



Weekly Report

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*The US and shale oil: losing
a customer?*

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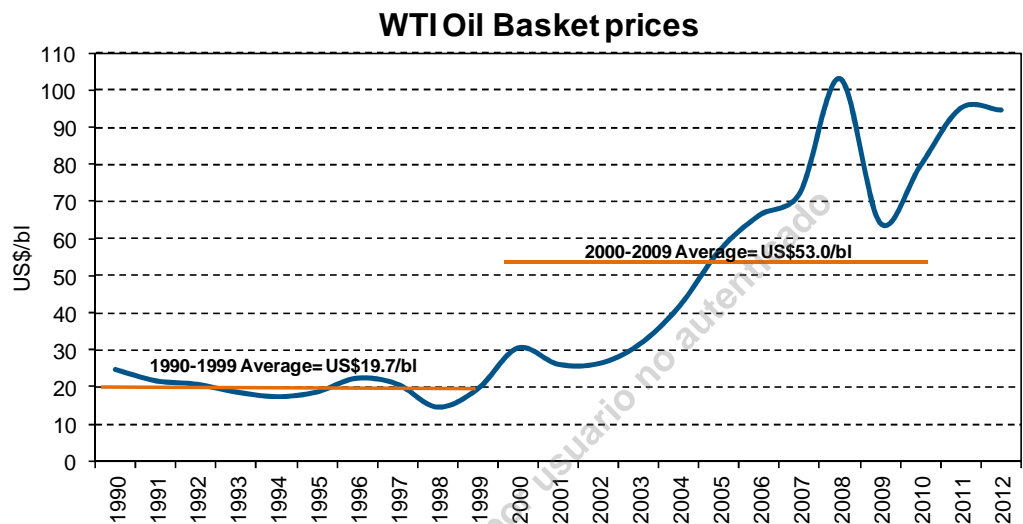
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Since 2008, production of crude in the United States (USA) has been experiencing a boom caused mainly by the exploitation of shale oil. The shale gas boom has put the USA at the center of the world energy market since projections by the US Department of Energy indicate that the USA will go from being a net importer of energy to being a net exporter by 2030. For Venezuela, whose main oil customer is the USA, these projections have serious implications, which we will briefly outline below.

Why shale?

For some years now, the prices of conventional oil have reached historic highs and, despite the fluctuations, changes in the structure of the markets make it difficult to imagine that the price of crude will go back to last century's levels. In the 1990s, West Texas Intermediate (WTI) averaged a price of US\$19.7/bl, with a minimum of US\$11.3/bl and a maximum of US\$35.9/bl, whereas, in the first decade of the 21st century, what had been the average price for the previous decade became the minimum price (US\$19.3/bl) and the average rose by US\$33.3/bl to US\$53.0/bl, peaking at US\$140.0/bl in 2008.



Sources: Menpet and Ecoanalítica

The increase in crude prices and the impact on the economies of the world's big consumers gave rise to, and permitted, the financing of the exploration for and exploitation of shale oil and shale gas, mainly in the world's main crude importer, the USA. According to a study by Leonardo Maugeri, a professor at Harvard University, the shale oil pioneers in the USA are, for the most part, independent medium-size companies (Continental Resources, Whiting Oil & Gas, EOG Resources, and Chesapeake Energy), although some larger groups, such as Conoco Phillips and ExxonMobil, have also become involved.

Shale fever

As the world's biggest importer, energy supply is a crucial issue for the USA, which has always sought to ensure its sources of supply and, thanks to the increase in crude prices that make investing in this new technique profitable, it is now aiming for self-sufficiency in energy.

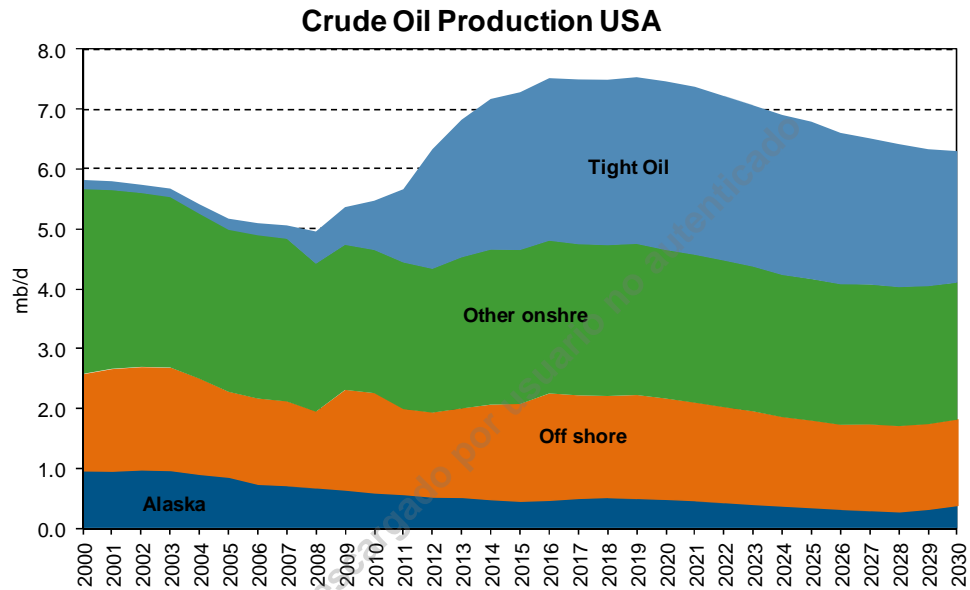
Because of the shale oil and gas production boom¹, US oil production, which was on the decline, increased by 2.12 million barrels a day (mb/d) in four years, going from 6.78 mb/d in 2008 to 8.01 mb/d in 2012², which put production at levels it had not reached since 1996, thanks mainly to the

¹ This technique, created in the 19th century but abandoned when conventional oil appeared on the scene, consists of converting the organic material contained in the rock (kerogen) into synthetic oil and gas, a practice more commonly known as hydraulic fracturing or "fracking." Hydraulic fracturing, a technique that has become widespread in the USA, consists of injecting water under pressure into the shale rock to release the oil or gas it contains.

² Includes crude oil, shale oil, tar sands, and natural gas liquids.



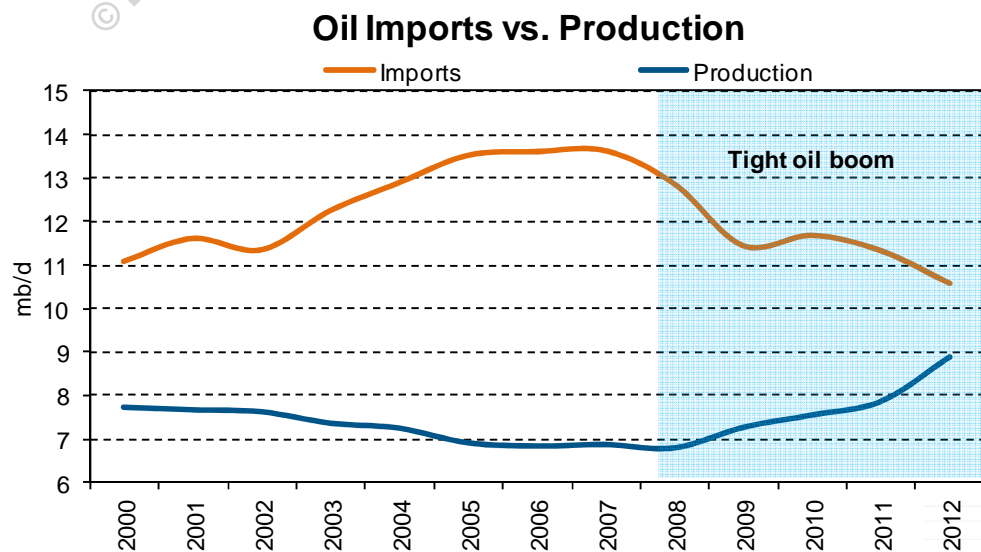
increase in the production of shale oil, which has shot up since 2008, growing by 1.2 mb/d.



Sources: DOE and Ecoanalítica

As a consequence of the above, US imports have been decreasing. Last year, US oil purchases from abroad came to 10.59 mb/d, a drop of 6.6% compared to 2011 (11.34 mb/d) and down 17.8% from 2008 (12.87 mb/d).

And projections for the future

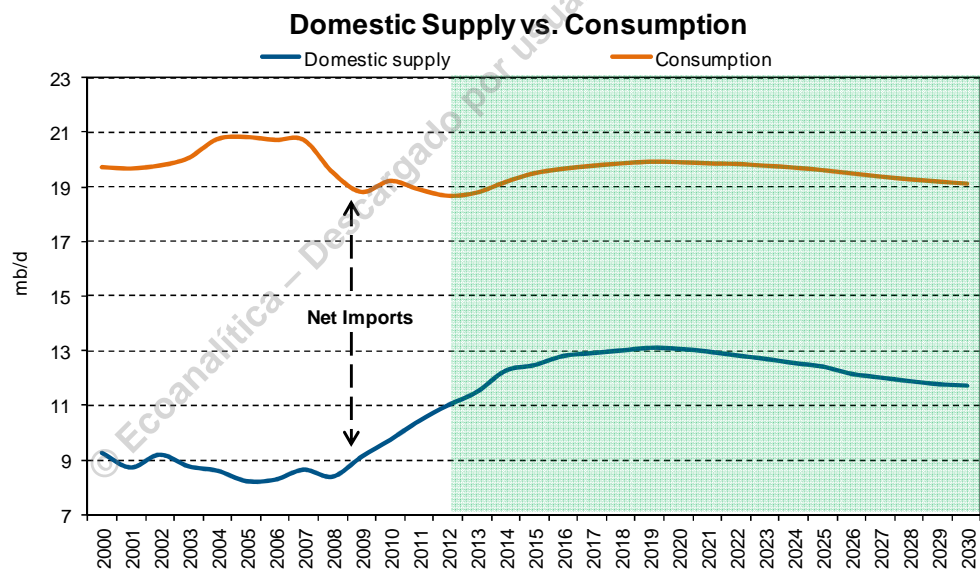


Sources: BP statistical review and Ecoanalítica



In view of the size of the USA' economy and its domestic market, there continues to be a wide gap between oil production and consumption despite the increase in production. The USA has an annual requirement of 18.56 mb/d and -given production of 8.91 mb/d- that leaves us with a considerable difference that it has been meeting with oil imports, mainly from the Middle East and Latin America.

However, the report that the US Department of Energy released in November 2012 contained an unexpected announcement: The USA plans to eliminate its reliance on oil from the Middle East by surpassing Saudi Arabia as a producer of hydrocarbons in 2017 with production of 12.91mb/d and to be practically self-sufficient in energy by 2035.



Sources: DOE and Ecoanalítica

The USA at the energy center of the world

Even though the International Energy Agency (IEA) forecasts much lower production for 2013, around 11 mb/d, and has gradually reduced its projection thereafter to 9 mb/d in 2035, these figures imply a radical change in the world oil market, as the USA, in its race to guarantee its energy security, could become the dominant player in the 21st century with this technique.

The boom caused by shale oil has caused considerable excitement among oil consumers and is changing the world energy scene with major economic and geopolitical consequences. Headed by the USA, countries from Australia to Argentina are seeking to exploit oil using this technique



and, according a report by the US Department of Energy, countries such as Great Britain, France, Spain, Portugal, Germany, Austria, Ireland, Hungary, and Rumania could become self-sufficient in oil in the not too distant future, so much so that a big consumer, such as China, has hired Royal Dutch Shell to exploit shale crudes within its territory.

Some risks facing shale oil

While US oil and gas production has increased in recent years thanks to this production technique becoming more widespread, horizontal drilling is a much more intensive and costly process than traditional underground drilling, which means that if the price of the international baskets were to drop considerably from present levels, it is highly likely that production would follow suit since it would no longer be profitable to produce oil from shale. So, the relative cost of oil has to be between US\$50/bl and US\$90/bl in order to guarantee production, which means that, given the volatility of oil prices, the future of the production of nonconventional crude has its quota of uncertainty. The future of shale is also vulnerable to changes in the world market, such as a sharp increase in the demand for oil in other parts of the world or a drop in demand.

Environmental considerations

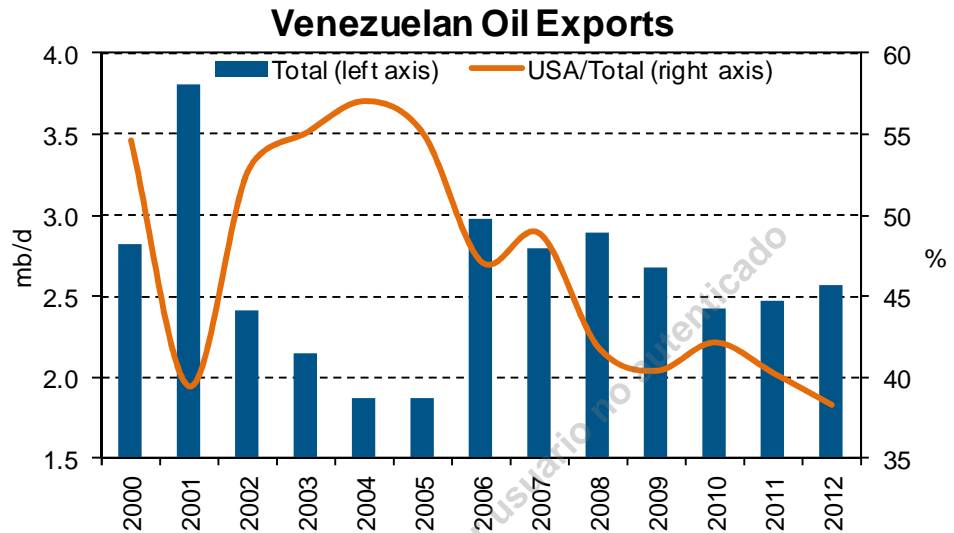
The same as with any other economic activity, the exploitation of nonconventional fuels has a high impact on the environment that is being denounced by environmental organizations around the world. Critics of hydraulic fracturing or “fracking” are warning of the possible contamination of water resources, methane emissions, and, to a lesser degree, tremors caused by drilling.

In France and Germany “fracking” is forbidden, although there is growing pressure for the ban to be lifted, whereas in the United Kingdom, the government authorized the use of this technique at the end of last year, and in Poland the authorities have granted 111 exploration licenses.

Venezuela, not as bad as it seems

In view of the Department of Energy’s announcement that the USA will overcome its reliance on imported crude in 2017, the question jumps to mind is how will this affect Venezuela’s oil exports, because, even though exports to the USA have fallen by 22.6% thanks to the policy of diversifying markets implemented by the government over the past 10 years -the aim being to have a larger share of crude shipments going to Asia (specifically to China and India)-, the fact of the matter is that, up until 2012, crude sales to the USA accounted for 38.2% of total exports.





Sources: Pdvsa and Ecoanalítica

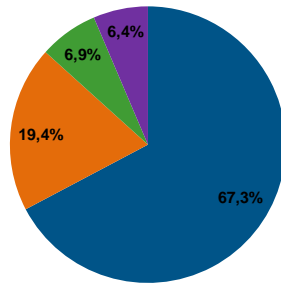
The Plan of the Nation presented by Chávez in 2012, and that will be continued by President Maduro, proposes a production goal of 4 mb/d by 2014 and 6 mb/d by 2019, and for that production to be broken down as follows: 2.20 mb/d to be exported to Asian countries, 1.25 mb/d to Latin America and the Caribbean, 1.15 mb/d to North America, and 550,000 barrels a day to Europe.

Even though the feasibility of PDSVA achieving these production goals is not an issue that is being addressed here, the fact of the matter is that Venezuela already has Chinese and Indian companies working on exploiting crude in Venezuela, which will lessen the impact that the increase in US production might have, at least for the moment, as any increase in production has been earmarked for those markets. In recent years, exports to these countries have tripled, rising from 7.7% of total exports in 2006 when they began shipments to 36.0% in 2012.



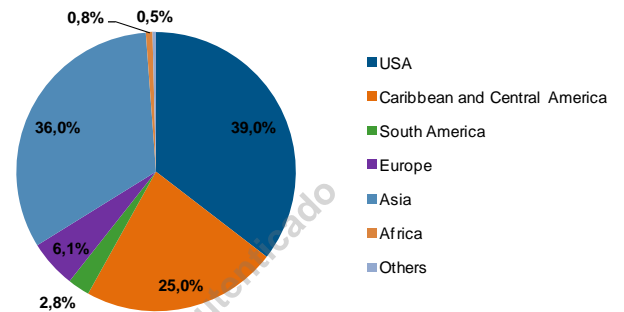


Exports by destination 1998



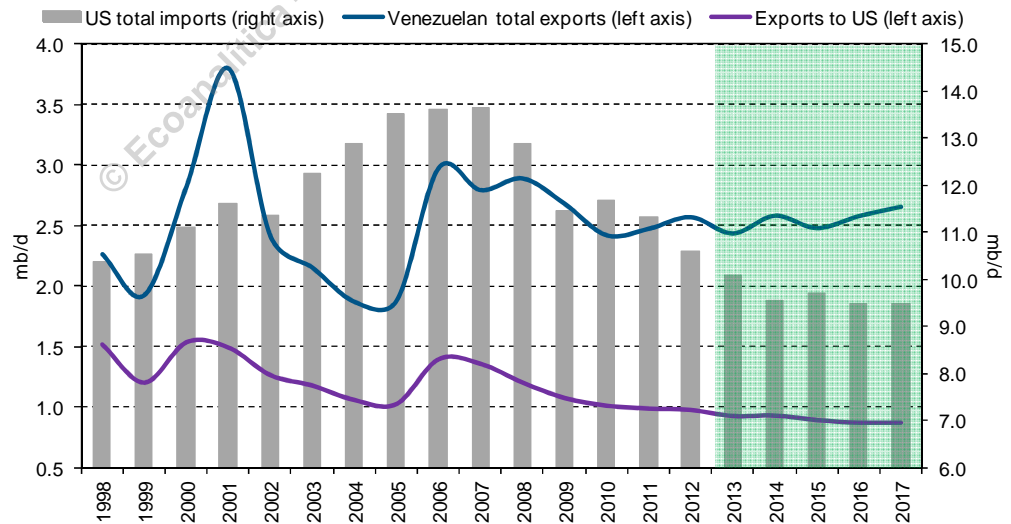
Sources: Pdvsa and Ecoanalítica

Exports by destination 2012



Sight should not be lost of the fact that the plan developed by the US Department of Energy seeks mainly to reduce the USA' reliance on oil from the Middle East and that it will continue to import oil from Latin America. If to this we add the steady reduction in Venezuelan exports to the USA, it is safe to say that, based on our projections for PDVSA's production, the impact of the increase in shale oil production in the USA on Venezuelan oil exports will be minimal.

Venezuelan and U.S. Oil Exports and Imports



Sources: DOE, Pdvsa and Ecoanalítica

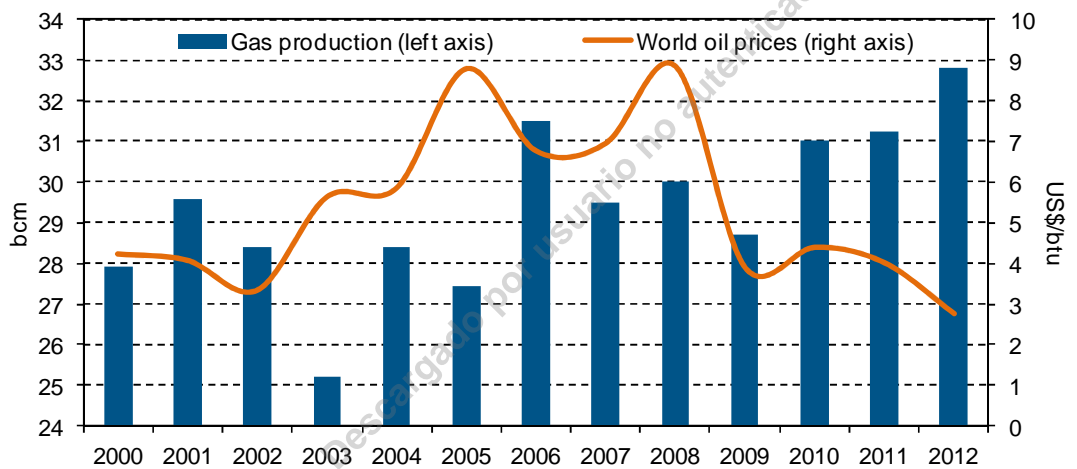
A slump in oil prices, a latent risk

At **Ecoanalítica** we view the effect of an increase in world shale production on crude prices and the shift in the world energy matrix as being more prejudicial than any negative impact these changes might have on Venezuelan exports to the US market. Witness what happened to gas. Gas prices reached their cutoff point in 2008, driven not only by the



crisis but also by the increase in production, in particular shale gas production in the USA, whereas Venezuela, ranked eighth in the listing of countries with proven gas reserves, missed the boat and failed to take advantage of the high prices to invest in gas, with the result that it is currently using only 47.8% of its production.

Venezuelan gas production vs. gas prices



Sources: BP statistical review and Ecoanalítica
bcm: billion cubic meters

If one extrapolates this to the oil market, Venezuela -which has the biggest proven heavy and extra heavy oil reserves in the world, both of which have higher production costs and still require high levels of investment in order to be exploited- is apparently about to lose the goose that lays the “black gold” eggs. However, tapping into these resources does not seem to be on the books in the short term, as exploiting nonconventional fuels requires prices to remain high in order to make it worthwhile.

Time and tide wait for no man

There is no doubt that a number of changes are taking place on the world energy market, among them the increase in shale oil and gas production and a shift in the world consumption matrix to a greater demand for nonconventional fuels. Although these changes are occurring gradually, Venezuela should not rest on its laurels. Five years ago, the idea that the USA could become self-sufficient in energy was unthinkable, yet now it is set to do just that in less than 20 years.

If these estimates pan out, it will mean that, in the medium and long terms, the extraction and processing of nonconventional shale oil will eliminate Western countries’ reliance on oil from the Middle East and, to a lesser



degree, from Venezuela and Canada, which have the next biggest hydrocarbon reserves.

Faced with the shifts in the world energy scene, Venezuela has still not thought about making changes to its oil policy, which has been aimed at the Asian markets. Today, China has one of the biggest shale reserves in the world and could become self-sufficient in energy if it were to develop shale oil production. This means that, as happened with gas, Venezuela could miss out on the times of expensive oil and be left with all the reserves it never exploited.

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Economic Tips

No better, no worse: The firm JP Morgan forecasts that, by the close of 2013, the growth of the economy will be equal to zero. The situation is grave if we compare this forecast to the result in 2012 of 5.6%. JP Morgan maintains that zero growth of the economy could be avoided if there is a *“flexibilization of the policies in order to respond to the needs of the private sector and its profit margins”* or if oil exports recover the ground lost in 1Q2013.

For a muss of problems, a tangle of solutions: The National Academy of Economic Sciences has stated that *“the speeding up of the inflationary process and the devaluation of the bolivar, underemployment, the shortage of goods, legal uncertainty, and the lack of personal safety have created a scenario of ‘frustration and disillusion that are casting a shadow over the spirit of Venezuelans’.”* The academicians maintain that the solution to the country’s crisis is to encourage private activity, promote investment, restore the autonomy of the Central Bank, introduce discipline into fiscal policy, prevent monetary financing and devaluations, and lift price controls.

Playing it safe? According to figures published by the Central Bank of Venezuela, the public sector had liquid assets to the value of US\$61.0 billion at the close of 1Q2013, sufficient for it to meet the demand for foreign currency. Despite this, the government has not strengthened CADIVI and has said that, in order to start up SICAD again, it hopes that it will be private and state-owned companies and Fonden that will supply dollars and foreign-currency-denominated securities, while PDVSA will remain outside the system.

Price of gold plummets. Gold posted a 32% drop in price between May 2012 and May 2013, with a slump of 23% between April and June, the biggest quarterly loss in at least 45 years, owing to sales in the midst of fears of a reduction in monetary stimulus by the US Federal Reserve. This devaluation will have a considerable impact on the value of the international reserves in the hands of the Central Bank, 72,8% of which are in gold ingots.

PetroCaribe, more than oil: During the Eighth PetroCaribe Heads of State Summit, the member countries agreed to the creation of a special economic zone. In the medium term, the new treaty implies improving air and sea connections among



member countries, developing clusters, sociocultural integration, and boosting sectors such as tourism and trade inside the new economic zone.

From bad to worse: Luis Vicente León, the president of Datanálisis, maintains that, until the Venezuelan Government solves the problems caused by its *“terrible handling of the foreign exchange situation that has caused a drought in the market,”* price controls, *“which are primitive,”* and expropriations, the supply of products in the country will not improve. León also added that there is a glaring lack of products that used to be supplied by the companies that were expropriated and whose inefficient management has resulted in less productivity and more shortfalls in supply.

Depending on how you look at it. As the president of Indepabis, Eduardo Samán, sees it there is a matrix of opinion according to which the government is to blame for the shortages and the shortfalls in supply, whereas, in fact, it is businessmen who are causing the problem. Samán maintains that the shelves are full of food products: *“Here, no one has stopped having a coffee. How many children have stopped drinking a glass of milk? Here anyone has a kilo of coffee stored at home,”* he said. He also claimed that, nowadays, *“businessmen are earning more than ever.”*

Failure to comply will cost them. Employers who fail to comply with the provisions of the Labor Law and its partial regulations on the new working day will be sanctioned with fines of between 30 and 60 tax units, which is equivalent to between VEB 3,210 and VEB 6,420. Besides the fine, offenders could have their payroll solvency certificate revoked, according to the Article 553 of the Labor Law.

They are the only ones who can put up prices. The Venezuelan Government is considering selling housing via the “0800 MiHogar” (0800 MyHome) program at a price of VEB 500,000, but does not discard the possibility of increasing this price in line with production costs. Housing Minister Ricardo Molina claimed that, with the support of construction companies and state-owned and private banks, 21,365 housing units are being built, 800 of which (only 3.7%) will be completed in August.

Interest rates. The lending rate for the third week of June was at 15.3%, up by 1.5% compared to the previous week. The time deposit rate was at 14.5%, without variations compared to the previous week, while the passive rate has not experienced any significant variation since November 2011, placing well at 12.5%.

International reserves. International reserves increased by 2.0%, going from US\$25.249 billion during the third week of June to US\$25.751 billion during the last week of June. Compared to the same period last year, international reserves have decreased by 9.4%.



Central government expenditure. On Friday June 28st according to figures from the National Treasury Office (ONT) primary spending was VEB 8.62 billion, which means a decrease of 33.1 % when compared to the previous week when it was VEB 12.90 billion; when compared to the same period last year we observe an increase of 13.8%. So far this year the cumulative expenditure in real terms (measured in 2007 prices) IS VEB 65.07 billion, with a variation (y/y) of -1.7%.

Monetary liquidity. Monetary liquidity (M2) increased 4.8% in the third week of June compared to the previous week, settling at VEB 829.30 billion. The M2 has increased 65.7% in relation with the same period last year.

Oil Tips

Bronze medal for the US. People's Minister for Petroleum and Mining/President of PDVSA, Rafael Ramírez, announced that the US is no longer the main export destination for Venezuela's oil and that starting 2013, the US is at the third place, behind China and India, which import 620,000 b/d (kb/d) and 400 kb/d respectively.

The local market will grow. Local demand for refined products and natural gas will amount to 1.11 billion b/d (mb/d), according to PDVSA budget for 2013 up 12.8% from last year's budget. In 2012, consumption of these products grew 5.4%, i.e. 7.4% of this year's projection. The higher demand increase is expected to be due to higher purchases of liquid fuels.

Gasoline is not imported. Minister Rafael Ramírez assured that Venezuela doesn't import gasoline, but only those inputs required to increase its octane number, and that only during Amuay accident, the country had to import gasoline from the US, "so as to prevent an imbalance in the domestic market." Ramírez also highlighted the necessity to build plants to produce gasoline components.

First-world policies. Minister Rafael Ramírez pointed out that Venezuela's is one of the most advanced oil policies worldwide, adding that today, about 97% of gross revenue per barrel goes for the State, substantially more than the 40% in the seventies. This effective policy has allowed the government to apply the oil rent to the investment in social spending.





Another financial fund. President Nicolás Maduro proposed at the 2nd Summit of Gas Exporting Countries the creation of a financial fund or a bank to bolster the gas sector development among gas exporting countries. This bank would address public companies and “*the most powerful companies of each country.*” Maduro also underscored that it’s necessary to discuss the principles of gas international trade and the possibility to create a common research institute.

Moneys stay in the country. Rafael Ramírez informed that since oil nationalization, PDVSA has “rescued” US\$427.0 billion, which could have fled the country through transnationals. Ramírez recalled that it’s important for the country to administer its own oil resources to promote national development, and explained that PDVSA controls 60% of joint ventures developing oil, including crude oil development and marketing.

Amuay recovers. As per an operational report of Paraguaná Refining Complex (CRP), Amuay refinery is currently operating at 77% of its average capacity of recent years, thus making it clear that after August explosion, the refinery has recovered. According to the report, only 10 of 51 plants at Amuay aren’t working. However, in late-June, finished fuel inventories at CRP were lower than the daily consumption on the domestic market.

Let’s import. According to data released by the US Energy Administration, in April 2013, imports of refined products from the US grew 138% with respect to the same period in 2012. Purchases from the US mainly consisted of diesel and fuel oil, which are used for power generation and the production of gasoline and special naphtha used in the mixing of heavy and extra-heavy crude.

Prices continue plummeting. Higher oil supply and the lower oil demand in the US, partly due to the energy efficiency measures, could make oil prices fall to US\$95 per barrel in 2013, which is a substantial loss with respect to the US\$107.78 per barrel averaged in 2012, economist Ramón Espinasa, assistant professor at Georgetown University in Washington explains.

If it’s not conventional, it’s not environmental. President of PDVSA Rafael Ramírez criticized production of non-conventional crude oil due to its damaging effect for the environment and explained that Venezuela has reserves of more than 13.4 billion of barrels of this type of crude in Lake Maracaibo basin, but that the country is not developing these resources. In the US, production of this type of crude oil has significantly increased the US supply, pushing prices of Venezuelan oil downward.

Oil businesses united...Rafael Ramírez announced the creation of the national oil industrial conglomerate. This organization would gather oil-related private sectors.



Ramírez informed that the initial steps have already been taken, because more than five meeting with firms related to the oil sector have already been held and that more than 300 businessmen have attended said meetings.

PetroCaribe delivers. Minister Rafael Ramírez underscored the importance of PetroCaribe, which is presently meeting 41% of the requirements of the 18 countries comprising the group. Ramírez said that during its 8 years of existence, PetroCaribe has been able to create a total of 13 joint ventures that have helped to “*guarantee energy sovereignty*” of those countries.

The fifth is even better. President Nicolás Maduro said that Venezuela’s could be certified as the world’s fifth gas reserves and explained that cooperation agreements signed with Russia are some of the main engines of progress made in exploration and development of this resource. Maduro also informed about a new agreement for the creation of a joint venture for the production of natural gas between PDVSA and Russia’s Rosneft.

International oil baskets. At closing time on June 28st in the New York Stock Exchange, the price of the WTI was US\$95.4/bl, a 2.2% decrease compared to the US\$97.5/bl reported the previous week. The Brent decreased by 3.4% to reach US\$101.6/bl, compared to the previous week’s US\$105.1/bl.

Local oil basket price. The Venezuelan oil basket price closed last week at US\$99.0/bl on Friday June 21st, a 2.8% decrease compared to the US\$101.8/bl of the previous week. The annual average price of the Venezuelan oil basket is US\$101.8/bl.

Business Sector Tips

Businessmen mayday! President of Fedecámaras Jorge Roig stated that foreign currency scarcity and the Labor Organic Law (LOTTT) are the main problems being faced by businesses. In this sense, Roig said that “*foreign currency issue has to be decriminalized*” and dollar allocation has to be speeded up, in addition to replacing labor firing freeze with labor stability. Roig also pointed out that the only goal of Venezuelan businessmen isn’t making money, but also helping the country.





In two years, power generation will be doubled. According to the Minister of Electric Power, Jesse Chacón, power generation will reach 32,000 megawatts by 2015, almost twice today's generation. Taking into account that, even though Venezuela's power generation capacity is 27,000 megawatts (MW), close to 10,000 MW aren't taken into advantage; therefore meeting the target set for the next two years would mean doubling effective power generation capacity.

Inflation vs. Shortages. Jorge Roig, president of Fedecámaras, said that the government "*hasn't developed economic policies*" and requested exchange control that has hardly beaten businesses to be more flexible. In this regard, Roig said that the lack of economic policies has put the government in a dilemma to choose between inflation and shortages.

Sales drop. According to the Venezuelan Chamber of Franchises (Profranquicias), franchise sales has dropped 15% so far in the year as compared to 2012, partly due to inflationary effect that have been very strong in the year-to-date. Furthermore, the number of franchised units has grown and it's expected to expand 6% by year-end. Profranquicias added that today there are about 300 local franchises and 200 international franchises and about 12,800 franchisees.

Can you give me 10 billion bucks, please? Fedecámaras' outgoing president, Jorge Botti, announced that at least US\$10.0 billion have to be injected into the economy for the private sector to be able to pay its debts to suppliers and production may be reactivated. Botti remembered that debt to foreign suppliers reached US\$8.0 billion in February and that it's necessary to multiply foreign currency allocations; however, Botti welcomed the shorter foreign currency allocation times.

Cannot be forgotten. Botti also asked the government not to forget those firms belonging to sectors defined as "*not priority*" sectors, which also import goods and inputs and, therefore, also require foreign currency. As a result of the elimination of Sitme, these sectors have been forced to buy dollars illegally.

Santa's in a bind. Consecomericio explained that a real concern exists about the low levels of inventories that don't improve as the fourth quarter, which is the period registering the highest consumption levels, is approaching. Furthermore, Consecomericio blamed the lack of foreign currency for this problem and urged authorities to restore a mechanism to allocate dollars so that supply may be increased in high consumption times.

Rice, sorghum and corn require adjustments. Fedeagro presented the Ministry of Agriculture and Lands with a request to adjust prices of rice, sorghum and corn, accompanied with a study on the cost structure which has inflated between 62% and



64% mainly due to February devaluation, wage increase and the higher prices of spare parts for the machinery used in sowing and harvest times.

Cocoa exports are down. Data released by the National Statistics Institute (INE) show that cocoa exports fell from US\$4 million in 1Q2012 to US\$2.1 million in 1Q2013. Meanwhile, export volume dropped 26% between 1Q2013 and 1Q2012. Cocoa production drop wouldn't be a consequence of a lower demand, but, on the contrary, of problems inside companies.

Let's walk. José Luis Hernández, president of Favenpa, estimated that motor vehicle production could fall up to 20% at the end of 2013 unless the lack of foreign currency of the automotive sector is solved. Let's remember that the Minister of Finance, Nelson Merentes, admitted that the automotive sector is the one suffering the worst delays in dollar allocations.

World Economy Tips

The US is worse than expected. Growth in the US economy in the first quarter of 2013 was lower than prior estimates, due to the moderate pace of consumer spending, low investment by businesses and lower exports. According to figures released by the Department of Commerce, GDP expanded at an annual rate of 1.8% in the first quarter. Previous forecast estimated an increase of 2.4% after gaining 0.4% for the fourth quarter of 2012.

S&P 500 posts best first half since 1998. The S&P 500 ended last week with its strongest first half of any year since 1998 after reaching record highs in May on a rally underpinned by the Federal Reserve's massive monetary stimulus. Notwithstanding, the three main reference indices at NYSE dropped in June.

Japan without substantial changes. Japan's CPI didn't show any variations in May, posting 0% (y/y) and breaking the six-month dropping streak. Likewise, unemployment rate also remained at 4.1% for the third consecutive month. Bank of Japan Governor Haruhiko Kuroda explained that this indicator, which excludes fresh food due to its volatility, increased 0.2% in May with respect to April, when it dropped 0.4% on a year-to-year basis.



But with increased confidence. According to a statement of the BOJ, confidence of Japanese companies increased in 2Q2013, thanks to the economic stimulus plan promoted by the government. The BOJ's report on the economic situation showed that confidence index of large manufacturing companies in April-June reached 4 points, up from -8 points of the previous quarter; whereas among large non-manufacturing companies, the index reached 12 points, up from last quarter's 6 points.

Ready to shoot. Mario Draghi, president of the European Central Bank (ECB), assured that the Bank is ready to take new measures when it's necessary, but that these measures would not produce real economic growth without the support by governments. *"The ECB has been very active in its response to the crisis. We're prepared to act again whenever it's necessary. The ECB has pulled out all the stops to stabilize the markets and support the economy. Now it's governments' and parliaments' turn to do whatever they can to increase growth potential,"* Draghi assured.

Investors will pay. The European Union agreed to force investors and wealthy savers to share the costs of future bank failures, moving closer to drawing a line under years of taxpayer-funded bailouts that have prompted public outrage. The plan stipulates that shareholders, bondholders and depositors with more than €100,000 should share the burden of saving a bank. With the deal, EU leaders can show that they are finally getting to grips with the financial crisis.

Irish Recession. The Irish economy entered a recession period in late-2012 and kept this trend in early-2013, as shown by new and revised data, when there are only a few months left for the European Union and the International Monetary Fund financial bailout program is completed. According to these data, GDP shrank 0.6% in 1Q2013, thus making it clear that the country will recover from the financial crisis at a slower pace than expected.

Portugal protests against austerity. Portuguese trade unions staged a general strike against relentless austerity which has deepened the worst economic slump since the 1970s, but support outside the public transport sector was patchy and the government seemed unlikely to back down. The action got off to a peaceful start. Nevertheless, public transport came to a virtual standstill fueling protests and leading unions to join protests.

Rigidity is the Achilles' heel of Latin America. According to Fitch, fiscal rigidity is the Achilles' heel of Latin American states and their public finance pose a relative credit weakness. *"A narrow tax revenue base, combined with an inflexible budget*



spending profile constrains fiscal management, a key factor preventing Latin American sovereigns from moving up the ratings scale,” according to Fitch Ratings.

Political Tips

The TSJ Constitutional Chamber will decide on challenges. The TSJ Constitutional Chamber asked the Election Chamber to forward the seven challenges against April 14 election, brought into by former presidential candidate Henrique Capriles, because they will now study these cases. The TSJ explained in a ruling that, even though the challenges were brought into the Election Chamber, the Constitutional Chamber will know about the seven cases, as well as any other that may be introduced to the TSJ to challenge CNE’s decisions.

Capriles: “We have to change the model of country.” Miranda Governor Henrique Capriles assured that the administration *“is destroying the country;”* therefore, the current political, economic and social model has to be changed to stop the administration from doing this. *“...The statist model that wants to control everything doesn’t function. If you want to see how the administration works, give them a cow and they’ll give it back skinny,”* Capriles said. Henrique Capriles’ proposal is that *“public and private sectors have to work as a team; the public sector has to instill confidence in the private sector and promote foreign investment.”*

August is the deadline to develop a plan. The Unity Democratic Panel (MUD) started in the last week of June a series of discussions with mayor candidates from all over the country, which are intended to design a national campaign plan for December 8 mayoral election. MUD’s leaders expect the strategy to be ready before August 9th, which is the deadline for the registration with the National Election Council of candidates for this election. Opposition leaders want to turn mayoral election into a national plebiscite that shows that they have the support of most voters.

Let’s promote participation. Henrique Capriles, the head of campaign of MUD’s candidates for mayoral election, explained part of the strategy they will follow for the election scheduled for December 8th. Capriles announced that he will attend meetings with candidates supported by MUD at each state, and explained that appointing regional campaign heads isn’t planned. Henrique Capriles pointed out that participation in this election has to be unquestionable and stressed that leaders must remain firm and promote citizen participation.



Rosita has the right too. Jimena Araya, a.k.a. Rosita, will no longer work on TV to compete in December 8th mayoral election. Araya is supported by Podemos party that is considering nominating her as mayor candidate for La Victoria, Aragua state, or as councilwoman for the same municipality. Podemos national vice-president, Gerson Pérez, said that Araya's is one of the names that they'll propose to the alliance on July 24th. They will also support leaders from the Alexis Vive collective, from the 23 de enero sector of Caracas, for them to run as candidates for municipal councils in Libertador municipality, such as Rosángela Orozco and Robert Longa; who would represent Catia sector.

Are you registered to vote? The preliminary Election Roll for mayoral election will be posted on the CNE's website on July 4th. Upon the posting of the preliminary roll, citizens will have 14 days to introduce their complaints if their registration or data are not correct. The preliminary roll must include new voters, changes of voting center, and exclude dead voters, upon request by their relatives before the CNE.

Two months of grace. The seven-year terms of the president of the Electoral Branch of Power and the CNE, Tibisay Lucena, as well as its vice-president and chair of the Committee on Civil and Electoral Registration, Sandra Oblitas, and of Vicente Díaz, CNE director and president of the Committee on Political Participation ended on April 28, 2013. Nevertheless, they are still on their posts because the AN has failed to appoint their substitutes or ratify them for another seven-year term.

The TSJ wants to make a decision. The TSJ Constitutional Chamber requested the CNE to forward a report on the results of audits performed after April 14 presidential election. The CNE shall provide the TSJ with all relevant instruments for the Constitutional Chamber to make a decision with respect the seven challenges presented by Henrique Capriles Radonski against April 14 election.

Journalist Chávez. At the awarding ceremony of the National Journalism Prize for 2013, held at Miraflores Palace, María Gabriela Chávez received the prize granted to former President Hugo Chávez, who died in March. International organizations like Human Rights Watch and the Inter American Press Society accused Chávez on repeated occasions of threatening freedom of press in Venezuela.

If you're not guilty, you don't have to fear it. AN Representative Richard Mardo appeared at the TSJ with his legal defense team to present a new stay in relation to his case. *"We're presenting new evidence of violation of my constitutional rights to due process. We continue showing our faces to the country. This is not a legal case, but political,"* Mardo claimed, adding that *"if you're not guilty, you don't have to fear it."* Mardo pointed out that the accusations by the government and the Attorney General have violated his constitutional rights.



Legislative Tips

Habemus exchange agreement. The modifications of the Exchange Agreement N°. 22 provides some of the rules for the upcoming auctions of the Complementary System of Administration of Foreign Exchange (Sicad), including the fact that natural persons, legal persons, the Central Bank and other bodies authorized by the Sicad may be involved as foreign bidders as plaintiffs. To be part of these auctions, they must register with the requirements that until now are not yet defined.

Another fund for the government. According to the article n°. 5 of the exchange agreement, the difference between the official rate and the resulting auctions of Sicad in which the State participates as a provider of foreign currency, will go to a fund owned by the national executive which will manage it and whose destiny is assigned by President Nicolás Maduro.

The clinics are not saved. According to the Official Gazette n°.40,196, health services now join the group of goods and services with regulated prices. For this, the private health facilities must register with the National Registry of Prices of Goods and Services. In the Gazette emergency services prices are fixed between VEB 2,800 and VEB 1,849; depending on the classification of the clinic and the type of service.

Car's law in second gear. The National Assembly (AN) passed 14 of the first 15 articles of the law regulating the buy and sells of new and used motor vehicle either national or imported. The most debated by the delegates in the AN is the one that punishes assemblers, importers or distributors who do not guarantee the supply of spare parts for a minimum of 10 years. Deputies from the opposition party argued that Cadivi is the one to blame for the lack of spare parts.

Require price marking. The Official Gazette No. 40,199 published Indepabis's requirement immediately of placing the retail price (PVP) and maximum prices Retail (PMVP), except for those goods that by their nature cannot be sealed. Violation of this law would bring penalties of 100 to 5,000 tax units (UT) or the temporary closure of the establishments up to 90 days.

30 years later. Condominium's law could be reformed before the end of the year after 30 years of its approval, according to the Commission of Administration and Services of the AN. Some of the changes of this law would be to standardize condo



receipts and establishing of annual budgets from those. Furthermore, this law should be reformed so that it fits the Venezuela Grand Housing Mission (GMVV).

Artists are put into action. Artists from around the country gather in the house of the artist to discuss the draft of the Law on Culture that is going to be delivered later on in the AN. This law seeks to bring together all the demands of the union and would include items relating to social protection, copyright, among others.

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ECONOMIC OVERVIEW

