



Weekly Report

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*Venezuela:
A country of monopolies?*

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At the end of President Chávez's second term in office and the beginning of his campaign for reelection, the Administration is betting on consolidating its political and economic hegemony through the passing of a number of "last minute" laws aiming to firmly implement the legal framework for its 21st Century Socialism and reach "the point of no return¹."

And along these lines, and on the eve of a new law being implemented that will regulate competition in Venezuela, we will analyze the conceptual

¹ On June 15, just before the Special Power's Law was about to expire, President Chávez, in a Council of Ministers meeting passed 11 laws, among them: the Law for Community Management for Responsibilities, Services, and other Attributes, that establishes that national entities, governors' offices, and mayors' offices, must gradually transfer responsibilities with respect to matters concerning production, maintenance, and providing to communal organizations; the Law to Implement and Regulate Co-management between Mixed companies from the Private and Public sector, where it establishes that the companies where the state has 50% or more participation of capital, they are to be considered part of the System of Public Goods. The State then allows the company to be able to sell its shares to the State and the company passes to the public system, with the bureaucratic benefits that a public company can count on that a private company doesn't have.



foundation of the Law against monopolies and other practices of a similar nature that is currently being discussed in Parliament.

What's a monopoly?

According to this new Law being discussed in Parliament, a monopoly is being defined as *“any situation where a single economic agent in its role as producer, distributor, commercializing or supplying, taking advantage of specific acts or omissions, legal or not, acquires a determined dominance over price conditions, quantity, and characteristics of a specific good or service that it is placing on the market.”*

Also defined is oligopoly, as *“the situation where a limited number of economic agents, with or without an apparent factual connection between them, but conscious of being interdependent in their decisions, hold control over the production, distribution, commercialization of a good, or the providing of a specific services, and in this manner exercising complete control over the price conditions, quantity, and characteristics of said good or service.”*

Both definitions use the word “situation” which leads one to believe that the law is not focusing on the structure but rather the practice of a monopoly. However, further on in the text, the prohibition of *“the operations of economic concentration when these are being used to generate abuses in situation of dominance in the whole or part of an economic space²”* is established, and only with previous authorization from the National Superintendency of Anti-monopoly and Against Similar Practices (SUNAM) may one carry out activities of this type.

So now, what is considered a concentrated economic activity by this Law? All those activities where *“two economic agents or more, decide to integrate the totality or part of their assets.”* At **Ecoanalítica**, we believe that a monopoly, *per se*, is an inefficient market structure and the State should take care to promote laws and regulations to prohibit this predatory practice that creates market entrance barriers and by fixing prices that affect the wellbeing of users and consumers; at the same time correcting any market inefficiencies and creating incentives for free competition.

However, this new Law only includes a number of absolute restrictions against natural structures of any market (especially those with high levels of capital) and not addressing monopolistic or oligopolistic behavior.

² Keep in mind that the word “market” has been substituted in this law by “economic space.”

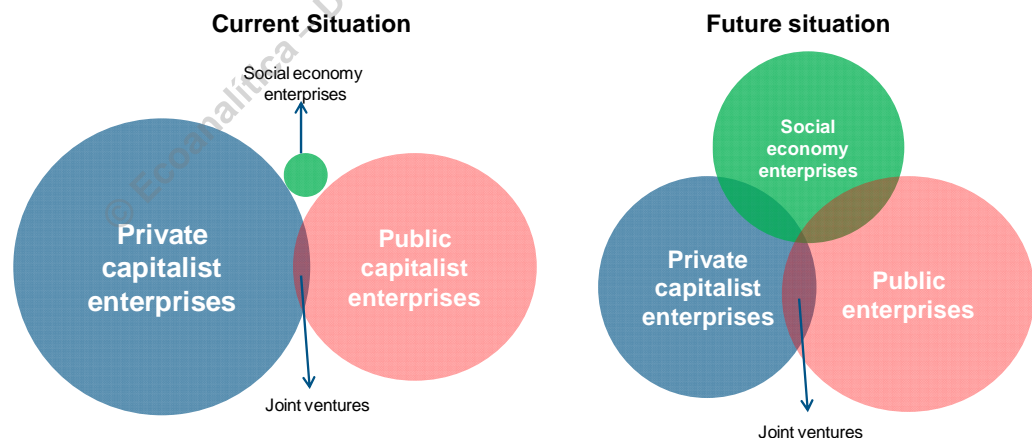




What's the aim of this Law?

Now, being that the restrictions established in this new Law are quite vague in terms of monopolistic practices, we ask ourselves, what's the purpose of this?

The Administration has always been eager to introduce more regulations in its efforts to control the amount of private capital that can be concentrated in strategic sectors, such as the agro-industrial sector and the oil sector. At the same time, the Administration has been insisting that there has to be other forms and definition for property, especially with respect to property related to means of production. Therefore, the powers-that-be have introduced new types of property, such as: social property and communal property. At *Ecoanalítica*, we believe that this Law is basically aimed at increasing the Administration's discretionary power when it comes to initiating procedures against or issuing sanctions to companies, especially those operating in strategic sectors. The Law will also give it another tool by which it can increase the participation of other types of property (social and communal) in the production sector, thereby extending its control into other strategic areas such as the manufacturing and banking sectors³.



Sources: Plan de la Nación 2007-2012 and Ecoanalítica

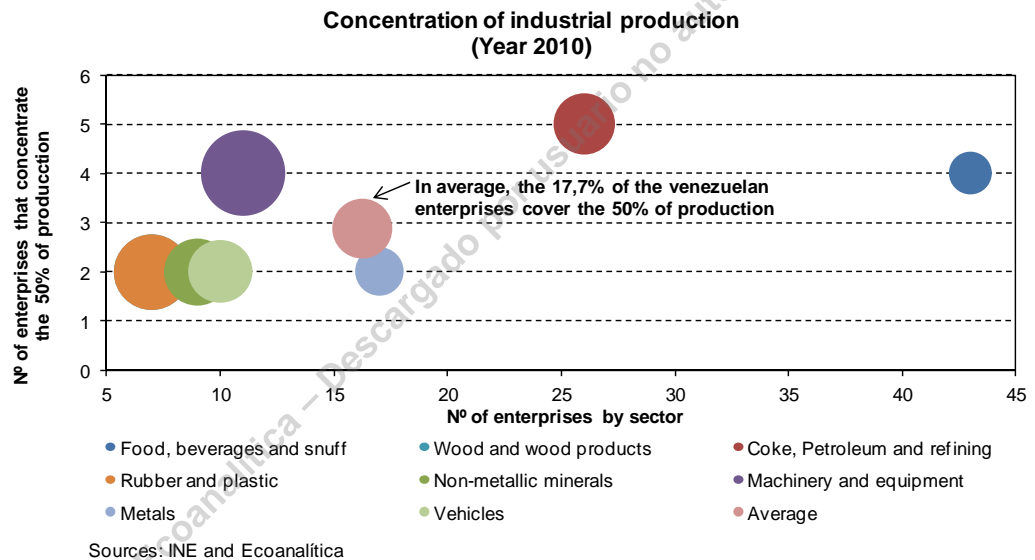
But... are there concentrations?

According to the Survey of Big Industrial Companies carried out by the National Statistics Institute (INE) for the period of 2007-2010, the last survey of this kind available, within the 8 sectors that group the big

³ It doesn't seem to be an innocent coincidence that within the definition of motives in the draft of the new Law it describes "gigantic transnational corporations...in the food, medicine, chemical, and finance sector," as being responsible for the world crisis.



industrial companies in Venezuela, 50% of each sector's sales are controlled by between 2 and 5 companies. The sector that has the most number of companies, the food and beverage sector, that has 43 companies, the 5 largest companies represent 12% of sales, while the sector that has the fewest companies, the rubber and plastics sector, with 7 companies, two of these companies (29% of the total number of companies) represent 50% of sales. On the other hand, the number of companies that represent 10% or less of sales, during the period studied, equaled between 29% and 57% of the total number of companies.



So, as we can see, the Venezuelan economy has high levels of sales concentrated in a relatively few number of companies. However, as the INE's report points out, this is quite common in a number of countries and it is associated with technological advances and the evolution of economies of scale that focuses on cutting production costs and benefitting the consumer. But, as we have mentioned before, Venezuela is a country of small and medium sized companies, which coexist with a few big companies. At **Ecoanalítica**, we believe that the new Law, rather than focus on regulating and sanctioning big companies, should focus on promoting technological development in small and medium sized companies, creating incentives for competition, and prohibit monopolistic practices.

But, as we have already mentioned, with laws like these, the Administration's real objective is to further and expand its control into new strategic areas, such as the manufacturing sector.

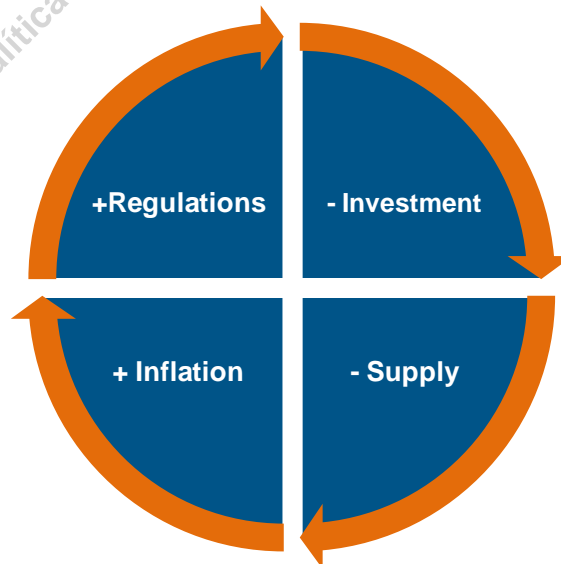


The ghost of inflation

The official discourse, regarding this new law, argues that this law will help control inflation since *“industrial monopolies and oligopolies distort the markets of supply and demand in Venezuela; and these companies exaggerated profits are what cause inflation in Venezuela,”* according to William Contreras, officer of the Superintendency of Prices and Costs (Sundecop).

From this point of view, then one can assume that if this new Law is passed, that it will become another institutional mechanism for the Administration to control prices, alongside the Sundecop and the Indepabis. With this, the Administration will further control the private sector, increasing its power and the discretion it has to issue sanctions and fines, increase legal insecurities, and creating another reason for investors to shy away from the Venezuelan market. And this, in the long run, will have a negative effect on the supply of goods and services, which in turn will lead to higher inflation and shortages, and an increased dependency on import. In other words, pretty much the same as what's currently happening in the market.

Vicious Circle of Inflation



Source: Ecoanalítica

What about the private sector?

The new Law that is currently being discussed in the National Assembly (AN) does not include state-run companies within its regulatory framework. So, if what we expect to happen, that the Administration is looking to

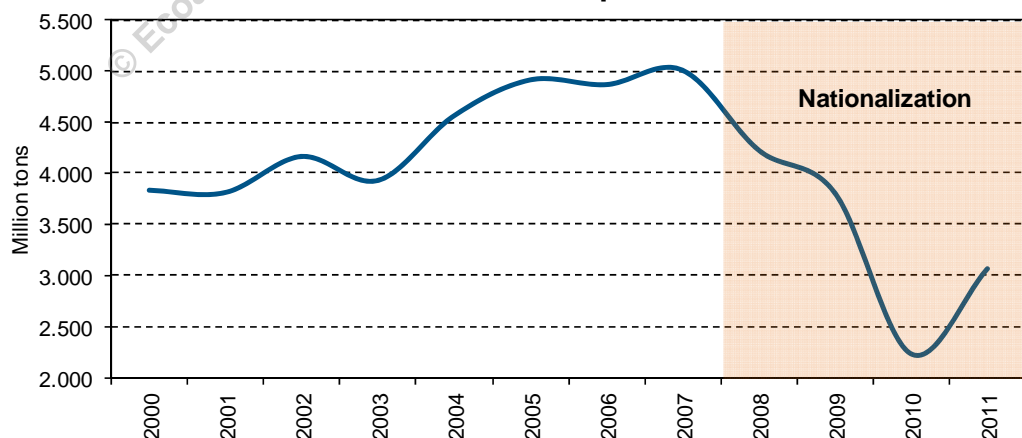


intervene in more sectors of the economy, happens, then the outlook for the market is not looking good.

Because, the truth of the matter is that most of the state-run companies have not turned out as desired and are not able to cover the needs of the consumer, or provide healthy competition with the rest of the economic agents. Quite the opposite, state-run companies have demonstrated monopolistic behavior, expanded their territorial control, competing with prices below production costs, which makes it virtually impossible for new players to enter the market, in addition to the bureaucratic and exchange advantages of enjoying.

But all this doesn't seem to matter, since the Administration puts its political concerns and objectives first, and whether a state-run company is efficient and produces second. This is why virtually all of the state-run companies are not even able to maintain a level of self-sufficiency, not even remotely getting close to generating profits; and therefore, they all end up extremely in debt and totally dependent on government subsidies (which in turn, depend on oil revenues). This lack of operational efficiency and ability to meet production quotas creates serious problems with the supply of goods and services for the domestic market, thereby leading to an increased dependency on imports.

Venezuelan steel production



Sources: World Steel Association and Ecoanalítica

More competition and fewer monopolies

In conclusion, if the new Anti-monopoly Law is approved, one can expect the Administration to continue to expand the political and economic power of the State. At *Ecoanalítica*, we believe that economic legislation should



be focused on increasing the confidence of economic agents, creating more incentives for investment and employment, looking to diversify production, and thereby reach higher levels of economic growth. We believe it's counter-productive to concentrate most of the country's industry in the hands of the State (state-run monopolies) and to subjugate the rest of the other companies in the market. The Administration must focus on creating efficient institutions and solid legal security, and not undermine the nation's bases for production.

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Economic Tips

June inflation at 1.4%. According to the figures released by the Central Bank of Venezuela (BCV), the National Consumer Price Index (NCPI) registered a slowdown for the month of June setting at 1.4%, which translates to a year-to-year variation of 21.3%. According to the BCV's press release, this is the lowest year-to-year variation since this CPI index, began to collect data nationwide.

Inflation figures broken down by regions. Of the 11 cities surveyed, 8 reflected drops in their month-to-month rate, with only the city of Barquisimeto reflecting an increase for the month of June compared to the previous month going from 1.3% to 2.4%; meanwhile, the cities of Maturín and Maracaibo remained at the same rates posted in May, 1.8% and 2.1% respectively. The city reflecting the biggest drop compared to the previous month was Valencia, going from 1.9% to 1.2%.

Shortage index drops. The shortage index dropped for the month of June going from 14.4% in May to 11.7%. This means that out of every 100 products on the market sought by consumers in supermarkets and shops, 12 are not available.

Inflation could close the year out at 15%. The vice-president of the Finance and Economic Development Commission of the National Assembly, Jesús Faría, states that inflation could close the year out at 15% if the current tendency reflected during the last few months holds. "It's a very significant advance that is responding to policies implemented by the Executive Office," stated the economist. Continuing to say that the drop in inflation is due to the regulation and control policies designed to fight price gouging and indiscriminate increases in prices.

Sitme placements picking up steam. The Central Bank of Venezuela liquidated US\$300.7 million last week through the Sitme, the highest weekly disbursement ever since the system became operational, and putting the total liquidated during the first quarter 2012 at US\$4.94 billion, up by 32% compared to the same period in 2011. On the other hand, Cadivi foreign currency liquidations dropped by 3.5%. This turn of events, with Sitme supplying more foreign currency than Cadivi, could be seen as a type of devaluation of the weighted exchange rate and could translate in an increase in inflationary pressures.

Borrowing has accelerated. So far this year, Central Government borrowing has increased by 35%, and despite the fact that oil prices continue to average US\$100/bl,



the government is still continuing to borrow aggressively. According to the Minister of Finance, domestic debt reached US\$ 42.90 billion, up by 58% during the last 12 months, while the balance of the foreign debt is at US\$ 43.50 billion, reflecting a year-to-year increase of 17%.

State companies finance ordinary spending. President Chávez pointed out that indigenous production centers (Misión Guaicaipuro), the network of Socialist Bakeries, and the Cable car in Caracas are contributing to the Socialist Efficiency Fund created to receive profits generated by state-run companies, which are a new source of revenue for the government. Among the companies that have already contribute with their profits is the Banco de Venezuela, which has already transferred its profits to the Administration for VEB 5.20 billion.

Public borrowing limit will not be a problem for public spending. During the first half of the year, the Ministry of Finance has placed 84% of the VEB 64.30 billion of debt offered by the government. It seems that high oil prices and healthy tax collection is not enough to finance public spending. At this rate, the yearly borrowing limit set in the National Budget will be reached by August, but this amount may be increased by indirect means, such as debt issued by other public entities, not the BCV. This would lead one to believe that there are more resources available compared to previous election periods.

National Assembly approved VEB 41.19 billion in supplemental appropriations. So far this year, spending has been authorized equaled to all of 2011, and this has inflated the spending budget for 2012 to VEB 339.71 billion, 14% more than expected. Most of those resources have been used to pay salaries, infrastructure works, and contributions to the Missions. This week, the appropriation to the Ministry of Health for VEB 1.01 billion stood out, with the Ministries of Transportation also receiving VEB 502 million to continue to complete works in progress, among them, the Bus Caracas project.

Where is spending going? Six supplementary appropriations for VEB 1.71 billion were authorized last week to finance works for mass transportation systems such like Metro Cable Mariches, Railway Cable and Bus Caracas, as well as to cover remunerations of 8,164 community comprehensive doctors that work throughout the country.

Will it last forever? Offering a wellbeing sensation is the basis of every election campaign. In this regard, the government began by injecting money in the last quarter of 2011 and took measures like the creation of new social programs and the increase in minimum wage. However, in spite of the government's efforts, consumption hasn't reacted, perhaps because spending is focused on *Gran Misión*



Vivienda (housing program). Notwithstanding, the scenario could become more complicated given major drops in oil prices that could jeopardize the continuance of all these measures from the last quarter 2012 on.

Will Venezuela replace Paraguay in Mercosur? Argentina's President Cristina Kirchner announced past Friday that "*on July 31st, Venezuela will join Mercosur as a full member.*" The bloc also decided to suspend Paraguay, which sends 55% of its exports to other Mercosur member countries, from the common market until elections are held in 2013. Venezuela's accession to Mercosur had been prevented precisely by the Paraguayan Senate, because it is mandatory for the accession of a new full member to be approved by the respective congresses.

Interest rates. The lending rate for the fifth week of June was at 16.6%, decreasing by 1.5 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 11.3% going from US\$25,509 million during the fourth week of June to US\$28,391 million during the fifth week of June. Compared to the same period last year, international reserves have decreased by 2.8%.

Monetary liquidity. Monetary liquidity increased 0.6% in the fifth week of June compared to the previous week, settling at VEB 500.494 million. The M2 has increased 50.6% in relation with the same period last year.

Sitme figures. So far this year, US\$5,242.3 million have been negotiated through the System for Foreign Currency Transactions (Sitme), averaging US\$42.9 million a day, with an implicit exchange rate of 5.3 VEB/US\$; this represents an increase of US\$1,251 million (31.4%) over the same period of 2011, when US\$3,991.1 million were negotiated. Lastly, during the fourth week of June the amount traded reached US\$222 million, traded US\$79.1 million more than last week when US\$301.1 million were traded, with a daily average of US\$43.0 million.





Oil Tips

PDVSA still borrowing. Since mid-2011, oil prices have been over US\$100, which has guaranteed an increase revenue flow; however, PDVSA continues to ask for financial assistance. In addition to the US\$XXX million issue in May, the financial report of the State-owned oil company reveals that in November 2011-April 2012, PDVSA requested loans from the Central Bank of Venezuela and Banco del Tesoro for US\$2.4 billion.

Venezuela will ask for bands. Venezuela will propose an oil price band system at the next OPEC meeting in December, unless the Organization's secretary general calls for a special meeting in the event that global oil prices continue to drop. The proposal calls for the OPEC to commit to operate within a US\$80-US\$120 band for oil price.

Ramírez: "We want an oil price at US\$100/bl." While Venezuela will propose at the OPEC that member countries should commit to work within said band, the Minister of Petroleum and Mining/president of PDVSA, Rafael Ramírez, categorically states that *"nobody wants to see oil prices dropping to the bottom; we want the average price of the band to be one hundred dollars."* Ramírez also stated: *"We are going to wait for the oil barrel price to reach seventy U.S. dollars to sit to discuss on what should be the floor; I believe that US\$80 per barrel is a price that won't benefit anyone."*

"This won't collapse overnight." Rafael Ramírez assures that there is nothing to worry about public finances. According to the Minister, analysts should include in their analyses that average price of the Venezuelan oil basket for the year-to-date is US\$108/bl and that in the worst case scenario, having clear that this won't collapse overnight, we could expect an average price between US\$90 and US\$95 per barrel and the national budget estimates a price of US\$50/bl per barrel.

Will they fulfill the target? The official target for this year is to increase production up to 3.5 million b/d (mb/d). Rafael Ramírez underscores that once the development in the Orinoco Oil Belt is completed, before end-2012, some 160 kb/d-168 kb/d from associations with Petrovietnam, a Russian consortium and PDVSA's own production, should be added to Venezuela's production, which is currently at 3.11 mb/d.

Less Oil to the US. The US Department of Energy reports that between January and April 2012, Venezuela sold an average of 892 kb/d of crude oil and products to the



US, down 12.5% from the average of 1.02 mb/d reported in the first four months of 2011.

The drop is worse in by-products. In the first four months of 2012, an average of 56 kb/d of oil by-products were shipped to the US, down 41.8% from the 97 kb/d shipped between January and April 2011.

Petropar has been paying PDVSA for three years. After three years without receiving any concrete answer and amid a controversial political scenario, Petropar is still looking for ways to repay its debt to PDVSA for US\$265 million, and one of the options it's considering is requesting a loan from Paraguay's Finance Ministry. Sergio Escobar, president of Petróleos Paraguayos (Petropar), pointed out that the deadline to repay the debt to PDVSA is November 11, 2013 and added that last Thursday, PDVSA notified that the contract to supply gas oil, which should be in effect from July to December, had expired.

Escobar: "there won't be any impact". President of the Paraguayan oil firm pointed out that "*the measure won't have any negative impact on the market*" and reiterated that fuel supply from other sources is already being negotiated. Firms will be invited to participate in the bid process within 15 days. "*This won't absolutely affect Paraguay's normal supply, because we have enough stock,*" Escobar pointed out.

Suffering since October. José Boadas, executive secretary of FUTPV oil and gas workers' union, explained that since October 2011, the union filed with the Ministry of Work the respective document asking to begin negotiations of collective contract. However, the end of discussions has been announced on several occasions: it's been more than 8 months since the contract expired and oil workers' wages haven't been increased since more than two years. Likewise, Boadas points out that PDVSA has failed to comply with up to 80% of the past (expired) contract, referring to 14,000 homes that the State-owned oil company didn't build.

International baskets. At the time of foreclosure in New York, WTI was traded on June 29 at US\$79.25/bl, which shows a decrease of 3.5% compared to US\$82.2/bl recorded the previous week. Meanwhile, Brent fell by 2.4% to reach US\$ 91.97/bl compared to the previous week, when it reached US\$94.27/bl.

Local basket price. The Venezuelan oil basket price fell last week to close at US\$86.2/bl on June 29, resulting in a decrease of 4.3% compared to US\$90.1/bl recorded the previous week. Meanwhile, the average of the Venezuelan oil basket stands at US\$ 107.8/bl.



Business Sector Tips

Approved control on prices of pharmaceutical drugs. President Hugo Chávez approved past Friday a project that provides for controlling prices of drug products by the National Superintendent's Office for Costs and Prices, after conducting a cost study and determining the value of products of this sector.

Backlogs at Cadivi: the same old story. Manufacturers of products controlled by the National Superintendent's Office for Costs and Prices (Sundecop) continue to report difficulties to obtain foreign currency. Businesses have stated that in spite of the different meetings held with members of the government and representatives of Cadivi, the flow of dollars doesn't improve. *"If foreign currency are not allocated this week, the availability of raw material required for August will be complicated,"* an entrepreneur that preferred to remain anonymous told *El Universal* newspaper.

Although they recognize that complaints are heard. Businesses recognize that when complaints have been filed with Cadivi, the entity has swiftly answered and are confident that foreign currency allocation process is going to get normal. However, they point out that Cadivi is taking between 70 and 100 days to approve payments in dollars, which is much longer than times taken past year.

Automotive industry also. Ignacio Mayz, marketing and sales manager of Toyota de Venezuela, informed that currently Cadivi is taking up to 90 days to approve foreign currency settlements. Although Mayz assured that "alarms haven't still turned on," he recognized that delays in the allocation of foreign currency represent a problem, because credits with parent firms can be stopped. However, Toyota believes in the Venezuelan market and expects that 20,000 units can be sold this year.

Dynamism in interbank market. The sum lent through the interbank market amounted to VEB 16.75 billion in June, up 125% from May and the highest amount over the past 14 months. This can be attributed to the fact that small banks have committed their liquidity through the mandatory purchases of government bonds; therefore, they have to resort to the interbank market and finance with the largest ones.

Public banks aren't exempted. Financial sources explain that, paradoxically, public banks have also been forced to resort to the interbank market, which after being



obliged to purchase a significant amount of bonds and letters to the Ministry of Finance, have lost liquidity.

Will the national power system see the light? Pedro Pablo Pinto, head of the Electric Engineering School at the Universidad Central de Venezuela, believes that the system “has remained stable,” after 2010 power crisis and the approval of huge resources earmarked for the strengthening of the fundamental areas of the national power system over recent weeks, either due to the heavy rains or high temperatures. This has resulted in the recurrence of power outages and rationing in the country’s Andean states, and eastern and central states.

Sugarcane production remains constant. Production of sugarcane for 2011-2012 season concluded and harvest from the 16 sugar processing plants in Venezuela (10 public and six private) was 5,254,988 tons. This year’s production remained almost at the same levels of the prior harvest in 2010-2011, and dropped 10% in comparison with 2009-2010 harvest, 81% of processed sugarcane in 2011-2012 harvest came from private sugar plants.

Potato growers in emergency. Given the non-compliance of agreements signed between the government and potato growers to stoop the import of 3,150 tons of potato from Ecuador, farmers declared the sector in emergency. Producers will set a deadline for them to be invited to dialogue; otherwise, they will take protest actions.

Alarms on the new Law on Public Assets start to sound. According to the construction by the Chamber of Commerce of Puerto Cabello (CCPC), article 40 of the new law supersedes articles 67 and 71 of the Organic Law on Customs, because it provides for that the control over “merchandise that is declared abandoned,” will be transferred to the National Treasury through an Transfer Order issued by the Superintendent’s Office on Public Assets. The Chamber urged importers and customs agents to prevent loads to be declared in condition of legal abandonment, because “at this time, we have not any assurance that we might recover them.”

Everybody with digital TV. The installation of 13 digital TV transmitters coming from Argentina will open the possibility for 50% of Venezuelans to enjoy open digital TV signal from the last quarter of the year, Minister Jorge Arreaza announced. “*This year, we will have the signal to guarantee access in 13 cities and over the upcoming years, all Venezuelans will have access to digital TV.*”

The State will have priority. According to information provided by government officials, once the technological platform (the State will own and administer the broadcasting system) is installed, broadcastings through the National Public Media System will begin (only State-run audiovisual media) and later, all (private)



broadcasters will be authorized to provide the service. Private broadcasters should adapt their sets and cameras to digital technology to move to the digital system within one or two years, Arreaza pointed out.

World Economy Tips

The EU to rescue banks. In a summit in Brussels, euro zone leaders agreed to use their permanent bail-out fund and directly recapitalize banks in crisis, mainly Spanish banks, and thereby alleviating pressure of markets on debt in countries in Southern Europe. This kind of measures allow for momentarily regaining confidence on the European financial system, but devising a plan to put an end, once and for all, to the euro zone crisis, is necessary.

Record unemployment figures in the euro zone. Unemployment rate in Europe jumped to more than 11%, while almost one fourth of the unemployed population lives in Spain and Greece. In an attempt to give a boost to growth and employment in the region, last week, leaders from the European Union agreed to spend another US\$150.0 billion to try to boost growth and create new jobs; however, this amount doesn't appear to be enough.

G-20 supports decisions made by the European Union. Measures announced at Brussels' summit, intended to maintain financial stability within the region, were described as positive by G-20. Euro zone countries that belong to G-20 committed to take all political measures required to safeguard integrity and stability of the euro zone, improve the operation of financial markets and break feedback between sovereigns and banks. Additionally, they pledged to swiftly undertake measures to underpin economic growth.

USA: higher income, but consumption doesn't react. Personal income grew 0.2% in May, driven by the 0.8% increase in interest revenues and 0.6% in benefits received, whereas the weak employment growth didn't allow wages to be increased. Furthermore, consumption fell by 0.1%, after a 2.5% drop in expenditures in motor vehicles and in spite of the 1.5% increase in gasoline consumption. It would be worth investigating on the size of the population that is benefited from increases in profits and interests, because these variations don't appear to be having any impact on consumption.



U.S. investors still expectant. Given the poor performance of Chinese economy and the European crisis, U.S. investors will be looking for signs of collateral damage when, in the upcoming weeks, companies present their quarterly reports. In May, consumption remained unchanged, thus indicating that consumers, as well as many investors, remain cautious. This has led some analysts to revise their growth prospects downward from 2.4% to 2.1%.

Latin America, a new market for China. China's Prime Minister Wen Jiabao offered a US\$10.0 billion credit facility and proposed a free trade agreement between China and Mercosur, which has been strengthening its trade relations with the Asian giant. China is trying to focus its efforts on emerging markets, given the backward step experienced with its traditional markets, so as to take advantage of the opportunities to invest some of its vast reserves. This situation would favor Latin American countries, which could take advantage of the investment flow and the experience of Chinese companies.

Chinese banks, the world's most profitable. Chinese banks generated 29% of total bank profits worldwide, in comparison to 4% five years ago. In contrast, European banks only accounted for 6% of global profits. These changes are certainly evidence of the different environments faced by financial entities in China (high liquidity) and Europe (uncertainty, with an unbalanced financial system).

Economic slowdown impacts Brazil. The slow growth of global economy, the effects of which are transmitted to Brazil through trade flows, investment flows and changes in entrepreneurs' and consumers' confidence, could slow down further. We could possibly continue to see cutbacks in interest rates, to face this situation. Interest rates could get to levels of 7.5% and inflation could exceed the target set by the Central Bank of Brazil.

Political Tips

Presidential campaign starts with a true tie. What before was a technical tie is now a true tie, according to Saúl Cabrera, vice-president of Consultores 21 pollster firm. The last study conducted by this firm reports that president Hugo Chávez has a vote intention of 45.9% vs. 45.8% of Capriles. The election campaign will apparently start balanced, at least concerning vote intention.



Venezuela's accession to Mercosur should leave us real income. Presidential candidate Henrique Capriles considers that Venezuela's accession to Mercosur should be a "positive opportunity" in benefit of the entire population. Capriles pointed out that we "*can be more than mere oil exporters*" and that "*with the current administration's model we are importers only while others are benefited;*" he finally underscored the need to develop local production.

Chávez makes a call to abide by election rules. Chávez urged his followers to respect rules applied by the National Electoral Council. President Chávez reprimanded Governor Tareck Willian Saab when this latter talked about the election date on a national TV and radio broadcast; he also urged his supporters to fully abide by the rules established by the election arbiter and "*give an example of respect for election rules.*"

For now, Chávez won't be subjected to new treatments. President Hugo Chávez assured that new treatments aren't foreseen "*for the time being*" to fight the cancer he's been suffering since a year ago, adding that "*I already did what I had to do,*" Chávez, who had been distanced from media and now is starting a campaign in the search for his third term in office, added that "*at this time, I haven't foreseen any of that in the horizon I see and think about.*"

Let's convince the undecided. In his speech to open election campaign, President/candidate Hugo Chávez underscored the necessity to "*convince the undecided,*" those that are confused by the campaign and new voters. "*Let's go get them,*" Chávez reassured. President Chávez pointed out that since 1998, this is the election campaign that he has started under the best conditions and that he will win October 7th elections by a difference of 4 million votes.

20,000 voters were officially relocated to New Orleans. The National Electoral Council (CNE) officially relocated to New Orleans 20 thousand Venezuelan voters, who were initially registered to vote at the Venezuelan Consulate in Miami before it was closed on January 16th. In this regard, President Chávez pointed out that solving this problem is beyond his powers and that the Consulate was closed because the U.S. administration expelled the Venezuelan Consul. Candidate Henrique Capriles, in turn, said that this is just "*a further obstacle that we'll overcome on October 7th.*"

Opportunism or advantage? Representatives of Comando Venezuela (Capriles Radonski's election campaign command) have charged pro-government parties with promoting President Hugo Chávez' candidacy with public funds. And justifiable so; State-run media, radio and TV national mandatory broadcasts and institutional ads are in favor of Chávez, in addition to the fact that TV channels with the highest ratings, Televen and Venevisión, have given up the resistance they have against



Chávez. Charges were answered by Diosdado Cabello, president of the AN, who assured that *“this is not a matter of opportunism, but advantages.”*

Globovisión paid fine imposed by CONATEL. *“We’re paying this fine under protest,”* María Fernanda Flores, vice-president of Globovisión, claimed, after presenting to the Political-Administrative Chamber of the Supreme Tribunal of Justice the payment of VEB 9 million corresponding to a fine imposed by Conatel on the grounds of having broadcast messages that *“could instigate anxiety”* during the events at “El Rodeo” prison.

Capriles commits to help the forgotten. In a visit to Kumarakapay, a village close to Santa Elena de Uairén, the presidential candidate Henrique Capriles assured that he has plans to start his campaign in small and far-away communities and that his commitment *“is to the forgotten,”* to people from *“those places where needs are bigger.”* Capriles added that he’s going to work tirelessly to gain confidence of all Venezuelans.

Legislative Tips

Car sales to be controlled. Elvis Amoroso, chairman of the Permanent Committee on Interior Politics of the National Assembly, announced last Friday that a draft law to regulate and control car sales in the country is to be presented in response to speculation practices being observed in this sector. *“At this point, we can say that roughly 2,500,000 families have been swindled by 289 car dealers throughout the country. Each family has been robbed between VEB 100,000 and VEB 150,000, depending on the case, due to surcharge,”* Amoroso pointed out.

Conatel: Fine against Globovisión to finance the Social Responsibility Fund. Pedro Maldonado, Conatel Director General, said that the VEB 9,394,314 fine, plus default interests accrued from January 1, 2012 up until now, paid by Globovisión, will be applied to the Social Responsibility Fund, the entity that finances Independent National Production Projects (PNI). PNI projects that are evaluated and financed from the Fund will be given a renewed boost and that is welcomed; therefore, PNI producers are being invited to present their new TV and radio projects.

TSJ reviews home renting law. The Constitutional Chamber of TSJ admitted the stay requiring the annulations against one of the interim provisions of the Law on



Regularization and Control of Home Rent, which is in force since November past year. This resource was presented by Roberto Orta, president of Asociación de Propietarios de Inmuebles Urbanos (Apiur) (an association that gathers owners of city properties), who demanded the annulment of the fifth interim provision of the Law, according to which homes that are in buildings intended for rent must be sold⁴.

The National Assembly commemorated 201 years. An extra ordinary session was performed on Thursday July 5. Activity held in the Federal Legislative Palace at 9:00 am. It marked another year of the signing of the Declaration of Independence and, as every year, held the traditional parade on the seafront The Heroes in Caracas.

The approval of the Religions Act could be the solution. *“Evangelical churches in the country face problems regarding the procedures that exist in some states for legalization”*, as expressed by the national director of Justice and Religious Affairs of the Ministry of Interior and Justice, Berenice Bernal. She said the object of the law is to unify and create a harmony among many resolutions out there. Bernal believes that all these gaps could be remedied with a new law.

They fear that the alliance will generate more problems than benefits. The fraction of Democratic Unity in the Latin American Parliament in a statement rejected in a strong form a back room that the Venezuelan government used to enter Mercosur, *“it is out of line with the dignity and our history of independence struggles of the continent and vocation of Latin American unity and integration. “The parliamentary group wanted to record that the express admission of the Chavez government, violates Article 37 of the Protocol of Ouro Preto”*.

⁴ The provision sets forth that *“since it is contrary to the Law’s overall interest, monopoly on rented homes, given that renting is an activity considered of social and collective interest and has purposes of public usefulness, big tenants that occupy homes in buildings which have been used for renting for 20 years or more will be entitled to purchase it. For this purpose, owners or leasers will have no more than sixty days within the entering into force of the Law to offer their property for sale.”*



ECONOMIC OVERVIEW

