

Annual Report of PDVSA: without success

PDVSA's annual report for 2013 has finally been published, albeit with some delay. The results come as no surprise and continue the trend set in recent years by the state-owned oil company: production in decline despite the reserves and exports that have dropped, with even its friends having been affected by the drop in production. Each year, we have explained how, since its cash flow is compromised, PDVSA needs to increase production. However, given the present situation, reversing the trend of declining production is more than necessary. Below we offer an overview of developments in the oil sector last year.

The reserves are there; the problem's production

Venezuela has the largest oil reserves in the world, with proven reserves of 298.353 billion barrels, equivalent to 20.0% of world reserves and 87.0% of which are extra-heavy crude.

Here is a breakdown of reserves by oil field: Maracaibo-Falcón, 19.602 billion bbl; Barinas-Apure, 1.183 billion bbl; Oriental, 277.225 billion bbl; and Carúpano, 343 billion bbl. The Hugo Chávez Frías Orinoco Oil Belt is part of the Oriental field and its reserves of crude come to 259.46 trillion bbl. According to the production figures for 2013, proven oil reserves, including reserves of heavy and extra-heavy crude, are expected to run out in approximately 282 years' time.

Now the problem is on the production side. Last year, oil production came to 2.89 million barrels a day (mb/d), down 11,000 barrel a day (b/d) from 2012 and 361,000 b/d less than in 2008, when oil production came to 3.26 mb/d.

Year 10. Number 26. Week II
July 2014

Oil Production						
	2009	2010	2011	2012	2013	Var. % (y/y) 2012-2013
Condensate	103	96	104	107	116	8.4%
Light	578	577	511	487	469	-3.7%
Medium	941	863	917	875	637	-27.2%
Heavy and Extraheavy	1,390	1,439	1,459	1,441	1,677	16.4%
Total Production	3,012	2,975	2,991	2,910	2,899	-0.4%

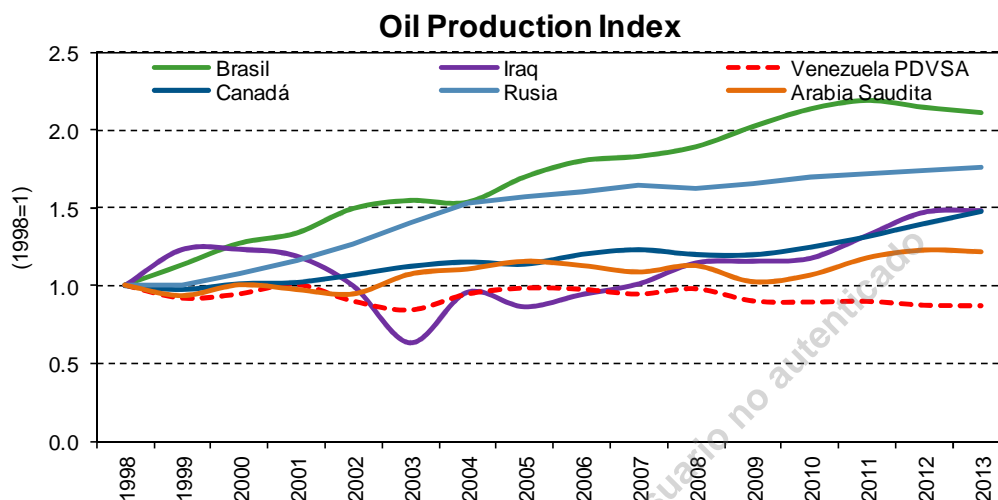
Sources: Pdvs and Ecoanalítica

Taking the production of crude by oil field, we find that production was 776 kb/d in the Maracaibo-Falcón, 41 kb/d in the Barinas-Apure field, and 2.08 mb/d in the Oriental field, the latter being the only one to post an increase in production, of 0.6%.

The production of petroleum and natural gas liquids (NGL), which came to 3.02 mb/d, was also down from 2012, by 0.6%. Since 2008 production has fallen by 407,000 b/d.

The term that most precisely describes Venezuela's oil production is "decline." If we take BP's figures, we can see that other countries have known how to take advantage of the favorable oil prices whereas Venezuela has not. Brazil upped its production by 111.0% over the period 1998-2013, and the same has happened with production in countries such as Iraq, Russia, and Canada. Similarly, if we look at OPEC production (excluding Venezuela), we see that it has increased its production (25.0%) whereas Venezuela has experienced a contraction in real terms of 13.0%.

Year 10. Number 26. Week II
July 2014



Sources: BP statistical review and Ecoanalítica

Among the main goals for the oil industry set forth in the “Plan of the Fatherland” Act is that of increasing crude production to 3.3 mb/d by 2014 and to 6 mb/d by 2019, 4.0 mb/d of which would come from the Hugo Chávez Frías Orinoco Oil Belt. What has been done to achieve those goals? Since 2013, new contracts have been signed with PDVSA’s partners in the joint ventures to increase production, but little else has been done, apart from modifying the foreign exchange agreement to allow these partners to operate at an exchange rate above VEB 6.30/US\$. So in Ecoanalítica we consider uphill meet the goal of the “Plan of the Fatherland”.

Financing to mixed companies

Mixed Companies	Partner	Financing (US\$ Bn)	Term of payment (Years)	Current Production (kb/d)	Expected Production (kb/d)	Production increase (kb/d)
Petrolera Sinovensa	CNPC	4.0	10	140	330	190
Petroboscan	Chevron	2.0	13	100	130	22
Petrojunin	ENI	1.8	5	3	50	50
Petrozamora	Gazprombank	1.0	8	40	65	41
Petroquiriquire	Repsol	1.2	13	46	60	10
Petrocabimas	Suelopetrol	0.6	10	6	57	51
Petowarao	Perenco	0.4	6	5	24	19

Sources: Pdvesa y Ecoanalítica

As for global refining capacity, it remained unchanged from the previous year at 2.82 mb/d, 1.30 mb/d of which is installed in Venezuela, a figure that has not varied since 2004.

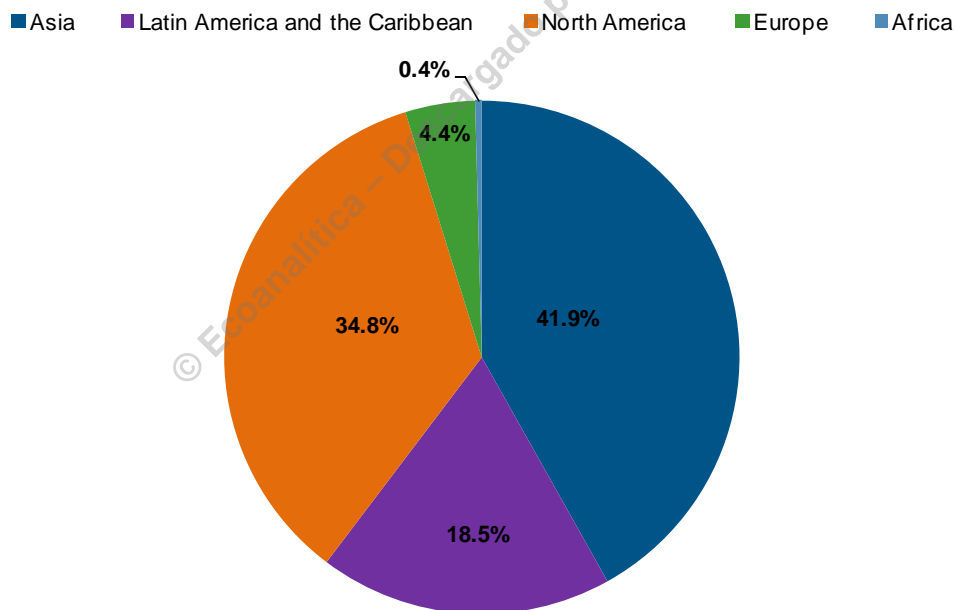
Year 10. Number 26. Week II
July 2014

Exports are down as well

Even though Ramírez insists that the drop in production “is not very big, nor is it worrying,” it is, given that one of the main consequences of that drop is that exports have fallen and, what is more important, the barrels that generate cash have as well. Exports of crude and products came to 2.43 mb/d, a drop of 143 kb/d compared to 2012.

Asia received 1.04 million export barrels, most of which went to India (38.4%) and China (30.4%). Exports to this region increased by 91 kb/d compared to 2012, whereas exports to all other regions fell. North America received 845 kb/d and was the region that experienced the biggest drop in volumes exported compared to 2012.

Total exports by destination in 2013



Sources: Anual report of Pdvsa 2013 and Ecoanalítica

Latin America received 436 kb/d in exports, down 16,000 b/d from 2012. As for total hydrocarbon sales to Asia and China, 485 kb/d were sent to China to offset amounts due under the Chinese Fund and the Large Volume Long-term Fund. Shipments under these funds increased by 7.5% compared to 2012 and by 463.9% compared to 2008.

Year 10. Number 26. Week II
July 2014

Compensations to Chinese and Great Volume Funds (mb/d)

Contracts	2007	2008	2009	2010	2011	2012	2013	Average 2007-2013
Tranch A Fund	89	86	91	75	0	0	0	49
Tranch B Fund	0	0	124	107	0	0	0	33
Great Volume and Long Term	0	0	0	205	220	252	290	138
Tranch A and B Renewal	0	0	0	0	195	199	190	83
Tranch C Fund	0	0	0	0	0	0	5	1
Total	89	86	215	387	415	451	485	304

Sources: Pdvsa and Ecoanalítica

Even the agreements have been affected

In 2013, oil supplied under energy agreements with Latin American and Caribbean countries (Caracas Energy Cooperation Agreement, Integral Cooperation Agreement, PetroCaribe) came to 240.6 kb/d, 26 kb/d less than in 2012. Most notably, shipments to Paraguay and Bolivia were reduced to zero in 2013, when they received 1,1 kb/d and 8,6 kb/d, respectively, in 2012, and shipments to Argentina were cut by half (from 25,6 kb/d in 2012 to 12,7 kb/d in 2013). On the other hand, shipments to Cuba went up to 99,3 kb/d (8,2 kb/d more than in 2012).

Year 10. Number 26. Week II
July 2014

Sales by Energetic Cooperation Agreements (kb/d)

	2013	2012	Var. % (a/a)
Caracas Energetic Cooperation Agreement			
Bolivia	0.0	8.3	0.0
Paraguay	0.0	1.1	0.0
Uruguay	16.8	19.6	-14.3
Energetic Cooperation Agreement Petrocaribe			
Antigua and Barbuda	1.1	1.3	-15.4
Belize	2.6	0.8	225.0
Dominica	0.3	0.4	-25.0
El Salvador	6.4	12.7	-49.6
Granada	0.7	0.8	-12.5
Guyana	4.4	6.9	-36.2
Haiti	14.0	14.2	-1.4
Jamaica	22.3	25.9	-13.9
Dominican Republic	28.6	26.9	6.3
St. Kitts and Nevis	0.9	0.9	0.0
Saint Vincent and the Grenadines	0.5	0.5	0.0
Surinam	3.3	2.2	50.0
Integral Cooperation Agreements			
Cuba	99.3	91.1	9.0
Argentina	12.7	25.6	-50.4
Aladi Agreement			
Nicaragua	26.7	27.5	-2.9
Total sales	240.6	266.7	-9.8

Sources: PdvsA and Ecoanalítica

On the other hand, in exchange, under PetroCaribe, PDVSA received 650,217 tons of products such as rice, sugar, milk and beef from Guyana, Nicaragua, the Dominican Republic, and Jamaica. The important thing here is the opportunity cost of those barrels that are sold on special terms. If they had been sold at international prices, PDVSA would have obtained approximately US\$8.8 billion. As always, our recommendation is that these agreements, which seem to be more a political tool than a policy for the sustainability of the country's growth, be revised.

Year 10. Number 26. Week II
July 2014

Meanwhile we're consuming more

Sales to the domestic market came to 703 kb/d, an increase of 22 kb/d (3.0%) compared to 2012. Total liquid sales on the domestic market in 2013 were broken down as follows: 91 kb/d of LNG and 612 kb/d of refined products, with gasoline for vehicles and gasoil accounting for the lion's share of the latter.

In view of the subsidy that has been implemented to date, these figures are of crucial importance. At the moment, the selling price of 95 octane gasoline is VEB 0.097/liter and its production cost is VEB 0.8/liter, which gives a loss of VEB 0.7/liter. If we take domestic gasoline consumption in 2013 of approximately 299,000 b/d, the cost of producing subsidized gasoline would currently be nearly VEB 13.41 billion.

Even more serious is the fact that factors such as fuels with "ridiculously" low prices, sustained population growth, higher incomes, greater use of thermoelectric generation, and the failure to implement policies to encourage the consumption of alternative fuels (the Auto-gas Project, for example) have meant that the subsidy has mushroomed over time. The growth in the demand for gasoline was so great between 1998 and 2013 (57.4%) that the accounting cost of the subsidy went up by more than 200.0% over the same period.

At **Ecoanalítica** we consider that this trend of growth in gasoline consumption will result in demand for gasoline reaching 370 kb/d by 2018, which would be equivalent to 11.2% of Venezuela's oil production (in 1998, it was only 5.5%), which is worrying given that this means there will be less available for export and, hence, lower export revenues, as we saw earlier. In short, the subsidy generates no added value for the domestic economy, it does not contribute to the development of the value chain of any sector in particular, nor does it strengthen productivity; all it does is to accentuate inequality when it comes to the distribution of revenue.

Outlook for the future

Despite the drop in production and the gloomy outlook for the economy, the oil sector is the most positive element in the present scenario. At **Ecoanalítica** we estimate that oil GDP will grow by 1.2%. The new investment plan for 2013-2019 proposes disbursing US\$256.52 billion to achieve production of 6 mb/d of oil in 2019, with 19.0% of the amount it is planned to invest being put up by PDVSA's partners. At the moment, Ramírez has the power to take certain decisions as part of his macroeconomic adjustment, which will go a long way to giving a boost to the oil sector; however, as

Year 10. Number 26. Week II
July 2014

always, the problem is more one of political economics than economic policy. All we can do is to wait and see whether there is the political will to make a 180° turn.

Jessica Grisanti

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Year 10. Number 26. Week II
July 2014

ECONOMIC TIPS

Three exchange rates are “a lot.” The Vice-president for the Economy, Rafael Ramírez, announced that a new foreign exchange system is to be implemented in Venezuela and that a band system will be introduced in order to achieve the “convergence” of the exchange rates, although he gave no indication of when it would go into effect. *“We’re going to go to a process of convergence towards a foreign exchange system. Handling three exchange rates is very complex. This is something we have scheduled, but it’s going to happen alongside other measures we’re taking.”*

Doing the groundwork. The Vice-president for the Economy, Rafael Ramírez, explained that, before implementing a new foreign exchange system, they still have to work on reducing the fiscal deficit and bringing down inflation. As Ramírez sees it, fiscal and monetary policies have to be implemented before moving ahead with a process of “convergence” in the foreign exchange system. Those policies, which they plan to implement in the short term, will aim to achieve a consolidated economic equilibrium.

They don’t know how much they owe. As for the payment of outstanding foreign currency disbursements, the Vice-president for the Economy, Rafael Ramírez, explained that the government will take however long is necessary to confirm that the amounts claimed by companies are correct. *“We have to respond for and defend the nation’s resources,”* he said in reference to a transnational company that was demanding payment of US\$3.0 billion, when, according to him, the amount owed was less than US\$400 million.

The measure will be positive. Barclays Capital economist Alejandro Grisanti considered the government’s announcement to reduce the number of official exchange rates in the Venezuelan economy from three to one to be positive. Besides unifying the exchange rates, Grisanti commented that it was important for the new resulting official exchange rate not to be too far off the parallel rate, which means, in his opinion, that the State should be more active selling dollars if it wants to keep the rate down, as it did between 2007 and 2009.

Good for some, bad for others. In the opinion of Barclays Capital economist Alejandro Grisanti, unifying the exchange rates will benefit some sectors of the economy, such as commerce, which acquires foreign currency

Year 10. Number 26. Week II
July 2014

via SICAD II at a rate of VEB 50.0/US\$, but would be detrimental to sectors such as health and food, for which the measure would mean another devaluation. The size of the devaluation and the new exchange rate will depend on the amount of foreign currency the government has available, said Grisanti, who added that an exchange rate of VEB 30.0/US\$ could be maintained and would help to bring down the parallel rate.

Making a fresh start. Following the election and swearing in of Panama's new president, Juan Carlos Valera, trade relations with Panama, which were broken off in March, have been restored, according to Venezuela's vice-president, Jorge Arreaza. From now on, people who wish to travel to Panama and companies wishing to trade with Panamanian businesses will be able to obtain foreign currency from Cencorex. Allocations of foreign currency via Cencorex had been suspended for more than three months.

The most overvalued currencies. According to the Bank for International Settlements (BIS), which keeps track of the exchange rates and inflation in 61 countries, at the close of May, the bolivar was the most overvalued currency in the world, with a deviation of 91.0% from its equilibrium value. This overvaluation makes domestic industry less competitive and encourages the consumption of imported goods.

At VEB 10.8/US\$. Following the 16th SICAD I auction held by Cencorex, a total of US\$182 million was awarded to 91 companies at an exchange rate of VEB 10.8/US\$, 1.9% higher than the exchange rate resulting from the previous auction. The increases in the SICAD I rate from the last three auctions could be the start of a slide towards a single exchange rate, already proposed by government spokespersons. The foreign currency sold at the last auction went to 65 companies in the textile sector, 13 in the metal-working sector, and 13 in the school supplies sector.

Air tickets at SICAD I. The Minister for Aquatic and Air Transport, Luis Graterol, confirmed that the reference exchange rate for international air tickets is the SICAD I rate. Following a meeting with members of the domestic airlines' top management, the minister gave assurances that his ministry was "*opening the doors to the international air sector for it to set the real cost of air tickets for destinations abroad based on the SICAD I rate*" and that "*calculating (that cost) at the SICAD II rate is not being considered.*"

Year 10. Number 26. Week II
July 2014

A tardy raise. After a two month delay, Decrees 1,083 and 1,084 (published in *Gaceta Oficial* N° 40,446) made the 43.0% wage and salary increase for government service employees official. The minimum basic remuneration for both laborers and government officials will now be VEB 4,251, the same as the current minimum wage, and the maximum will be VEB 7,256 for laborers and VEB 10,462 for administrative personnel.

Interest rates. The lending rate for the fourth week of June was at 16.2%, down by 1.0 percentage points (pp) compared to the previous week. The time deposit rate was at 14.5%, the same as the previous week, while the passive rate has not experienced any significant variation, placing well at 14.1%.

International reserves. International reserves decreased by 1.7%, going from US\$21.0 billion during the fourth week of June to US\$20.6 billion during the first week of July. Compared to the same period last year, international reserves have decreased by 18.4%.

Central government expenditure. On Jun 20th according to figures from the NTO primary spending was VEB 6.1 billion, which means a decrease of 52.6%; when it is compared to the same period last year. So far this year, the primary expenditure accumulates VEB 352.9 billion 78.1% more than the same period last year.

Monetary liquidity. Money liquidity (M2) increased 0.9% in the fourth week of June from the week prior, to settle at VEB 1.4 trillion. The M2 has increased 71.7% in relation with the same period last year.

Supply through SICAD II (US\$ MM)

Day	Total daily	Public Sector	(%)	Private Sector	(%)
6/27/2014	47.9	46.0	96.0	1.9	4.0
6/30/2014	50.5	49.5	98.0	1.0	2.0
7/1/2014	67.8	66.5	98.1	1.3	1.9
7/2/2014	38.0	36.1	95.0	1.9	5.0
7/3/2014	37.5	32.6	86.9	4.9	13.1

Sources: Ecoanalítica

Year 10. Number 26. Week II
July 2014

OIL TIPS

More refining. PDVSA's investment plan for the period 2013-2019 comes to US\$256.52 billion, US\$30.01 billion of which is to be allocated to refining, marketing, and supplies, according to the company's 2013 Annual Report. It is estimated that PDVSA will put up US\$208.0 billion (81.1%) and that US\$49.0 billion (18.9%) will come from its partners. The purpose of these investments is to increase Venezuela's refining capacity to 1.8 mb/d and its crude extraction capacity to 6.0 mb/d.

Pension fund shows a profit. The PDVSA Retirees Association Pension Fund showed a profit of VEB 4.13 billion in 2013, thanks to which it was possible to grant additional benefits to 26,138 pensioners, according to PDVSA's finance vice-president, Victor Aular. Part of these profits was used to pay retirees and pensioners a one-off bonus of VEB 18,000 and to put up their pension by VEB 775 to a minimum of VEB 5,445.

Networking to get funding. PDVSA's financial statements show that, between 2007 and 2014, the oil industry managed to set up a network with government entities for obtaining funding via a variety of operations. Despite high oil prices, revenues have fallen short, as a result of which the Central Bank, the National Treasury Office, Banco de Venezuela, Banco del Tesoro, Banco Bicentenario, and the Simón Bolívar Fund have injected funds into the state-owned oil company over the past seven years by means of certificates, promissory notes, and loans. It was in 2007 that PDVSA started to apply to state-owned entities for funding in the sum of US\$4.0 billion

PDVSA in debt to its workers. The pay increases agreed to in the oil sector's collective employment contract for the period 2013-2015, which was signed in January this year, have still not been implemented in full as the meeting between the Unitary Oil Workers Federation (FUTVP) and PDVSA to officially approve the wages and salaries table has not been held. The government has only paid the wage increases of VEB 70 a day from October 1, 2013, and VEB 10 from January 1, 2014.

Jose is expected to get back to normal shortly. The FUTPV's secretary general, José Bodas, said that things continue stable at Jose Cryogenic Complex (Anzoátegui), following the nationwide blackout on Friday, June 30. He estimated that operations would be back to normal at Petrocedeño,

Year 10. Number 26. Week II
July 2014

Petropiar, Petroanzoátegui, Petromonagas, and Sinovensa this week. *“Sometime during the week or over the weekend it should be producing normally, barring problems,”* he commented.

The electricity system is not reliable. José Bodas, the secretary general of the FUTPV, explained that Jose processes around 600 kb/d of synthetic crude and criticized the fact that the oil sector relies on the national electricity system. The labor union leader said that the oil industry is designed so that its infrastructure can produce the electricity it needs to carry out its operations, but that advantage is not being taken of this resource owing to lack of investment and maintenance.

PDVSA continues to feed funds. PDVSA's 2013 Annual Report shows that the company, like the government, has a series of parallel funds that receive part of the additional oil revenues and that finance the projects and ordinary expenditures of government agencies. Besides making transfers to Fonden, the oil industry makes allocations via other mechanisms such as the Independence Fund, the Miranda Fund, the PDVSA Social Fund, the Security Fund, the Asphalt Fund, and the Youth Fund. PDVSA transferred a total of US\$8.3 billion to these six funds last year.

International oil baskets. At closing time on July 04th in the New York Stock Exchange, the price of the WTI was US\$105.0/bl, down by 1.2% when compared to the reported the previous week. The Brent decreased by 1.8% when compared to the previous week, to reach US\$112.0/bl.

Local oil basket price. The Venezuelan oil basket price closed at US\$98.9/bl on Friday July 04th, decreasing by 1.6% when compared to the reported the previous week. The annual average price of the Venezuelan oil basket is US\$97.1/bl.

BUSINESS SECTOR TIPS

Increase in local tourism expected. The lack of places on international flights –owing to the reduction in ticket inventories, flight frequencies, and seats- and the high cost of air tickets are discouraging this segment of travelers. There are “high expectations” for domestic tourism this season, “regardless of the economic problems and inflation,” said Ricardo Cusanno,

Year 10. Number 26. Week II
July 2014

the president of Conseturismo. He recalled that the industry experienced a contraction in the first quarter as a consequence of the civil protests, but said that a recovery is expected shortly.

Automotive sector invited to bid in SICAD I auction. This week's SICAD I auction, for US\$220 million, is intended for companies in the automotive sector wishing to import materials for assembling automobiles and motorbikes, according to the National Foreign Trade Center (Cencoex). Companies that are registered with RUSAD (Foreign Exchange Administration System Users Register), have conducted regular imports in the past two years, and are domiciled in Venezuela can take part in the 17th SICAD I auction. The minimum bid is US\$5,000 and the maximum will vary, according to the call to bid.

Conindustria believes in industrialization. Expropriations, price and exchange controls, fiscal charges, problems with public services, lack of inputs, shortages of goods, and payroll charges are just some of the factors that have affected the manufacturing industry's production of goods. Even so, everything is not lost, according to the president of Conindustria, Eduardo Garmendia, who considers that now is the time to draw up a plan for re-industrializing the country. This proposal is set forth in *Visión Venezuela Industrial 2025*, a document presented by Conindustria at its Annual Meeting on Monday, July 7.

New telephone charges. New cellular telephony charges, which have been authorized by Conatel, went into effect on July 5. The average increase for the sector is 25.0%, which is below annualized inflation (60.0%). "There's been a lot of misinformation about this. We've seen people talking on the social networks of an increase of as much as 40.0%, and that's not the case," explained an operators' spokesperson. Increases by Digitel and Movistar are between 20.0% and 23.0% for all their services.

"They complain about everything." That was the reaction of Minister for Agriculture and Lands Yván Gil when referring to statements by some producers. The effects of the drought and the lack of inputs are the biggest sources of complaints by producers of oranges, corn and sugarcane and cattlemen. Gil gave no credence to the complaints and claimed that producers do not admit that they are being listened and attended to by the ministry as never before. Agriculture is a business that, today, has an investment capacity it did not have 15 years ago. *"If the situation were so*

Year 10. Number 26. Week II
July 2014

catastrophic, state aid, such as the US\$50 million we placed in Portuguesa and that was received by producers, would not be for them but for the banks, as happens in other countries,” he pointed out.

Foreign rice producers score. While domestic rice producers are calling on the government to evaluate the problem that will result from the inevitable drop in production owing to the heavy drought affecting a large part of the country, their peers in Brazil are celebrating the increase in paddy rice exports to Venezuela, as between January and May this year, they sent more than 87,493 tons of paddy rice to our country, 337.4% more than the 20,000 tons dispatched over the same period in 2013, according to figures from Brazil's Secretariat for Foreign Trade (SECEX).

And sugar as well. Some 12,000 tons of sugar from Brazil arrived in Puerto de La Ceiba (on the southern shore of Lake Maracaibo) on Friday to be processed by La Pastora Sugar Mill located in Lara state. The arrival of the shipment was announced in a press release by the state-owned Bolivariana de Puertos (Bolipuertos). The shipment was dispatched from Paranagua Port in Brazil, one of the countries from which Venezuela is buying sugar.

Imports are down. The National Statistics Institute reports that imports came to US\$9.21 billion in 1Q2014, down 23.0% from the same period in 2013 and their lowest level since 2010. In the first three months of 2014, public sector imports fell by 6.2% compared to the same period in 2013, whereas private sector imports plummeted to US\$5.37 billion, a drop of 31.5%.

Cencoex and private business met to discuss supply. In order to guarantee the supply of medicines and medical equipment in 2H2014 and to move ahead with planning for 2015, representatives of Cencoex met with members of the Venezuelan Medicine Chamber (Caveme) and the National Chamber of Generic Medicines and Associated Products (Canamega). The president of Canamega, Jorge Rivas, welcomed the government's willingness to work more closely with the medicines and generics fabrication sector with a view to supporting domestic production.

No deadline agreed for paying the airlines. Minister Graterol also stated that his ministry was “*opening the doors to the international air sector for it to set the real cost of air tickets for destinations abroad based on the SICAD I rate. Calculating (that cost) at the SICAD II rate is not being considered.*” Graterol also pointed out that President Maduro had approved more than

Year 10. Number 26. Week II
July 2014

US\$186 million for paying the amounts owed the domestic airlines flying to local and international destinations corresponding to 2012, 2013, and 2014 and stressed that those liabilities would be honored *“once the airlines present all the necessary documents to Cencorex.”*

New government officials, more meetings. The appointment of new authorities at the Ministry for Food two weeks ago will result in another round of technical and other meetings to discuss measures for dealing with the major crisis being caused by shortages of basic food products. The new Minister for Food, Hebert García Plaza, announced that he had held a meeting with the sector to carry out a revision of the Agri-Food Control System with a view to defining the distribution of food throughout the country. However, according to private sector sources, all that happened at the meeting was that the new executive team was introduced and it was decided to *“set up technical groups to start evaluating the sector’s problems.”*

Tacoa without maintenance. The last major maintenance carried out on the five steam generation units at Tacoa Thermoelectric Power Station located in Vargas state was in 2005, according to a report issued in October 2013 by Corpoelec. The report was submitted to the company’s president, Jesse Chacón, and a meeting to decide what work was to be carried out was scheduled for January 4, 2014. Sector sources say that, despite the urgent need for the major maintenance, the authorities have postponed carrying out some work that is vital for guaranteeing a reliable and continuous power supply.

Electricity workers’ lives at risk. Electricity workers set aside their political differences and united to declare a state of emergency. Ángel Navas, the president of the Electricity Industry Workers Federation (Fetraelec), is clamoring for safety in the company, stressing that four workers have died this year and seven have been permanently disabled in job-related accidents. The union leader explained that 38% of the circuits are overloaded. *“We’re alarmed by what is happening,”* he said.

VEB 12 a kilo. The cornmeal processing industry estimates that the price of cornmeal should be put up again to VEB 12 a kilo. This would be increase the current regulated price of VEB 7.4, set in August 2013, by 61.9%. *“Costs are going up constantly. With a price near VEB 12 a kilo, the industry could operate with the 30% profit margin stipulated in the Fair Costs and Prices Act,”* said a spokesperson associated with the agro-industry.

Year 10. Number 26. Week II
July 2014

The drought will leave us without arepas. The drought has been inclement in the two main corn producing states, Guárico and Portuguesa, where it is estimated that, at best, the harvest from the area it is expected to plant will come to 30.0% and 60.0%, respectively. The vice-president of Fedeaagro, Aquiles Hopkins, said that this will have an impact on the availability of yellow and white corn in the second half of the year and even in 2015.

WORLD ECONOMY TIPS

Steady growth in employment. According to estimates by the US Bureau of Labor Statistics (BLS), 288,000 new jobs were created in the world's largest economy in June, which brought its unemployment rate down to 6.1% at the close of the first half of the year, the lowest level since September 2008. This is the first time in 15 years that the US economy has posted the creation of more than 200,000 jobs for five months running.

The global economy will grow, but more slowly. International Monetary fund (IMF) Managing Director Christine Lagarde said that global economic activity should strengthen in the second half of this year and accelerate in 2015, although momentum could be weaker than expected a few months ago. Lagarde said that central bank's accommodative policies banks could have a limited impact on demand and that countries should also promote growth by investing in infrastructure, education, and health, provided their debt stays sustainable.

The most developed will post highest growth. The indicator developed by the OECD, which covers its 33 member countries, remained unchanged in June (for the sixth month running) at 100.6, above its long-term average of 100, reflecting stable growth. The OCDE forecasts flat growth this year in the main emerging economies, whereas the outlook is for stable growth in the more developed countries and improved growth in the United States.

No need for an additional boost. China's prime minister, Li Keqiang, gave assurances that his country's economic growth accelerated in the second quarter of the year (compared to the previous quarter), but that state aid measures were still needed. Li explained that the government would increase the use of specific measures to boost growth and that he believed that growth would be around 7.5% this year, but said that he did not have any large-scale plan for boosting the economy in mind.

Year 10. Number 26. Week II
July 2014

Confidence in the Eurozone posted an unexpected increase in July.

According to the index prepared by Sentix, investor confidence in the Eurozone strengthened in June owing to the measures for boosting growth taken by the ECB and improved expectations for growth in the world economy. The index prepared by the German consulting firm rose to 10.1 in June compared to 8.5 the previous month, after posting drops two months in a row.

Surprising contraction. Germany's industrial production fell by 1.8% in May compared to the previous month, its biggest drop in more than two years, according to the Ministry for the Economy, which said that the drop was due to the effect of the long May 1 weekend and weak activity in construction, which was expected after a mild winter. Production by Germany's industry, not including energy or construction, fell back by 1.6%, for a drop of 3.0% in the production of intermediate goods and 3.5% in consumer goods, whereas the production of capital goods rose by 0.3%.

On the brink of default. The credit rating agency Standard & Poor's downgraded Argentina's credit outlook to negative and said that if it does not manage to pay the interest on its bonds, it could declare that Argentina had failed to meet some of its liabilities. This week, Argentina was unable to pay interest due on bonds in dollars owing to a court ruling that makes it obligatory for it to pay non-restructured creditors US\$1.33 billion plus interest at the same time. The credit rating agency said that it would change the negative outlook if Argentina manages to reach an agreement with its creditors and honors its liabilities.

Vulture funds pose a hazard. The OAS issued a statement in support of Argentina in its dispute over the "vulture funds" (holders of non-restructured bonds). OAS Secretary General José Miguel Insulza warned of the "*the danger for the international financial system posed by the actions of the vulture funds*" and insisted that they are not only threatening the financial stability of Argentina. The OAS's statement was approved with abstentions by Canada and the United States.

Cuba free... of debt. The Russian parliament ratified an agreement under which the Russian Government condones 90.0% of Cuba's debt with the former Soviet Union. Now Cuba will only have to pay US\$3.5 billion of the total debt, which came to US\$35 billion. The agreement was ratified just

Year 10. Number 26. Week II
July 2014

before President Vladimir Putin set out on a tour of Latin America, which includes a visit to Cuba where it is expected he will meet with President Raúl Castro to discuss bilateral cooperation agreements in energy, investment, transport, civil aviation, and health.

POLITICAL TIPS

Government seeks structural reform. Vice President Jorge Arreaza said that President Nicolás Maduro had decided to call a State Council with a view to addressing the structural transformation of the government and political dialog to achieve peace. Arreaza explained that, with regard to the structural reform of the State, they would be talking about revising all the processes, the fight against corruption and inefficiency in government, whereas on the matter of political dialog, they would be discussing issues such as peace, coexistence, and efficiency in government.

They have to take the bull by the horns. Segundo Meléndez, the president of *Movimiento al Socialismo* (MAS), said that, given President Nicolás Maduro's announcement of making sweeping changes in his cabinet, they should start by admitting that the problems in the country start with the socialist model proposed by the Executive. *"The Executive must take the bull by the horns if it wants to solve the problems. And in this case, the horns are its government's model and policies, which means that rectification is what the present situation demands owing to the fact that the crisis is getting worse daily,"* added Meléndez.

Chain of corruption. The governor of Miranda, Henrique Capriles, claimed that corruption is an ill that is to be found in the high echelons of power and that, bit by bit, it has *"taken over the country"* as a result of the impunity that reigns in Venezuela. *"It is precisely that same corruption that explains the rampant crime that exists in our Venezuela; the crime in the high echelons of power that prevents putting an end to crime in the rest of the country,"* added Capriles.

Talking of corruption. National Assembly Deputy Marcos Figueroa announced that a *"stadium mafia"* is currently operating in the State that collects payment for the construction of sports infrastructure works that are never completed, a situation he intends to bring to the attention of the

Year 10. Number 26. Week II
July 2014

Comptroller General's Office. He also said that this situation is not only causing dissatisfaction within the government, but also among members of the general public, who have gone so far as staging public demonstrations, since this is a problem that has become obvious to a large segment of the population.

A call to return to the constitutional fold. The director of *Voluntad Popular*, Leopoldo López, wrote a letter to the members of the National Armed Force (FAN) in which he called on them not to “*view a Venezuelan brother as an enemy simply because he thinks differently from those who govern*” and to focus once again on their true functions: the defense and security of the nation. In his letter, López also questioned the Executive's policy with regard to the military and the actions of some high-ranking officers “*who have deflected the FAN from its true mission.*”

Ironing out differences. The US Department of State has appointed Lee McClenny as chargé d'affaires at the US Embassy in Caracas as a gesture of rapprochement to relieve diplomatic tensions that have existed between the two countries since the departure of the last US ambassador to Venezuela in 2010. The Venezuelan Government has also appointed Maximilien Sánchez Arveláiz (initially appointed as ambassador) as its chargé d'affaires in the United States.

From public prosecutor to defendant. Parlatino Deputy Delsa Solórzano has announced that she will file a lawsuit against Prosecutor General Luisa Ortega Díaz for failing to investigate the loss of US\$25.0 billion handed over to alleged shell companies by CADIVI. “*The Prosecutor General knows the names of the people involved and, if she hasn't opened an investigation, she practically becomes an accomplice to this crime of corruption, for hiding it; a crime that is not subject to statute of limitations,*” explained Solórzano.

The Unity Alliance is effective. *Primero Justicia's* executive secretary, Tomás Guanipa, said that the Democratic Unity Alliance should be maintained because “*it has allowed us to make tremendous strides*” in terms of elections, citing the 2013 elections as an example, at which, according to him, 800,000 people who voted for Chávez in October 2012 voted for Henrique Capriles. Guanipa is the first person to defend this party coalition, which has been questioned following the events of March and April.

Venezuela is giving cause for concern. Former President of Chile Sebastián Piñera said that democracy and freedoms are “*at risk*” in

Year 10. Number 26. Week II
July 2014

Venezuela and that the situation in the country should give the international community cause for concern. Piñera recognized the principle of non-interference in the affairs of other countries, however, he considered that defense of the respect for human rights in Venezuela obliges the international community to question its position on this situation.

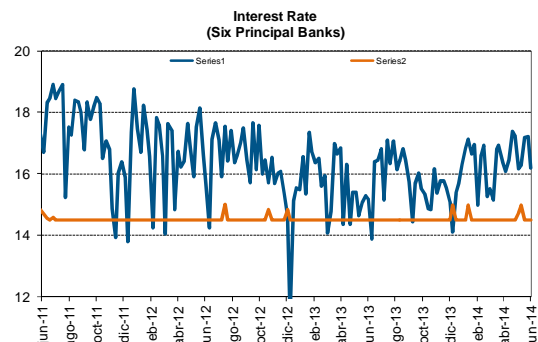
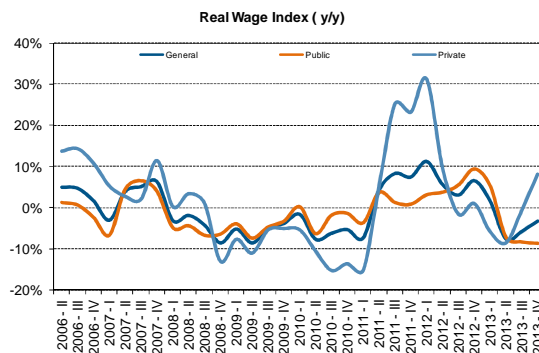
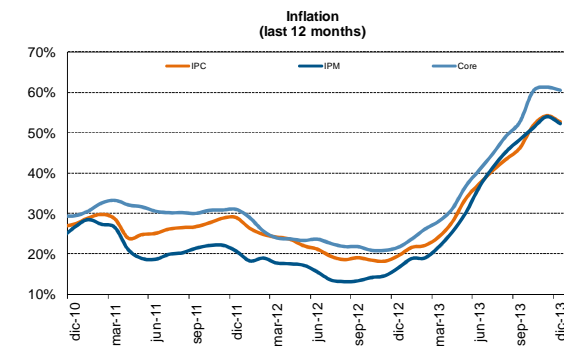
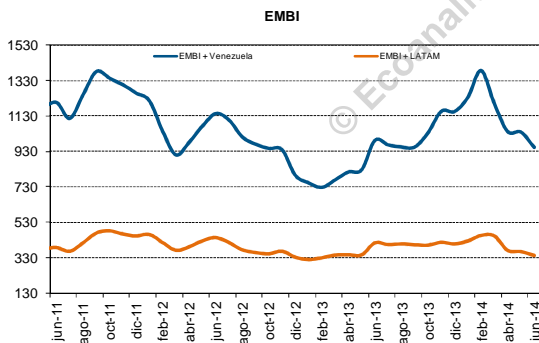
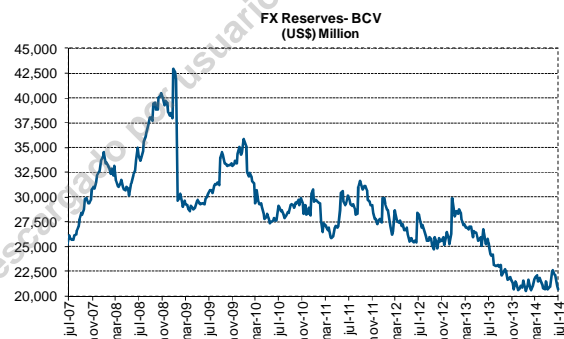
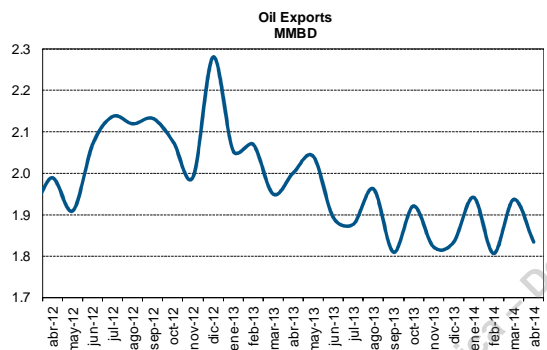
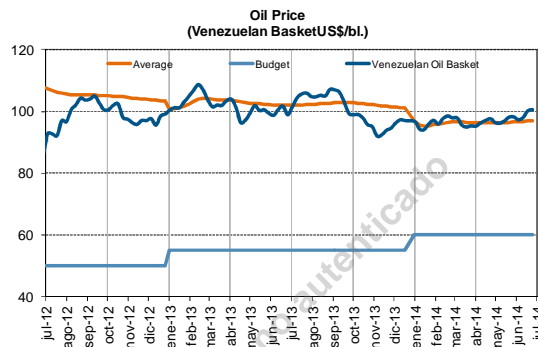
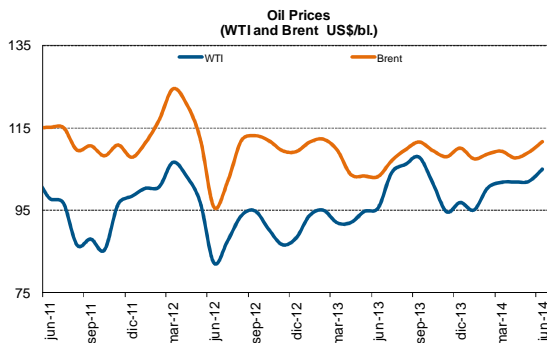
LEGISLATIVES TIPS

“Bolivarian” Mérida. Mérida's new Constitution and its new name, “Bolivarian State of Mérida,” went into effect following the issuing of a thousand copies of an extraordinary edition of the Mérida State *Gaceta Oficial*. The new Constitution, which was approved by the government majority in Mérida State's Legislative Council and subsequently approved and countersigned by the Executive during the ceremonies celebrating July 5, not only changes the name of the state, but it also adapts the structure of government to all the legislation relating to communal power approved under the Special Powers Act.

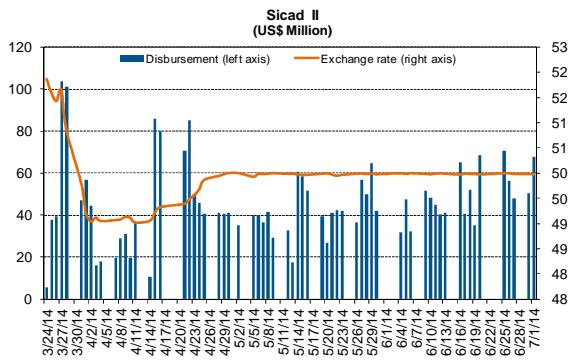
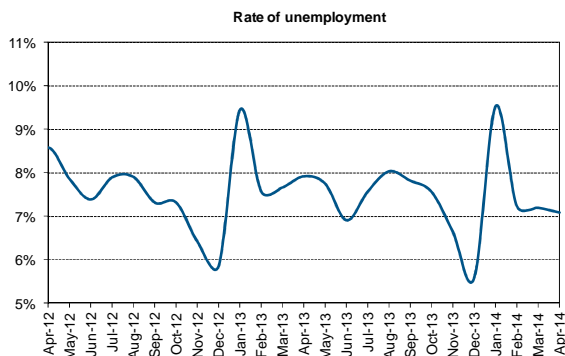
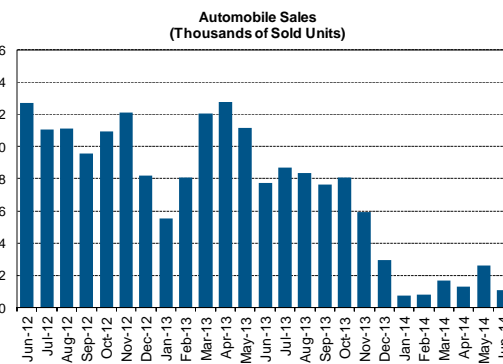
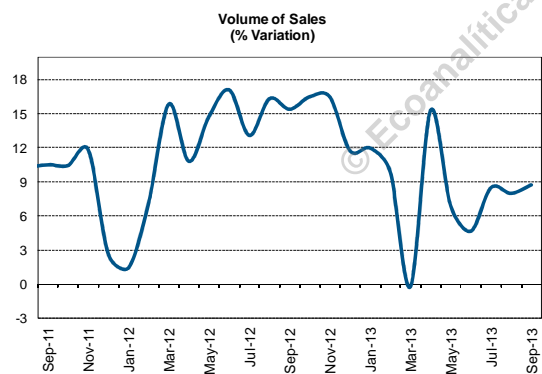
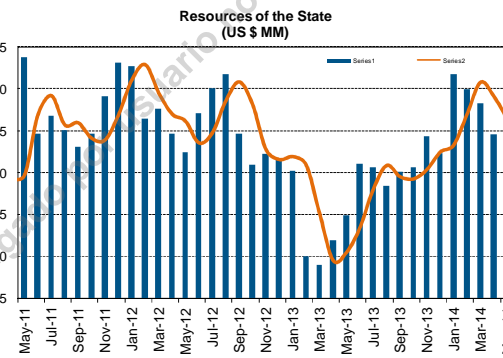
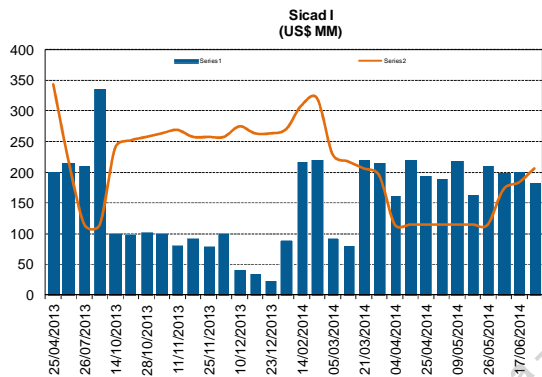
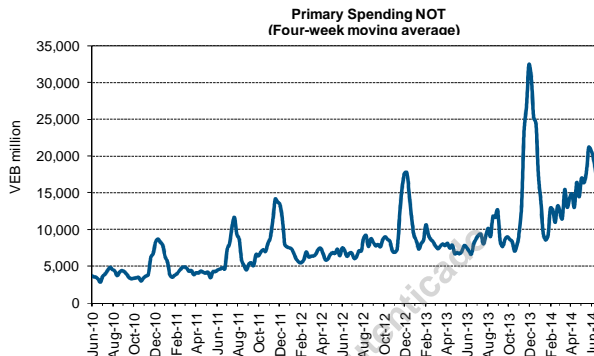
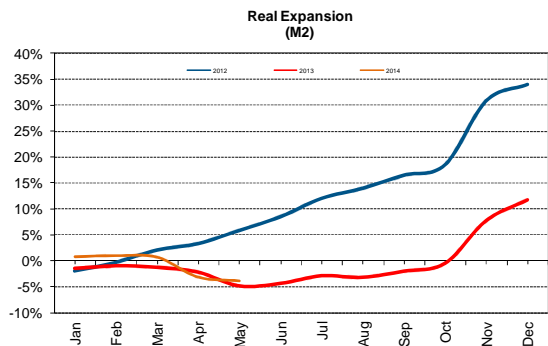
Fine tuning by the preliminary electoral commission. A meeting of the preliminary commission of the Electoral Postulations Committee has been scheduled with a view to short-listing the candidates put forward by civil society in May. The second vice president of the National Assembly, Deputy Blanca Eekhout, said on June 18 that the names of 130 candidates had been received within the space of ten days. Subsequently, the 11 deputies appointed in accordance with the Constitution and the Electoral Branch Act started the process of reviewing the qualifications and experience of each of the candidates.

Year 10. Number 26. Week II
July 2014

ECONOMIC OVERVIEW



Year 10. Number 26. Week II
July 2014



ECOANALÍTICA'S TEAM

Asdrúbal Oliveros / Director

asdrubalo@ecoanalitica.net / @aroliveros

Pedro Palma / Director

pedrop@ecoanalitica.net / @palmapedroa

Cristina Rodríguez / Director

cristinar@ecoanalitica.net

Jessica Grisanti / Senior Economist

jessicag@ecoanalitica.net / @jessigrisanti

Gabriel Villamizar / Economist

gabrielv@ecoanalitica.net / @gabvillamizar

RESEARCH ASSISTANTS

Pilar Navarro

Daniel Cárdenas

Lesner Castillo

Benjamín Matos

EDITION

Argelia Guédez

CONTACT US

Venezuela: (+58-212) 266 9080/ Fax: (+58-212) 266 5119

Colombia: (+57-1-508 6554)

mercadeo@ecoanalitica.net

foros@ecoanalitica.net

www.ecoanalitica.net

@ecoanalitica