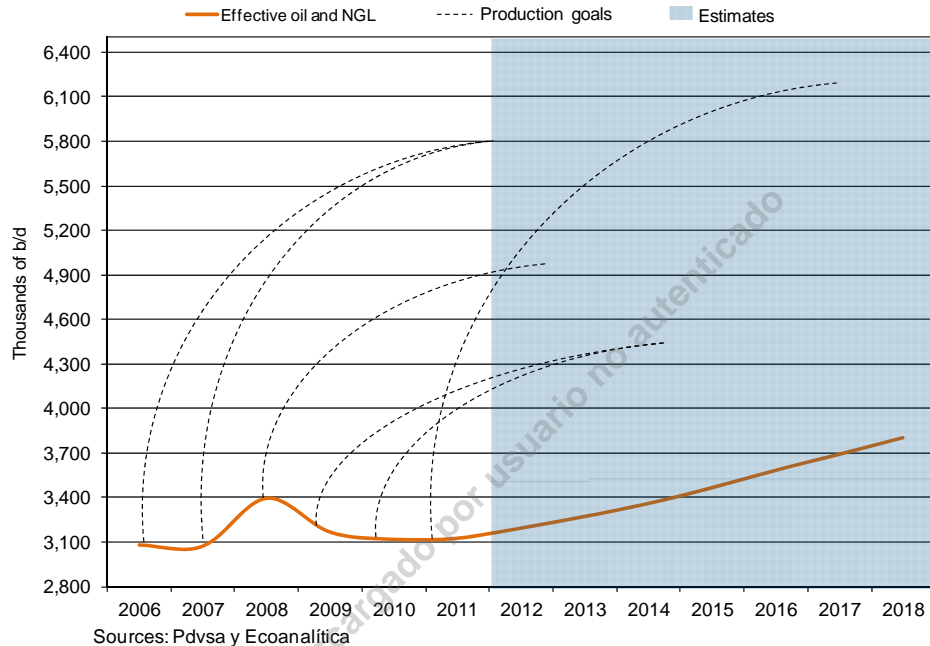
In 2009, oil production dropped by 6.6% compared to the previous year, and only reached 3.1 mb/d. Once again, oil production goals were adjusted, now aiming for 4.5 mb/d by 2015 instead of 2013. In 2010, oil production dropped again, this year by 1.5% compared to the previous year; and oil production goals remained the same, 4.5 mb/d by 2015. And last year, 2011, the last year we have official figures for, oil production increase slightly by 0.22% compared to the previous year, reaching 3.1 mb/d, at the same level it was in 2009.

With respect to oil production goals, the tendency observed in the past years, to adjust and try to be more realistic in future oil production goals seems to have been discarded. The new oil production goal set in 2011 calls for an ambitious 6.1 mb/d by the year 2018.

<sup>1</sup> In this Report, we will be working with and referring to official PDVSA oil production figures. It is important to point out that these figures are considered questionable and subject to debate by a number of international organizations and agencies that insist that PDVSA's figures are inflated. If this is the case, it won't add any positive value to this analysis. Therefore, we will work with the most optimistic scenario available, and use PDVSA's official figures.



**PDVSA's effective production VS production goal**



**What's our verdict?**

The graph presented above couldn't be clearer. PDVSA's ambitious oil production goals alongside dropping oil production levels doesn't do much for the company's credibility; it's difficult to take any of the company's announcements seriously when it fails to recognize the reality of its oil production output. As long as PDVSA's has to continue to dabble in the activities of other sectors, thereby neglecting its oil industry operations, its ambitious oil production goals will become less and less realistic. The only way PDVSA will even get close to meeting these oil production levels, and be able to regain any sort of credibility among oil industry players, is to totally focus all its energies on oil industry operations, eliminating all other distractions.

**What's happening to investment plans?**

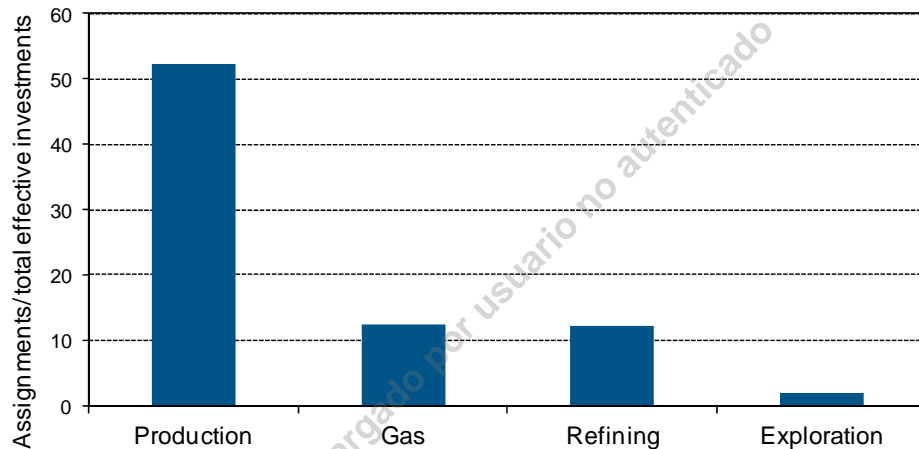
When PDVSA announces its operational goals the company also releases its investment plans. Every year, it releases the figures reflecting how much it spent on oil exploration, production, refinery, and commercialization, with respect to the goals established in its strategic plan. This report also includes estimates for the coming years investments that the company deems necessary in order to reach established goals.

According to the company's 2011 Report, for the year in question, PDVSA earmarked more than half of all its investments for oil production, about a tenth of that amount for natural gas and refining, and less than 2% for



exploration. Looking at the figures for the previous 5 years, we can see that in terms of investment, these proportions have remained more or less the same over time.

**Effective investment assignments by activity  
Average 2006-2011**



Sources: Pdvsa and Ecoanalítica

The investment data included in these yearly reports allows us to see if the company actually follows through with its investment plans, given that the reports also include real investment figures for the year, and the projections for the following year's investment plan. By cross referencing each year's "real" investment figures to what the company "says" it will invest in the coming year, we can see how well the company actually follows through on what it says it will do.

For example, the 2006 Report states what the company expects to invest during the period of 2007-2012. The 2007 Report includes the figures of what was actually invested during 2007, which when compared to the projections established in the 2006 Report will help us establish just how credible PDVSA projections are.

Consequently, we can create a matrix that reflects investment projections made as of 2006 up until 2011, which in turn will contain investment information up until 2018<sup>2</sup>; which can be cross referenced with actual amounts invested each year, up until 2011, of course.

<sup>2</sup> Each year, PDVSA releases a strategic plan that usually covers the following five years. So, the 2006 report includes investment to be made up until 2011; and so on, until the 2011 Report which releases an investment plan that covers the following seven years until 2018.



So, by averaging the percentages of the amounts actually invested vs. projections for each year, the following results were obtained:

**Deviation of PDVSA's investment estimates  
Average 2006-2011**



Sources: Pdvsa and Ecoanalítica

Looking at the previous graph, one can see that PDVSA ends up investing 20% more each year than what it says it will invest. And, not only does PDVSA earmark more resources to oil production than any other of its oil operations activities, it is assigning more resources to oil production that it has in recent years, at the cost of investments earmarked for exploration, refining, and natural gas.

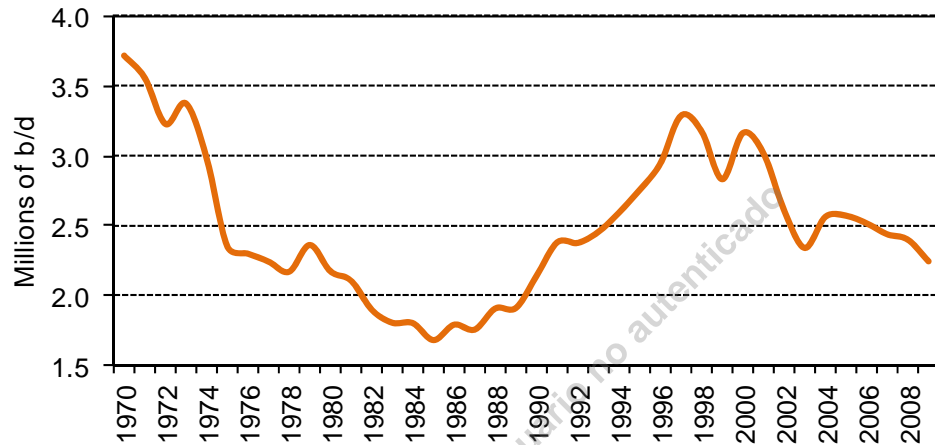
### Oil production bubble...

So, why is so much emphasis being put on oil production? Simply put, because PDVSA has been forced to invest in more effort and resources in oil production, in order to counteract a steady decline (for the last 40 years) in oil extraction levels. Just between 1998 and 2010, the Maracaibo oil fields, the main source of light and medium crude oil (highest value on the market), has dropped its extraction levels by 800 million barrels a day, mainly due to the natural decline in yield over time of an oil well. This downward trend in oil extraction volumes was temporarily counteracted by the important discovery of light crude oil fields in northern Anzoátegui state and in Monagas state in the 80s.





## Venezuelan oil production



Sources: IEA and Ecoanalítica

However, extraction levels from these oil fields discovered in 1986 are also starting to drop, and by 2009, oil production had slowly dipped to 1992 production levels. This steady decline in extraction levels has been reflected by all the other wells outside of the Orinoco Oil Belt, dropping by more than a million barrels of oil a day between 1998 and 2010. On top of this, no significant discoveries of light and medium crude oil fields have made since the 80s to counteract this steady decline.

### ...but the future is in the Orinoco Oil Belt.

So it's quite understandable why PDVSA is pushing to move forward and accelerating crude oil extraction along the Orinoco Oil Belt, which contains the world's largest crude oil reserves, with more than 1.3 billion barrels of original oil in place, of which 213,000mb (17%) have already been certified by the Orinoco Magna Reserva project carried out by PDVSA. If oil production levels are to increase in the future, everything points to the increase coming from the Orinoco Oil Belt.

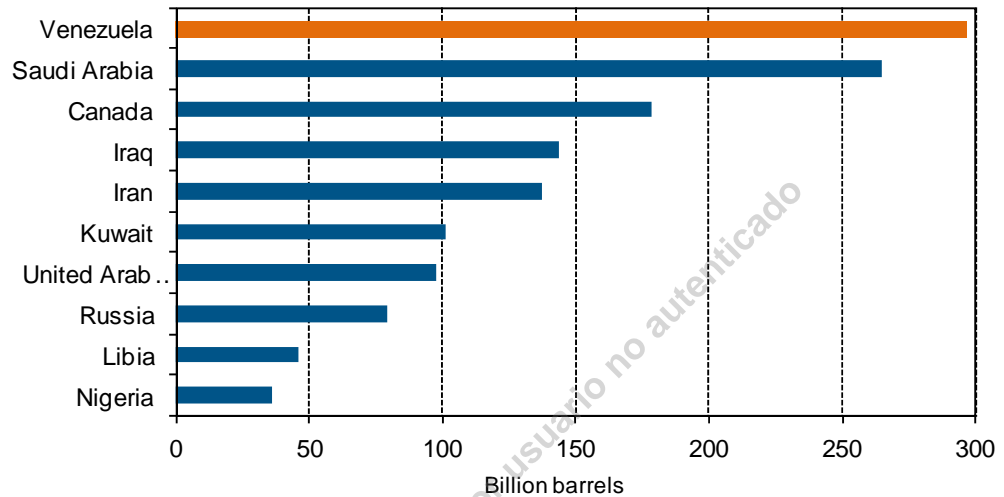
### Why continue to explore for oil?

Looking back at the amounts allocated for investment, now it's easy to understand why PDVSA doesn't feel pressed to invest resources on exploration, having the largest oil reserves in the world. This is also reflected on investments made on exploration, on average, 40% less than what was originally stipulated in each year's report.





## 2011 World Oil Reserves



Sources: OPEC and Ecoanalítica

### There is another threat ...

But, it's important to point out that if PDVSA were to meet the goal established in the 2011 Report, increasing Orinoco Oil Belt production to almost 2.5 mb/d of crude oil by 2021, a serious commercialization problem would be generated. Venezuela still does not have the infrastructure necessary (refineries and up-graders) to process this new flow of extra-heavy crude oil that require a special processing treatment. If PDVSA continues to invest 14% less than what it is stipulating it will invest on refining in the yearly reports, this problem is far from being solved.

### Natural gas is no one's priority...

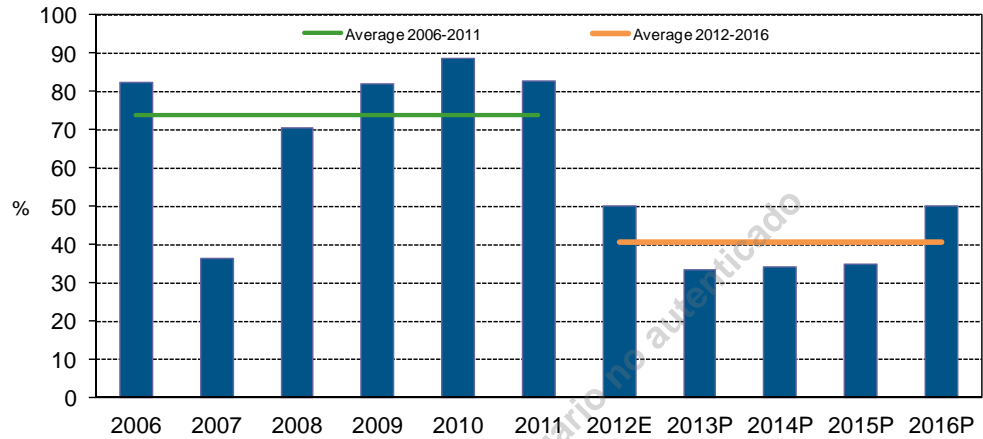
With respect to natural gas, according to our calculations, 32% less than what's being promised to be invested is actually being invested; this despite big natural gas projects such as the Mariscal Sucre project or the Gas Anaco project, both presenting significant delays in construction, as we will mention further on. It's clear that PDVSA isn't very interested or focused on these projects, only investing a third of what it has promised to invest in the yearly report.

### Does PDVSA have enough?

Another point that has to be analyzed is PDVSA's financing capacity. Does the company have enough resources available to cover the investments it says it is planning? Looking at PDVSA's financial balances between 2006 and 2011, we have calculated incoming revenue and subtracted costs and spending (not including investment) and transfers made to the executive Office (formal as well as social contributions). The resulting amount is the amount of resources available to the company to cover its investment projects.



### Available income for investment/Planned investment



Sources: PDVSA and Ecoanalítica

The graph shows that during the period 2006-2011, PDVSA had available resources enough to finance up to 74% (on average) of its investment plans; these resources coming from its main activity, the oil industry. This leaves 26% that the company by itself was unable to cover. This forces PDVSA to look to the foreign capital markets for financing, or as a last option, associate itself with private capital creating a mixed company.

At **Ecoanalítica**, we estimate that in the coming years, available resources will become scarcer for PDVSA. For the previous graph, we estimated the company's financial balances for 2012 to 2016, taking into account the recent drop in oil prices and projected oil price estimates for the coming years. The result: PDVSA will only have available resources to cover less than 41% of its planned investments.

#### What to expect from the future?

From this analysis, we can come to two conclusions. First, we don't see any incentives for the company to cut-back on the amount of resources it is earmarking for oil production. Quite the contrary, if oil extraction levels continue to drop, one can expect that the amount of investment resources allocated to oil production will increase. One should also expect the company to being to expedite and actively get behind projects to develop up-graders and heavy crude oil refineries in order to be able to process the extra-heavy crude oil coming from the Orinoco Oil belt.

Second, the fact that PDVSA will have fewer resources available to cover its investment projects leads us to believe that it will be looking to the capital markets and to trading partners such as China to borrow resources



with more regularity, as well as increase the financial pressure on its mixed-company partners.

Something that is worth pointing out is that it seems that PDVSA's board of directors is aware of the fact that the old wells are on their last lap in terms of the amount of oil they are able to produce, and that the future of the company, and future oil production levels, are coming from the Orinoco Oil Belt. And rightly so, it seems that this is where the company is concentrating most of its current and future investments.

If anything we should recognize the PDVSA board is to have anticipated that, given the decline of traditional basins, the future of the oil industry is completely dependent on the developments of the FPO, and it is in that direction that seem to point their most recent efforts. However, the diversion of resources to the government mainly for political purposes, will remain the main obstacle for increasing the production of a country that boasts of having the world's largest reserves.

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## Economic Tips

**Dismal prospects for Venezuela.** The drop in oil price due to the stormy international economic climate led the Bank of America to publish a quite pessimistic report for Venezuela. A downward review of the oil price for 2012, from US\$107.6 to US\$100.8 would take fiscal deficit of the central government from 4.7% up to 7.8%.

**Lack of fiscal soundness would lead to 74% devaluation** for 2013, according to the same report, with a 6.2% improvement of GDP, even maintaining the same levels of spending. Even though spending tends to expand as a result of higher revenues, since 2013 is a post-election year, it is expected to shrink, thus allowing devaluation to produce a primary surplus in 2013.

**A 3.5% contraction in GDP for 2013.** The private sector would be the first victim of the restrictive fiscal policy, because it would be denied resources that would be transferred to the public sector to close fiscal gap, thus giving rise to a strong drop in real wages and private demand. This, along with the needed austerity policy, would provoke a steep fall in aggregated demand, thus knocking down economic activity by 3.5% next year.

**The worst is still to come: the euro zone crisis worsens** the scenario in view of a possible catastrophic evolution of the situation in Greece. Greece's exit from the monetary union would take Venezuela's oil barrel price down to levels of US\$74, thus provoking a GDP 5.5% drop in 2013. The worst case scenario, according to the report mentioned above, would be a collapse of the euro zone, which would result in Venezuela's oil price plunging to US\$55 per barrel, for a 7.4% contraction of the economy in 2013.

**The political variable is the icing of the cake**, because it adds uncertainty to the economic panorama. If Chávez wins October elections and resigns because his health condition worsens, the interim government would postpone as much as possible the needed adjustments, avoiding to pay the high price that new elections would cost and compromising the already scarce inventory of international reserves and compounding foreign debt payment.

**Jorge Giordani, more optimistic than the Bank of America**, estimates a 6% growth for next years, thanks to investments worth US\$500.0 billion between 1999 and 2012, *"the results of which are perceived in areas such as health, housing,*



*education and social security.*” The amount is similar to that which, according to Giordani, will be invested in a supposed next government of President Chávez and it will come not only from oil revenues and non-oil taxes, but from “*greater efficiency in State-owned companies,*” particularly Guyana basic industries, which, in the Minister’s opinion, ask for too much and give a little in return.

**“The private sector has a place in this economy,”** Minister Giordani said, assuring that private businesses “*have a place to produce, not to speculate; it is even contemplated in the Constitution*”, provided they aren’t engaged in monopolistic practices. Furthermore, Giordani charged against Henrique Capriles’ candidacy, accusing him of not presenting a “complete” government program, reason for which he “*lacks leadership.*”

**Workers’ food basket hits VEB 3,769.2.** According to the report by the Documentation and Analysis Center for Workers (Cenda), the workers’ food basket amounted to VEB 3,769.2 in May 2012, for a 1.5% increase since the prior month and 28.5% since May 2011.

**Only sugar and salt remained unchanged.** Of the eleven products included in the food basket, the one that registered the highest increase was ground coffee with 2.8%. In terms of scarcity of the studied product, the report estimates that it fell from 14% in April to 10.5% in May. The scarcest product is price-controlled beef, which vanished from shelves eleven months ago.

**Expropriations won’t be paid at market value,** as it is provided for by one of the laws that were enacted last Friday at the last moment through the special powers law. According to the legal text, the price will be calculated taking into account the last purchase value of the property, as stated in the respective title deed duly legalized, “updated” according to the national price consumer index variation and a weighted average of interest rates. The law explicitly establishes that “*the market price or value cannot be considered.*”

**The Chinese Fund is paid with oil... and with Chinese workers.** 30,000 workers engaged in the works of the *Gran Misión Vivienda* are part of the binational agreement signed with the Asian country. Octavio Campos, secretary of the National Federation of Workers of the Construction Industry reports that the 3,000 workers that are active in Fuerte Tiuna alone come from China.

**75% unemployment in the construction sector** is not reason enough to stop the stampede of Chinese workers, which, as stipulated, will reach the number of 300,000. Under normal conditions, Campos warns, “*the construction sector employs 1.2 million people, but now it is only employing 400,000.*”



**The poorest pay 8 times more interest.** 63% of the lower-income population, which are alienated from the banking system and don't have access to formal credit mechanisms, have to resort to usurers, who charge up to 24% per year, due to high non-payment risk.

**Interest rates.** The lending rate for the second fourth of June was at 17.51%, decreasing by 1.61 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 increased 0.67% going from US\$25,575 million during the first week of June to US\$25,746 million during the first week of June. Compared to the same period last year, international reserves have decreased by 12.7%.

**Monetary liquidity.** Monetary liquidity in the first week of June increased 2.6% compared to the previous week settling at VEB 498.781 million. The M2 has increased 57.3% in relation with the same period last year.

**Sitme figures.** So far this year, US\$4,819 million have been negotiated through the System for Foreign Currency Transactions (Sitme), averaging US\$42.64 million a day, with an implicit exchange rate of 5.3 VEB/US\$; this represents an increase of US\$1,072 million (28.61%) over the same period of 2011, when were negotiated US\$3,747 million. Lastly, during the second week of June the amount traded reached US\$174.7 million, traded US\$42.32 million less than last week when US\$216.39 million were traded, with a daily average of US\$43.52 million.

## Oil Tips

**Looking for an increase.** In view of the decision made by the Organization of Oil Exporting Countries (OPEC) to remove excess supply, the Organization's Secretary General, Abdalla Salem El-Badri, stated that the surplus cut is aimed at increasing prices. However, he warned that "*cutting back 1.6 million b/d between today and end-July isn't easy.*" The Secretary General also mentioned that a price of US\$110/bl. "*isn't a threat for global economy*".



**Unpredictable.** After reaching its year's high (US\$117/bl.) three months ago, the Venezuelan oil basket took a declining turn, losing US\$25/bl (for a 27.2% drop). That drop has led the year's average price to drop by almost US\$3, from US\$112 to US\$109. Rafael Ramírez attributed that drop to the excess supply, which is close to 3 mb/d, the half of which OPEC members are responsible for.

**Minimum US\$100.** During his participation in the OPEC seminar, Ramírez pointed out that a stable price over US\$100/bl would allow resources in the most complicated areas to be developed. Ramírez also stated that oil investment is hindered by the refusal (by both international firms and consumer countries' government) to recognize the right of producing countries to receive a fair retribution in exchange for allowing exploitation of a valuable, depletable and nonrenewable natural resource.

**Emergency meeting?** Ramírez also stated that there exists the risk that the drop cannot be controlled. *"The point is that when factors push downwards, the process isn't easy to control,"* the Minister pointed out. Therefore, Ramírez referred to the possibility that the OPEC would hold a special emergency meeting, which would take place in September, if crude price aren't stabilized.

**Following Arabia's pace.** Given the fact that one out of every three crude oil barrels produced by OPEC comes from Saudi Arabia, the Organization member countries expressly asked that country, at the last meeting, to cut pumping so as to keep prices at US\$100/bl. Arabia's stance has been increasing extraction to prevent prices from increasing so as not to impact the beaten developed economies, due to the fear that a new recession that would take prices to 2008's levels would occur.

**Shale oil lying in wait.** The OPEC conference dealt with the boost that the U.S. is giving shale gas and shale oil. According to a press note on the *Financial Times*, the increase of the U.S. oil supply was the "shadow that fell over every discussion." Abdalla Salem El-Badri recognized the changes that these projects can provoke in oil supply. However, he stated that it will take time due to the environmental challenges posed by the hydraulic fracture required to extract minerals.

**We consume 30% of what we produce.** British Petroleum's statistical report on global energy ratifies Venezuela as the country with the largest global hydrocarbon reserves (296,500 mb accounting for 17.9% of crude oil worldwide); however, at the same time the report warns about the growing oil domestic consumption which, at the end of 2011 reached 30.5% of production.

**More than the IEA but less than PDVSA.** BP's report places Venezuelan crude oil production at 2.7 mb/d at the end of 2011, almost 400 kb/d over the figure posted by



the International Energy Agency (IEA), but below the figure presented by PDVSA to OPEC (2.8 mb/d).

**We are producing less...** BP's report states that Venezuela's oil production dropped 13.4% (422 kb/d) in 2001-2011, considering that one decade ago, 3.1 million barrels were pumped per day.

**But consuming more.** Venezuela appears in the BP's report as the second country in the region with the highest oil consumption level: 832 kb/d, for a 33.7% increase with regard to the 662 kb/d of demand 10 years ago. According to the report, global consumption figures reflect a global rise of 13.9% in crude oil consumption, mainly boosted by Asian countries that increased their demand by 31.6% over 10 years.

**Gas in exchange for diesel.** President Chávez informed that with the Mariscal Sucre gas project, 300 million of cubic feet per day (mmcf) of gas will be produced by year-end, which would be used to replace about 50 kb/d of diesel and fuel oil that are used by the large thermal power plants. The administration has plans to replace these fuels with gas, which is a "*cleaner and cheaper type of energy.*" This would save about US\$2.125 billion per year. At present, plants consume roughly 200 kb/d of fuel oil and diesel.

**Cardón gas will no longer be for 2012.** PDVSA announced that gas production expected for this year from Cardón IV block, one of the largest blocks worldwide (which is being developed jointly with Spain's Repsol and Italy's Eni) will be delayed until 1Q2013, because the "*marketing agreement*" with PDVSA, which is a requirement for early production and supplements the purchase-sale contract executed in December, hasn't been signed yet.

**"The first 80 mmcf of gas"** from Perla 1 deposit (which is considered the largest deposit in Latin America with roughly 19.0 mmcf) were expected to come to the mainland this year. A production of up to 300 mmcf of gas was expected for 2013, with the possibility of it reaching up to 1.2 mmcf by 2019. However, Cardón IV won't start early production of about 80 mmcf until 1Q2013.

**International baskets.** At the time of foreclosure in New York, WTI was traded on June 15 at US\$83.3/bl, which shows a decrease of 1.12% compared to US\$84.27/bl recorded the previous week. Meanwhile, Brent fell by 1.6% to reach US\$ 97,8/bl compared to the previous week, when it reached US\$99,3/bl.

**Local basket price.** The Venezuelan oil basket price fell last week to close at US\$92.1/bl on Friday 15 June, resulting in a decrease of 2.6% compared to



US\$94.5/bl recorded the previous week. Meanwhile, the average of the Venezuelan oil basket stands at US\$ 109.42/bl.

## Business Sector Tips

**Wind energy gone with the wind.** Even though two years ago the Venezuelan government signed an agreement with the Portuguese government and Portugal's Galp to promote wind power generation projects, specifically the creation of wind parks in the eastern region of the country, it hasn't been possible to launch those projects due to Portugal's problems. However, Venezuela, along with Spain's Gamesa, is in charge of the project in Paraguaná and the first wind power generators in the Paraguaná Peninsula are expected to start operating in September.

**Banks' paper portfolio grew 77.2%.** According to May report by the Bank Superintendent's Office (Sudeban), banks' paper portfolio recorded a year-to-year increase of 76.5%, with VEB 192.41 billion. Banks' total holding of State papers raised 62.8% with respect to May 2011. In total, this portfolio, which is shared by 5 banks, accrues VEB 56.42 billion, whereas that of private Banks has been 76.9%, equivalent to VEB 78.27 billion divided among 21 private banks.

**Public deposits grew 52.3%.** In May, savings deposits hit VEB 104.29 billion, up 1.9% on a month-to-month basis and 52.3% on a year-to-year basis. Time deposits gained 10.0% in the month to VEB 4.1 billion, but contracted 64.8% over one year. Current account deposits totaled VEB 362.62 billion, accounting for an increase of 5.1% from April and 69.7% over the past 12 months.

**Banks will purchase bonds to meet mortgage portfolio requirement.** Banks will comply with the mandatory financing levels that they have to earmark this year for mortgages, by purchasing a lot of bonds worth VEB14.64 billion, which will be issued by the Simón Bolívar Fund for Reconstruction. The bonds mature in 8 years, have an interest rate of 4.6% and will be purchased by banks through three operations, the first of which (40% of the total) will take place this week.

**Being big is a sin.** Jorge Botti, Fedecámaras' president, explained that all legislations in the world punish monopolistic activities rather than monopolistic structures. *"You can have a very big company with a huge share on a specific market, but if your behavior is not monopolistic, you cannot be punished; it isn't your*



*fault that you do things right. That is not provided for by the Law, which punishes you for the mere fact that you are big.”*

**Less space for the private sector.** Botti also stated that, with the new Law, the State is taking more space from private initiatives every day, “...instead of opening more spaces for many more companies, greater competition and for consumers to be sovereign in terms of economic relations.” On the contrary, the State only protects the “State’s monopoly” with the excuse of strategic areas. Botti noted that fortunately this instrument is being discussed by the National Assembly instead of being enacted through the special powers law.

**Puerto Cabello is chaos.** Fedecámaras’ Jorge Botti warned past Thursday, June 14, that Puerto Cabello Port could be close to “collapse”. Fedecámaras’ president underscored that the number of outgoing containers is lower than that of incoming containers. Likewise, Botti recalled that in times of political conflict, modernization and decentralization of ports continued, which resulted in merchandise nationalization times of 48 hours. Today, these times could range between 12 and 15 days and the mobilization of load could even take 25 days, Botti explained.

**Cadivi is only for big companies.** José Cinirella, vice-president of the National Chamber of Auto Parts Businesses (Canidra), pointed out that foreign currency allocations by Cadivi have been mostly granted to big companies in the sector, to the detriment of small and medium-sized firms. These companies have had to resort to Sitme which has a low daily average that is not enough to cover import needs, Cinirella pointed out.

**VEB 3.0 billion for the agricultural sector.** President Chávez approved Monday, June 18 VEB 3.0 billion for 92,000 producers, with a view to financing sowing in the next agricultural cycle. In total, 246,000 hectares of land are expected to be sowed with different items, including cocoa, coffee, sugarcane, cereals, and sunflower, among others. Funds come from the Special Agricultural Fund Ezequiel Zamora.

**“Reloaded” agricultural plan.** Based on the Nation’s Socialist Plan for 2013-2019, President Chávez is betting for the *Gran Misión AgroVenezuela* to increase availability of domestically produced food. Sowing lands are expected to grow 42%, food production, 45% and cereal production, 70%, among others. In the new plan, the same policies are recycled: support by the State and private banks for the development of infrastructure for small and medium-sized producers, scientific-technological assistance, access to agricultural machinery, rural road network programs, etc.





**Funds to nationalize Sidetur were approved.** President Chávez approved Monday, June 18, two credits, including US\$21 million from the National Development Fund and VEB 298 million to be lent by public banks, to complete the nationalization process of Siderúrgica del Turbio (Sidetur)<sup>3</sup>. Chávez said that *“this money is to complete expropriation, payment and relaunching of Siderúrgica Nacional, which we are creating from former Sidetur.”*

**Slaughterhouses are stuffed with foreign cattle.** Local beef producers complain about the lack of shifts in slaughterhouses, because these plants are absolutely filled with beef imported from other countries, while mild producers state that they’re losing 5 bolivars per every liter of milk. Cattle farmers assure that the administration imports meat “recklessly” and not to cover production deficits.

## World Economy Tips

**The course of global economy is decided in Mexico.** Armed Forces’ ships and soldiers deployed throughout beaches and roads are watching since a few weeks ago the G20 summit, which took place past Monday and Tuesday in Los Cabos, Mexico. The Group, which is one of the most important discussion forums of global economy and gathers 20 of the most powerful countries and accounts for 85% of global GDP, met to discuss actions to be undertaken in view of the new global financial storm.

**Greater bank cooperation in the European Union** was one of the measures proposed by Germany, which presented a draft document that included commitments to a “more integrated financial architecture” in the monetary union, which would include a common bank oversight and firm guarantees to pay banks’ clients. This could contribute to break the vicious circle among heavily indebted countries that rescue illiquid financial institutions and aggravate sovereign debt issues, thus deepening the euro zone crisis.

<sup>3</sup> The nationalization process of Sidetur, which is a company engaged in the manufacture and marketing of steel products, began in November 2010, allegedly based on the strategic nature of the company because it dominated 40% of iron bar production nationwide. Sidetur has six plants located in Caracas, Guarenas (Miranda), Valencia (Carabobo), Barquisimeto (Lara) and Puerto Ordaz (Bolívar) and according to figures released by the Ministry of Basic Industries, iron bar production grew 137.6%, from 50,412 tons between January and March 2011, to 119,793 tons throughout the same period in 2012.



**Barack Obama met Angela Merkel**, who as leader of the major European economy is under strong pressure to commit further resources to support the monetary union and avoid a catastrophic rupture. Merkel's stance hinted that Germany, which has rejected initiatives that could expose it to the cost of bailing out banks outside its borders, is opening to the idea of greater cooperation by banks.

**“Frankly, we do not come here for lessons”** in terms of democracy or in terms of how to manage our economy, said European Commission President Jose Manuel Barroso, who didn't hide his frustration for pressures on Europe to act swiftly. He warned that it will take time for 17 democracies to reach an agreement on how to strengthen the Union.

**Some aren't still bored with Syria**, including Barack Obama and Vladimir Putin, who shared their fear that the UN peace plan could fail. Both agreed that violence in the Arab country should end, without offering solutions or showing any signs of agreement on the possibility of further sanctions against Damascus.

**Greece elections; a relief for the euro zone.** However, “the crisis remained unresolved” according to Fitch Ratings. Victory of the pro-EU New Democracy party lowered the risk of a disorderly default and the scenario of a euro zone exit, but it also warned that any new government in Athens was likely to be fragile due to the narrow victory.

**Negotiating bailout terms.** Antonia Samaras, Greece's new president elect, who campaigned promoting a review of the terms of the pact with the EU, will propose easier bailout terms. Angela Merkel said she could not accept any relaxation of the austerity measures and deep structural reforms to which Greece pledged as a condition for two rescues of the European Union and the IMF totaling 240,000 million euros.

**Greece to take harsh austerity measures.** Cutting back public deficit by €11.7 billion within four years is one of the conditions. According to the winner of Greece elections, this has brought about “crushing unemployment and immense hardship,” fueling frustration and anger of Greece people given the hard austerity measures agreed upon by Berlin and its partners.

**Sigh of relief for Europe stock markets at Greek elections.** European stock exchanges were relieved on Monday at the victory of the alliance that supports the international bailout in Greece elections, which was investors' most immediate concern who, however, quickly lost their optimism due to the difficult situation in Spain, Italy and now also Cyprus, a country that also hinted to the possibility of requesting bailout.



**Markets hit Spain harshly**, which now should pay 22 basis points more to access debt markets with 10-year obligations, reaching a record high of 7.15% since the creation of the euro zone 13 years ago. Let's remember that Greece, Ireland and Portugal requested their respective bailouts once their responsibilities exceeded 7%.

**Spanish Debt one Notch above Junk.** The credit ratings agency Moody's Investors Service cut its rating on Spanish government debt by three notches, saying the newly approved euro zone plan to help Spain's banks would increase the country's debt burden. The agency stressed Spain's "very limited" access to international debt markets and the weakness of the national economy. The rating is on review for possible further downgrades.

**Tightening belts.** The World Bank (WB) warned developing countries about the effects of the intensification of the European crisis, which would translate into a long period of volatility on global financial markets and slower growth.

**Let's focus on the long term.** Signaling to a global growth slowdown for 2012, to 2.5% levels, Hans Trimmer, director of the World Bank's Prospects Group, assured that the difficult situation in global capital markets and the little investors' confidence will make it difficult to shape economic policy. Trimmer urged developing countries to focus on infrastructure investment and reforms, instead of "*reacting to everyday events in world economy.*"

**México joins talks with Asia.** Mexico expressed its interest in joining negotiations of the Transpacific Alliance which includes Australia, New Zealand, Peru, Chile, Singapore, Malaysia, Vietnam and Brunei, and possibly the US, Canada and Japan. Felipe Calderón, outgoing President of Mexico, stressed that the initiative "*is one of the most ambitious of the world*" and that it's a convenient tool for the Mexican economy to grow and create jobs in times when global economy is slowing down.

**Dogs go bill-hunting.** The new exchange control regime implemented in Argentina has a new weapon: dogs that detect bills. This is the most recent attempt to curb the flight of dollars and euros that have not been declared at customs and airports.





## Political Tips

**Capriles:** *“What happened to participatory democracy?”* He asked this during a speech relative to the 14 laws sanctioned last Friday. The candidate to President criticized the fact that the Government sanctioned these laws without informing the Venezuelan people, and added that the Executive power *“buried participatory democracy; the debate with the people to make laws no longer takes place, they are now imposed”*

**The Constitution doesn't fit Chávez.** Vladimir Villegas, former Chavez-ally and former ambassador in Brazil, affirmed that the President has decoupled from the Constitution and that *“the Government's shoe size is bigger than the Constitution's”*, referring to the acrobatics that the Government is currently performing *“to stretch it in its ambition of power and control”*

**Now it was Calabozo's turn.** Among horses, tractors and a big crowd, Henrique Capriles criticized President Chavez's government plan from Calabozo, Guárico State; he affirmed that the President talks *about “saving the planet and the human race”*, but what he proposes is *“to solve the country's problems”*. He also criticized the announcement concerning to the launch of a second Venezuelan satellite by affirming that *“Chavez wants to govern from space”*, while he promises to commit to the country's true problems.

**Capriles offers 11.000 new jobs.** The candidate offered to create 11.000 new jobs for Guárico's inhabitants as a component of a plan to boost agriculture, which includes credits, know-how transfers, security and respect to private property. He contrasted his plan to the current administration by talking about Agropatria, *“a former enterprise expropriated and re-named by the State, and of which nothing remains today”*.

**Refuses to debate.** President Chavez dismissed the possibility of a debate with the opposition candidate, for which alleged that *“is embarrassing something like that, because what there is, is nothing”*. It's clear, that accepting a proposal for discussion would be “lowering” to the level of his opponent, something that does not suit him at all. He addressed the opposition representatives, calling them *“sack of scorpions and snakes”* and describing the proposal as *“unseemly”*.





**Recycled promises.** To exploit the potential of agricultural production, to build industrial parks, to impulse the Corporación Venezolana de Guayana (CVG) and the energetic power of the Caroní river through new hydroelectric projects and to produce six million barrels of crude per day (only 2,9 million b/d were produced in 2011) were some of the promises made by the current Head of Government in 2001 and have been recently pulled out from the bottom of the drawer to give content to his economic plan for 2013-2019.

**Venezuela will now produce weapons and spy drones.** An agreement signed by President Chavez contains Iranian support in the production of a rifle model (called "Catatumbo") and spy drones (called "M2"). The alliance with the Persian country, boosted by frequent travels between the countries, mysterious shipments and huge financial transactions has called the attention of neighboring countries like the United States and international organisms.

**The unified electoral card, now with a face on it.** 16 political organizations joined the alternative of using the unified electoral card presented by the "Mesa de la Unidad Democrática (MUD)" as an option to avoid the "filter" caused by political organizations and to attract the votes of those sectors that aren't identified with the political parties. Only two political organizations, Un Nuevo Tiempo and Primero Justicia, will run on their own acronyms.

**Chávez:** *"if I had wanted to expropriate everything, I would have done it already"*. That was the answer of the President to those who criticize him of destroying the private sector. In a calmed speech, he invited the middle class to *"think better what is good for them"*, reminding that it was his government who protected them from the "real estate scams", while the exchange controls protect the country from those who "want to take the dollars out of the country"; as it happened in the past.

**Champions in changing parties will have a new party for themselves.** The creation of the "Movimiento Avanzada Progresista" (Progressist Advance Movement) by Henri Falcón has the goal of "regrouping the left", in an attempt to attract the ex-chavistas like the governor of Monagas State, "El Gato" Briceño.

**Who gets the prize?** The noisy entrance of "El Gato" Briceño in the lines of the MUD complicates the electoral scenario in Monagas, since he will have to struggle with Soraya Hernández, the MUD-candidate chosen in the internal elections in February, who assures that her leaving the elections *"is out of discussion"*. If a consensus is not reached and both run for the seat, the risk of losing the state to a chavista candidate increases.



**Salas Feo: “the Cubans have taken VEB 900 million from Puerto Cabello”** in the last three years because of its 49% share in the administration of Bolipuertos, the entity in charge of managing the commercial entry ports of the country. He added that the Cubans control 80% of the food imports to the country, which is to him a slap in the face of the Venezuelan people, who might benefit of this money to solve their own problems.

**Venezuela can't win anything with the Ciadi.** Saint-Gobain Performance Plastics Group joined the group of around twenty complainant companies to Venezuela in international courts because of the nationalization of its Venezuelan subsidiary, Norpro de Venezuela C.A., back in 2010. Nevertheless, the position of Venezuela towards this issue is still unclear because its Head of Government announced last January that the country would leave this organism.

**Venezuela, the most corrupt country.** A survey that included 402 enterprise leaders in Latin America shows that Venezuela, followed by Bolivia, Argentina and Mexico, would be the country where the impact of corruption is felt the most. In the region, this perception would have increased since 2008 with the improvement of Chile and Uruguay's performance in this evaluation.

## Legislative Tips

**Last minute.** Vice-President Elías Jaua informed that two days before the expiration deadline of the Special Powers, on Friday, June 15, eleven new laws were enacted in a special Council of Ministers. Jaua explained that the Organic Law for the Transfer of Competences, Services and Powers to the Communities was enacted for governor's and mayor's offices to progressively transfer competences in production and service rendering matters to the “organized people.”

**54 laws in a year and a half.** Other laws enacted include the Organic Tourism Law, the Reform of Housing and Habitat Regime, the Law for Determination of the Fair Price of Real Estate Property, a reform of the Law of the Agricultural Sector, the Law for the Development of the Labor Law concerning Pension Funds, and a Law to rule and facilitate co-management of joint ventures, among others. Jaua informed that with these new eleven laws, the number of laws enacted in a year and a half through the Special Powers granted to President Chávez amounted to 54.



**Of the 54 laws passed**, 35 were reforms to existing laws and 19 were new laws, Elías Jaua stated. The Vice-President assured that the mechanism served to assist families in refuges, build homes, rehabilitate areas and roads affected by rains and compensate producer that had lost their crops.

**What Jaua didn't explain is what do the** reform of the of the Criminal Procedural Code (COPP), the Organic Labor Law (LOTTT), the Law on Fair Costs and Prices, the Organic Law of the National Bolivarian Armed Force and the Law on Bank Institutions, among other legal instruments, have to do with the emergency provoked by rains in late 2010, which was the excuse the former National Assembly wielded to grant President Chávez special powers.

**All powers in one.** Although the Constitution is clear when it warns that the President is the head of the Executive Power, whereas the Legislative Power is led by the National Assembly (AN), since 2001, when in the first of the four Special Power Laws that Chávez has been granted to legislate, the Supreme Tribunal of Justice (TSJ) allowed him to sign organic laws, the President has led both branches of power. In the first 18 months of the Special Powers Law that the AN granted on December 17, 2010, Chávez enacted 35 laws, 8 of which are organic. The National Assembly that assumed in January 2011 has only passed 13 laws: 8 in 2011 and 5 in 2012, of which 6 were organic laws.

**Joint ventures swell public sector.** The new Organic Law of Public Goods, passed through special powers, provides for that companies in which the State has a stake equal to or higher than 50% are considered part of the Public Good System and will be monitored by a guiding entity, the Superintendent's Office for Public Goods. Joint companies, states, municipalities, autonomous institutes, as well as communal indirect social property companies, the BCV, the overall financial public sector as well as public universities fall within this category.

**Causes multiply, fines are reduced.** As to the partial reform of the Law on Housing and Habitat Regime, also enacted through special powers, the number of causes to fine employers and financial operators was increased; however, the amounts of some fines were cut. The employer that doesn't comply with the obligation to pay contributions to housing savings funds must pay a fine of 10 tax units per unpaid contribution. In contrast, the previous law provided for fines of 200 tax units.

**COPP reform retakes postulates of the 4<sup>th</sup> Republic.** The reform of COPP, enacted by President Chávez through the special powers law resumes premises of the extinct Criminal Processing Code, which didn't provide for innocence presumption, experts have warned. Furthermore, they add that legal authorities, in



particular the TSJ, didn't make the investment required to adapt the administration of justice to the new model.

**It's not my fault.** Representative Juan Carlos Caldera, when referred to the reform of the Criminal Procedural Code, stated that it's regrettable that every time President Chávez is faced with the lack of personal security he *"looks everywhere to see who he can blame; this is the sixth time he blames the COPP,"* adding that the COPP has been reformed 6 times throughout President Chávez' term.

**Goods of people accused of severe crimes who flee the country will go to the State.** Some of the novelties introduced in the reform of the Criminal Procedural Code include on according to which properties and funds belonging to individuals charged with drug trafficking, money blanking, attempting against the financial system or public goods and other severe crimes, which have been seized by the authorities will pass *"immediately and definitely"* to the State in the event that the suspects flee.

**Law on Disarmament will be discussed in plenary session.** At June 19 plenary session, the first discussion of the Law on Disarmament took place. Representative Juan Carlos Caldera (Primero Justicia) underscored that the law was passed unanimously by both pro-government and opposition representatives of the Defense Committee and the Interior Politic Committee. Caldera also referred to the need of a proper implementation of the law by the Administration.

**Weapons will be rendered unusable before being destroyed.** The draft law on Disarmament and Weapon and Ammunition Control that is being prepared by the AN Mixed Committee contains an article that establishes that firearms confiscated by law enforcement entities will be rendered useless before they are destroyed, Freddy Bernal, chairman of the Mixed Committee for Control of Weapons and Ammunitions of the AN, explained. Furthermore, Bernal stated that people trafficking with weapons and/or ammunitions in prisons will be punished with 8 to 10 years in prison.

**Draft law to prevent and punish torture was passed.** On June 12, the AN passed in its first discussion the draft Special Law to Prevent and Punish Torture and other Cruel, Inhuman and Degrading Treatments. This law is aimed at punishing, sanctioning and preventing the use of force by law enforcement agents against any citizen.

**The Bank of Alba under discussion.** At the plenary session held on Tuesday, June 19, the NA discussed the draft Law Approving the Agreement between Venezuela and the Bank of Alba for the second time. Representatives discussed the headquarters, immunities and privileges of the new bank, created in 2008, and



ratified by Venezuela in 2009, which started operations in August of the same year in its headquarters at Caracas.

**Agricultural credits for up to VEB 900,000 will be forgiven.** In the package of laws that President Chávez enacted one day before the expiry deadline of the Special Powers, laws that govern payment facilities, restructuring or forgiveness of loans granted for the production of strategic products that have been affected by climate factors since 2007 were included. People with loans that have matured when the law is published in the Official Gazette and with loans for up to 10,000 Tax Units (VEB 900,000) will be covered by this law.

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**ECONOMIC OVERVIEW**

