



# Weekly Report

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*PDVSA: Is diversification profitable?*

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This will be our last analysis of PDVSA's 2009 Annual Report and Accounts, and in this issue we would like to focus on the subject of the company's new trade and supply strategy. This is a strategy that it has been implementing during the last five years and which is focused on the diversification of PDVSA's traditional markets and the impact this is having on a geopolitical level through energy agreements made with a number of countries in the Caribbean region, and how this in turn has affected the company's accounts receivable.

## **2009: A bad year**

Just as PDVSA points out in its 2009 Annual Report, business in 2009 took place in a context of "a world market characterized by a first quarter which was pretty much an extension of the last part of 2008, with a significant slowdown of the US, with all loose ready cash being taken out of the crude oil futures market, the worldwide demand for hydrocarbons dropping, slim margins for refining, and geopolitical tensions in a number of oil producing countries. During the second semester 2009, oil prices recovered stimulated by OPEC controlling production volumes."



Domestically, the refining sector of the oil industry suffered numerous shutdowns in operations, due to scheduled maintenance stops or accidents due to operational failures. This affected the delivery of crude oil and oil byproducts to foreign clients and generated the need to import products at specific moments. Also the process of assimilating all the goods and services related to the extraction and production of crude oil which took place as a result of the approval of the Organic Law that gives the State the right to takeover and control all companies related to the primary oil activities having to do with hydrocarbons which passed in May, led to a series of operational and labor conflicts and also affected the company's ability to produce and supply oil.

### The strategy

In the aforementioned context, PDVSA pointed out that the general trade strategies which began to be implemented in 2006, when the president of PDVSA, Rafael Ramírez, announced the main strategic plans of the company based on the diversification of the markets it supplied (to become less dependent from the US market) were still being followed. The strategy also includes supporting President Chávez' political process, specifically its international position, by integrating Latin America through financed energy agreements.

PDVSA's trade strategy is based on five key points:

1. Make it a priority to supply the domestic market through a reliable supply of crude oil and byproducts.
2. Achieve the best international market prices possible in the trade and sale of hydrocarbons.
3. Lower the costs associated with transportation, storage, and infrastructure.
4. Diversify the markets for crude oil and byproducts, looking to markets in China, and promote energy integration with South American, Centro American, and Caribbean countries.
5. Honor government agreements at the international level that have to do with supply, exchange, and acquiring finance.

Taking into account these five key points, we've decided to see if the strategy is being flowed and if it is being successful.

### How much oil did we export in 2009?

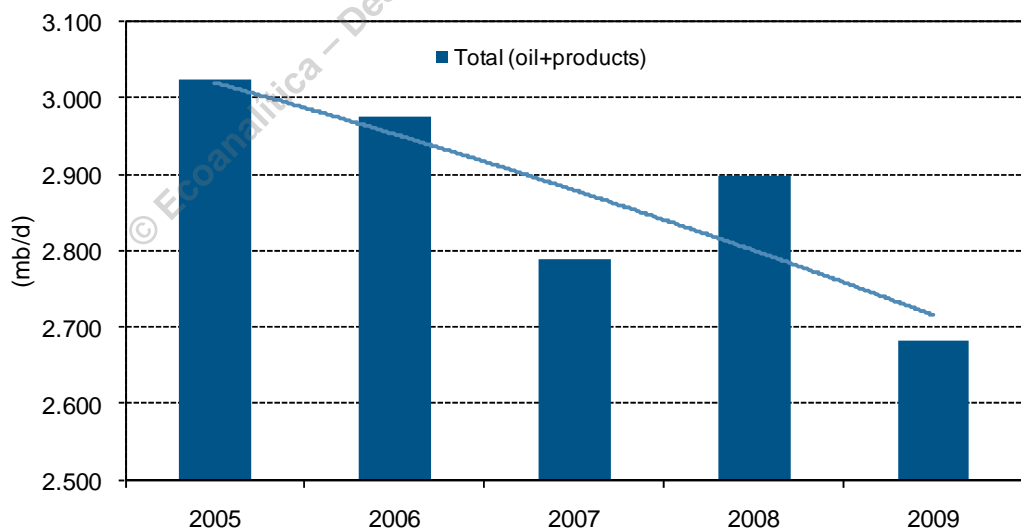
According to PDVSA's 2009 Annual Report and Accounts, crude oil exports and the export of byproducts reached 2.682 million barrels daily (mb/d), which is down by 215 thousand barrels daily compared to 2008, when the total amount exported was 2.897 mb/d. If we break this number down we



find that PDVSA crude oil exports were at 2.019 mb/d, which is down by 209 thousand barrels a day compared to 2008 when 2.228 mb/d were exported. With respect to the export of oil by products, PDVSA exported 663 thousand barrels a day, down by only 6 thousand barrels a day compared to 2008.

Now, PDVSA states that the main reason these figures dropped was because they had to abide by OPEC oil production cutbacks. But, according to the IEA, Venezuela only met with 40.0% or 140 thousand barrels of the quota it was assigned. So this means that the justification that PDVSA is presenting as to the drop in oil production doesn't explain the whole problem, rather one has to take into account investment policies and overall industry maintenance, and consider that these may have been neglected, pushed aside below other "priorities" such as investment in social development, diversification of markets, and geopolitical strategies. This can all be confirmed with the decreasing tendency oil exports have been showing during the last five years.

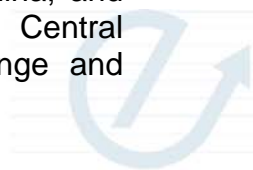
**Pdvsa's Exports (mb/d)**



Sources: Pdvsa and Ecoanalítica

**The diversification is quite noticeable now**

Just as points 4 and 5 state, with respect to PDVSA's new trade strategy, there has been a most definite push to diversify the company's crude oil markets and a most definite focus on Asian markets, namely China; and also a concentrated effort made to integrate South American, Central American, and Caribbean countries, offering to supply, exchange and finance energy agreements.





So, if we analyze where all Venezuelan exports (crude oil + byproducts) in 2009 were sent we find that 50.6% went to North America (mainly the United States); 19.4% went to Asia (mainly China and India); 15.5% to Caribbean region countries; 9.2% went to Europe; 3.4% to South America; and 0.9% to Central American countries; the rest went to African countries and other destinations.

If we compare these figures with the figures of 2006, we find that the United States received 57.3% of total exports and Europe received 11.6% while the Asian market only received 7.7%. So, it seems clear that in the future it's quite probable that the US and Europe will continue to lose ground thereby opening the door for the Asian and Latin American markets.

Destination	Oil Exports Crude+Products (Millions of barrels)							
	2006	%	2007	%	2008	%	2009	%
NorthAmerica	1704	57.3	1691	60.6	1500	51.8	1357	50.6
Caribbean	515	17.3	485	17.4	549	19.0	414	15.5
Central America	36	1.2	33	1.2	40	1.4	25	0.9
South America	80	2.7	74	2.7	98	3.4	90	3.4
Europe	344	11.6	273	9.8	245	8.5	246	9.2
Asia	230	7.7	199	7.1	422	14.6	520	19.4
Africa	22	0.7	17	0.6	23	0.8	14	0.5
Others	44	1.5	17	0.6	20	0.7	15	0.6
<b>Central America and the Caribbean</b>	<b>551</b>	<b>18.5</b>	<b>518</b>	<b>18.6</b>	<b>589</b>	<b>20.3</b>	<b>439</b>	<b>16.4</b>
<b>Total</b>	<b>2975</b>	<b>100</b>	<b>2789</b>	<b>100</b>	<b>2897</b>	<b>100</b>	<b>2682</b>	<b>100</b>

Sources: PDVSA and Ecoanalítica

### Is this diversification an advantage?

At *Ecoanalítica*, we believe that the diversification of PDVSA's markets has an ambiguous affect. Diversifying to the Asian markets may have its advantages given the economic growth these emergent economies are having, especially China, which has been spearheading worldwide energy demands for the last two years. And this also look positive from the point of view of the capacity to make payment and to enter into financing agreements, exchanging crude oil for hard currency to be used for development projects, as is the case of the China Fund. This without taking into account that the future growth in oil demand lies in the Asian markets, especially China and India.

But then you have to take geography into account and transportations costs. The costs of sending shipments to the US and/or Europe are nothing compared to the costs of sending crude oil to Asia.

Then there is the issue of the increase in shipments to Central American countries and countries in the Caribbean region which are benefiting from



agreements much different than the agreements made with China. These agreements made with our closest neighbors don't benefit either PDVSA or Venezuela. These agreements are financed at between 15 to 25 years (with a 2 year grace period) with a yearly interest rate of between 1.0% and 2.0%. At **Ecoanalítica**, we have decided to calculate the impact these agreements (especially PETROCARIBE) have on PDVSA's accounts receivable.

**What is  
PETROCARIBE?**

According to PDVSA, the point of PETROCARIBE is to help level the playing field in terms of a countries access to energy resources by creating an exchange scheme that is "favorable, equal, and just" for all the countries participating, with PDVSA being its main and only supplier. Then, when the volume of crude oil and byproducts going to these member countries began to increase, the company line was that PDVSA was engaged in a strategy to diversify the markets it supplies.

**Is the  
agreement  
profitable?**

At **Ecoanalítica**, we have calculated the approximate value of Venezuelan oil exports to PETROCARIBE member countries and thereby calculate the portion that has been financed according to the regulations established in the agreement pertaining to financing.

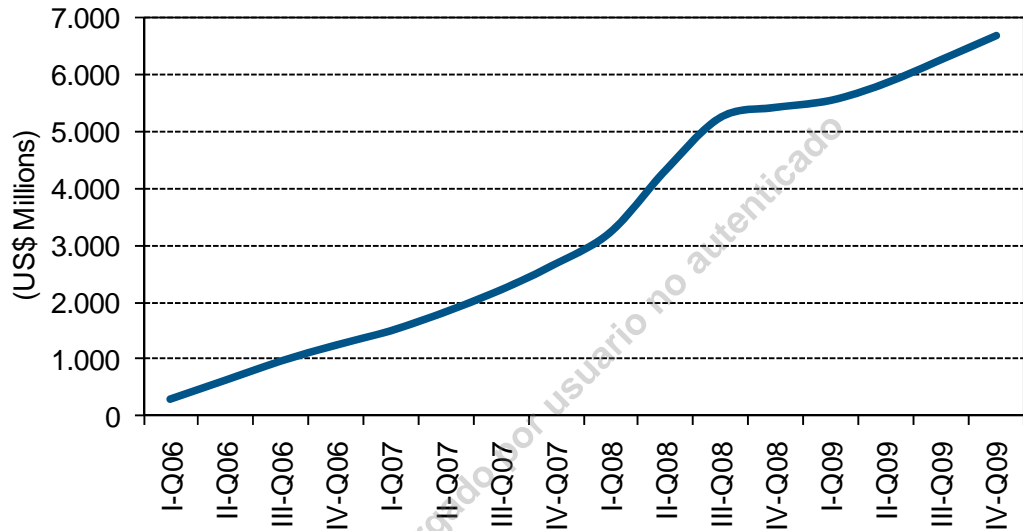
First we used export volumes reported by PDVSA in its audited balance statements and the average price of the Venezuelan oil basket (given that the composition of exports to the region do not vary much in total) in order to obtain a bill for oil/byproducts received by each member in PETROCARIBE. In the period between 2006 and 2009, total exports to PETROCARIBE members reached around US\$16.40 billion.

PDVSA accounts receivable balance from these member countries at the close of 2009 reached US\$6.60 billion, which is up by US\$1.26 billion (23.3%) compared to the close of 2008. This amount represents more than 47.0% of all accounts receivable, and exports to these member countries does not surpass 7.0% of total Venezuelan exports.





**PDVSA's accounts receivable with PETROCARIBE**



Sources: PDVSA and Ecoanalítica

**There is no doubt about it**

These results seem to indicate that with respect to PETROCARIBE, these agreements are not PDVSA's best option when it comes to "diversifying its markets." As we have state a number of times in previous issues, exchanging a client that pays its bills in a timely manner (the United States and Europe) for one that may be your friend and may have the best intentions in the world, but with almost no possibility of making payment, even with the beneficial agreement you are giving them, is just adding dead weight to PDVSA. And in these hard times, this becomes very costly for the company. But, as we have seen before, it seems that in the Chavez Administration, political gain is more important than economic gain.





## Economic Tips

**Chávez announces another issuance.** President Chávez announced that PDVSA will be making an issuance of bonds for around US\$ 2.0 billion but he didn't make any reference to a date. With this issuance, the company will have issued bonds for US\$3.0 billion in this semester. Two weeks ago, PDVSA issued bonds for US\$ 1.04 billion and they mature in 2014.

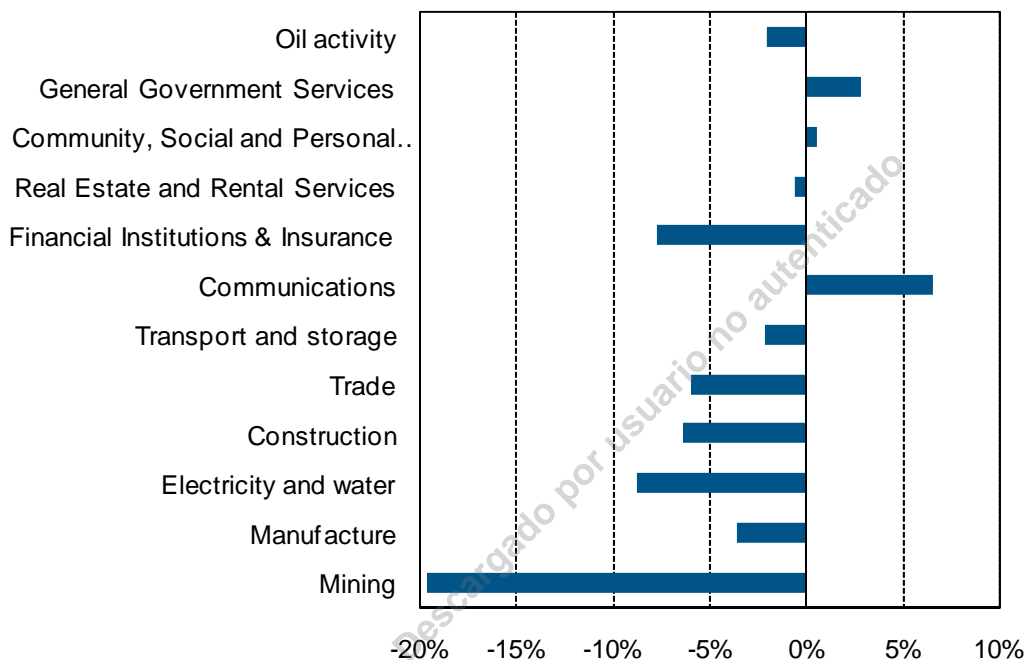
**New public stock exchange.** The President announced this new issuance by PDVSA when he was talking about the Public Stock Exchange, saying that it would trade in domestic and foreign currency and that State run companies such as CVG, as well as small and medium sized companies will be able to issue papers in this market. According to information supplied by Reuters is expected that the issue will be concredited by PDVSA in September.

**The GDP shrank by 1.9% (y/y).** The Central Bank of Venezuela (BCV), reported that the GDP for the second quarter 2010 was down by 1.9% compared to the same period in 2009. This means that the yearly quarter to quarter rate adjusted for the season, implies a 5.2% growth (SAAR) compared to the first quarter 2010. Oil activity is down by 2% and non-oil activity is at 1.7%. Mining was down the most by 19.6%, and only communications (6.5%), community, social, and personal services (0,6%), and government services (2.9%) posted any growth.





## GDP %y/y 2Q10



Sources: BCV and Ecoanalítica

**GDP by institutional sectors.** On a y/y basis, the public sector shrank by 1.5%, while the private sector shrank by 1.8%. The public sector GDP represented 40.5%, while the private sector represented 59.5% of total GDP, up by half a percentage point compared to second quarter 2009.

**Global supply and demand.** Global supply, made up by GDP and imports of goods and services shrank by 3.2%, a drop of 1.9% in GDP and a drop of 6.4% in the import of goods and services. Global demand also shrank by 3.2% (Global supply = Global demand), with domestic aggregate demand dropping by 0.9% and foreign aggregate demand dropping by 19.4%. FBCF dropped by 0.8%, adding public and private consumption shows a drop of 1.4%.

**Nelson Merentes: GDP will grow starting in the first quarter 2011.** According to the president of the Central Bank of Venezuela, Nelson Merentes, the worst part of the crisis is over and Venezuela's GDP will begin to grow again during the first quarter of next year, posting at least a 2% growth (y/y). Merentes also said that inflation estimates for 2010 remain at between 27% and 30% and that international reserves will remain over their optimum level of US\$28.0 billion at the close of the year.



**The balance of payments is not surprising.** The balance of payments figures, released by the Central Bank of Venezuela (BCV), show a current account increased 29.9%, as a result of an increase of 34.0% in the surplus of the balance on goods, which more than offset the increase in the deficit of the balance in services (9.7%). The increase in the balance in goods was due mainly to an increase of 10.9% of oil exports. With respect to the capital account, we can see that the capital account of the public sector contracted 76.5%, while the private sector contracted by 19.1%, resulting in a deficit of US\$ 2,022 million for the second quarter.

<b>BALANCE OF PAYMENTS (General Summary)</b>	<b>2009 - II</b>	<b>2010 - II</b>	<b>Var (%)</b>
<b>Current Account</b>	2.017	2.621	30%
<b>Goods</b>	4.538	6.079	34%
<b>Oil Exports</b>	13.756	15.257	11%
<b>Non-Oil Exports</b>	837	775	-7%
<b>Import of goods f.o.b.</b>	-10.055	-9.953	-1%
<b>Services</b>	-2.121	-2.326	10%
<b>Others</b>	-400	-1.132	183%
<b>Capital Account</b>	608	-2.022	
<b>Public Sector</b>	4.378	1.028	-77%
<b>Private Sector</b>	-3.770	-3.050	-19%
<b>Reserves Variation</b>	2.625	599	-77%

Sources: BCV and Ecoanalítica

**July unemployment up to 8.7%.** For the month of July, the National Statistics Institute (INE) reports that unemployment is at 8.7%, almost 0.2 percentage points higher than the same month last year. The number of unemployed people reached 1,137,874, up by 30,945 people in the last 12 months. People working in the informal market increased by one percentage point in July compared to June settling at 45%. The president of the INE, Elías Eljuri, pointed out that Venezuela maintains a relatively low unemployment rate compared to other countries facing the economic crisis, but this is because those other countries do not have an informal economy sector to ease this burden.

**Unemployment rate adjusted by season.** The seasonal adjustment of the unemployment rate allows one to calculate the unemployment rate month to month. With the adjustment, July's unemployment was at 8.4%, up by 0.9% compared to June which was at 8.3%.



**INE Food Basket increases slightly.** The INE Food Basket closed the month of July at VEF 1,312.4, up by VEF 13.6 bolivars (1.1%) compared to the previous month, and up by 34.5% compared to the cost last year in the same month. Minimum wage will cover 93.2% of the Food basket, but in order to cover current housing, health, and educations costs you need around VEF 2,624.7. So with a current minimum wage you will only be able to cover 46.6% of this cost thereby requiring two minimum wage salaries in a family to cover basic needs.

**Sitme figures.** To date, US\$1,432.7 million have been negotiated through the new Integrated System for Foreign Currency Transactions (Sitme), averaging US\$26.5 million a day, with an implicit exchange rate of VEF 5.3/US\$. Last week US\$163.5 million were negotiated, US\$29.6 million more than the week before, when it reached US\$134.0 million.

**Interest rates.** The lending rate for the third week of August was at 17.3%, down by 215 base points compared to the previous week. Time deposits and savings rates were at 14.5% and 12.6%, respectively. This reflects a one base point drop for time deposits while savings remains steady.

**International reserves.** International reserves increased by 1.2% going from US\$28.15 billion during the second week in August to US\$28.48 billion during the third week of August. Compared to the same period last year, international reserves dropped by 9.5%.

**Monetary liquidity.** Monetary liquidity for the second week in August was up by 2.3% compared to the previous week settling at VEB 255.982 billion, accumulating and increase of 12.1% year-to-date and up by 18.7% compared to the same period last year.

## Oil Tips

**A fall in PDVSA's production is forecasted.** The International Energy Agency (IEA) forecasts a fall in production of 100,000 barrels per day for 2011, with respect to the highest level recorded for this year. The IEA presently estimates production at 2.4 million barrels per day, compared to the amount published by PDVSA, of 3 million barrels per day, a difference that is due to the fact that the IEA does not count the barrels from the Orinoco Belt. They consider that the losses incurred by the company



due to internal subsidies is troubling, and also forecast an increase of 21.8% in internal consumption, which would reach 730,000 barrels per day in 2011.

**New agreements between Venezuela and China.** New energy agreements between Venezuela and China were signed in Beijing, like financial agreements for the mining and oil sectors. The delegation was led by Minister of Planning and Finances, Jorge Giordani. Among the agreements signed, the Venezuelan embassy in China underscores a supply contract between Pdvsa and the National China Corporation, and a mining cooperation agreement between CVG and the China Development Bank. However, no more details were provided.

**Everything under control in Puerto La Cruz.** As stated by Jesús Luongo, PDVSA's director of refining, after Tuesday's event in the alkylation unit. Operations are normal, and the pertinent investigation is under way. Fuel distribution from the refinery is completely normal, and in two weeks the operations of the alkylation unit could resume.

**Operations of the nationalized rig resume.** Rafael Ramírez, Minister of Energy and Oil and President of PDVSA, said that the operations of rig José Rafael Guerra Silva, located in Monagas, have started, which was nationalized from the company Helmerich & Payne, its prior owner. Production costs are around US\$20,000 per day, while previously (before it was state owned) they were around US\$43,000, according to Ramírez. This 10% savings in the operations budget will be destined to social works.

**Prices fall.** On Tuesday, August 24 oil prices dropped in international markets, to close to US\$72/b, which represents another fall for the fifth consecutive day, due to high levels of crude oil inventories in the United States, around 800,000 barrels per week, a historic high. This is significant, because seasonally, inventories decrease this time of the year because cars are used more during the summer. This worried investors, and thus international markets fell back.

**Gasoline price falls.** In reaction to the continued difficulties in the US economy, the prices of oil products tend to fall, as published by Haver Analytics, stating that the price of the gallon dropped to US\$2.7, four cents less in the last week, after a similar drop the week before. This trend has continued since May of this year, when it reached US\$2.9 per gallon. However, compared to the levels of the end of 2009 and 2008, of US\$2.6 and US\$1.6, the trend is still positive, with a growth of 2.9% inter annually.

**All this, despite....** This price drop occurs despite the fact that gasoline demand has increased 3.5% inter annually, in the last week. Also, the demand for distilled products



increased 5.8% inter annually, while the demand for residual products decreased 1.1% inter annually.

**Also gas.** Natural gas prices fell US\$0.5 this month, for an average US\$4.3 per mmbtu in the last week. In January, prices were at US\$6.5 per mmbtu.

**Belarus tries to reduce its dependence on Russia.** Belarus is negotiating with Latvia so that it opens a door for Venezuelan crude oil imports, because it doesn't have a coastline. Thus it would create a new transit route through the Baltics. The purpose is to reduce its dependence on Russia for the purchase of oil.

**Available.** From Monday of this week, the so called Gulf Coast Claims Fund for US\$20,000 million from British Petroleum became effective, to compensate the damage to the Gulf of Mexico caused by the oil spill. The purpose of the fund is to avoid or at least minimize lawsuits against the British oil company.

**International oil baskets.** At the close of the New York market last Thursday, August 26, the WTI was at US\$73.5/bl, showing a 1.2% decrease compared to the US\$74.4/bl of the previous Thursday. The Brent decreased by 0.6% to reach US\$75.2/bl, compared to US\$75.6/bl of Thursday, August 12.

**Local oil basket price.** The Venezuelan oil basket price decreased last week, to close at US\$67.6/bl on Friday August 20, up by US\$3.3 from the US\$70.8/bl registered the previous week. Meanwhile, the basket's annual average kept constant in US\$69.8/bl.

## Business Sector Tips

**Venezuela and Colombia again.** On Friday, Venezuela and Colombia established in Caracas a route map to strengthen its newly restored relation, and foster bilateral cooperation in different areas, among them trade, security and social development at the borders. President Chávez underscored the recent visit to Caracas of Colombian Minister of Foreign Affairs, María Ángela Holguín. "A very productive day", both the Colombian Foreign Affairs Minister, María Ángela Holguín, and her Venezuelan colleague, Nicolás Maduro, said at the end of the day in which five commissions were installed to will strengthen most of the revived bilateral links.

**First things first.** Summarizing the day, Minister Maduro said, regarding the regularization of the country's debt with Colombian businessmen, that a "quick"



payment of US\$ 200 million was approved, out of the US\$ 800 million claimed. About the remaining amount, Maduro said that a bi-national commission was created to analyze its origin and eliminate the possibility that it includes “illegalities”, for example “overcharging”. Holguín said that the commission should end its work in 15 days, starting next Monday.

**The other areas.** The Venezuelan Foreign Affairs Minister said that “a work group against smuggling in the border was also created because we want healthy and transparent trade relations”. He said that the second commission will “set the base for an economic and commercial agreement between both countries” to regulate relations starting in April 2011, when the present agreement expires. Regarding the third commission, on the border areas, Maduro said that proposals were made, among them in education, health and culture, to move forward in its social development.

**Cemex experiences losses.** A slowdown in cement sales, and a rise in commitments affected Cemex’s accounts during the first half of the year. Its financial statements for the first semester show losses of VEB 78.3 million, when during the same period last year, the company had a profit of VEB 28.7 million. Official sources say that the company has had difficulties because besides a lower production, there are distribution problems.

**“La Previsora” expropriated.** As part of the Government’s new policy on insurance, to create a state network of insurance companies to “eliminate the speculation generated by the private sector”, President Hugo Chávez signed a request to the National Assembly to expropriate “Seguros La Previsora”. Chávez also said that “La Previsora” will be the “base for operations” of this new state owned insurance company.

**Private companies will quote at the Public Stock Market.** The executive issued the Stock Market Law, which includes the creation of the Public Stock Market, and according to President Hugo Chávez Frías, the entity where public and private companies will participate will be ready. The law was published in *Official Gazette* No. 39.489 of August 17, 2010, which besides creating a public stock market, prohibits brokerage companies to purchase public debt bonds. The law establishes that brokerage companies have 180 days to get rid of the public debt bonds that they have in their portfolio.

**Name and surname.** The Bank Superintendency (Sudeban) sent a communication to the banks requesting a list of all individuals and companies that are shareholders of the institution. The note states that non-compliance with this request will be penalized according to the provisions of the Banking Law. This week a reform to the Banking



Law was approved, prohibiting the owners of those institutions to also own communications media.

**Partial reform of the Banking Law approved.** The National Assembly approved, in a second round of discussions, the reform to the General Law of Banks and Other Financial Institutions; among its new articles, it says that shareholders of a financial institution cannot be owners of a communication media.

**Speeding up the reform to the Rental Law.** President Hugo Chávez Frías requested the first vice president of the National Assembly, Darío Vivas, to speed up the reform to the Real Estate Rental Law to “*solve the situation of the middle class*”. Members of Congress said that among the objectives of the reform is to give ownership to those families that have paid rent for more than 20 years. The President also said that this year, the BCV will grant a credit for housing of VEB 500 million, and next year it will be of VEB 1 billion.

**Caracas independent.** With the addition of 3,496 megawatts (MW), through the operation of various electric plants, the Greater Caracas will be independent from the National Electricity System (Sistema Eléctrico Nacional – SEN) by the end of this year, as informed by the vice minister for Electric Power, Javier Alvarado. Presently, the Capital generates 1,811 MW, to which 3,496 MW will be added, thanks to the execution of several projects.

**Credit rates for remodeling are established.** The Minister of Housing established credit conditions for remodeling and expansions, as well as for the self-construction of homes. The families benefitted from this financing will be those whose earnings are up to five minimum wages, equivalent to VEB 6,120, so not all groups will have access to these loans. These financing modalities will have preferential rates, from 1.4% to 4.6%, and individuals will only tie up 20.0% of their income for the monthly installments. Loans for remodeling will be distributed into 60 installments, credits for expansions into 120 monthly installments, and financing for self-construction will be divided into 180 installments.

**Meat from Nicaragua.** In 2010, Venezuela became the first market for Nicaraguan beef, while the United States, the traditional destination of exports of the Central American country, moved to second place, as revealed by an official report from the “Centro de Trámites de las Exportaciones” – Export Procedures Center (Cetrex) of Nicaragua. Venezuela is in first place in beef purchase volume, with 32.74%, followed by the United States with 31.46%, El Salvador with 16.91%, Puerto Rico with 8.60%, and Taiwan with 4.03%.





**New agricultural projects.** The Bolivarian Government will promote nine socialist agricultural development projects in the states of Guárico, Apure, Delta Amacuro, Barinas and Portuguesa, to strengthen the country's agricultural and livestock production. These projects will be financed with the first part of a long term loan agreed with China for US\$ 20 billion, to be delivered to Venezuela through the China Development Bank, according to a press release from the Ministry of Planning and Finances. These projects will be handled by the Ministry of the People's Power for Agriculture and Land.

**Insufficient bonds.** According to the President of the Venezuelan Confederation of Industrialists (Conindustria), Carlos Larrazabal, last week's sale of bonds for US\$ 3 billion by the Ministry of Finance doesn't change the perspectives of the business sector. He explained that although the issue will allow some companies to honor their commitments with suppliers, for other companies the amount of dollars they will get is "very small" and will have minimal impact on their operations.

**School supplies up 25%.** For this school period, the price of materials required by the schools increased 25% on average, as informed by shop keepers in a tour made by *El Universal* around bookstores and street school fairs. On average, a family with three children in the 1st, 4th and 6th grades must allocate VEF 822.73 to purchase school supplies, not including textbooks.

**Industrials: marked rise in the foreign exchange settlement.** According to figures reported at the end of July 31, 2010, Cadivi has approved a total of US\$ 16,645.4 million, of which US\$ 12,147.2 million were for ordinary imports and US\$ 2,269.1 million imports were authorized by the agreement of the Latin American Integration Association (ALADI), resulting in an increase of 5.0% y/y. In a roundtable meeting between Cadivi and industry guilds the assistants noted "*the marked rise in foreign exchange settlement*" during the first half of the year.

## World Crisis Tips

**AIG pays back US\$4 billion.** American International Group (AIG), rescued by the Federal Reserve during the world market crisis, paid back US\$4 billion, to reduce its debt with American taxpayers. This payment goes to the Federal Reserve three years before expected, and is part of the credit given through the Bank of New York.





**The American economy is recovering.** Chicago's Federal Reserve Bank published its CFNA for July, showing a significant recovery compared to the drop in June. However, the moving average, which softens volatility, dropped to -0.2, the lowest so far. Presently, the index states that the US economy is reaching its historic growth levels. The improvements for July are due mainly to production and income, which grew 1.1% last month and 7.7% inter annually.

**However...** The President of Chicago's Federal Reserve Bank, Charles Evans, said that although a new recession is not the most probable scenario, high unemployment, and problems in the real estate sector make for a fragile recovery. He also said that the possibility of a W shaped recession has increased in the last six months, and is worried because he doesn't know how long the recovery will take.

**Survey on business perspectives not promising.** The survey on business perspectives published by the Philadelphia Federal Reserve Bank was negative for August, with an index at -7,7%, while the month before it was 5.1%, the first time it has a negative value since July 2009. The drop is due to a reduction in inventories, and the number of employees fell for the second time in the last three months.

**Credit restrictions decrease.** A survey by the Federal Reserve Bank among loan agents indicates that credit granting policies have started to change. Credits for large and medium sized companies in the commercial and industrial sector have loosened, and have also loosened for the first time since 2006 for small companies.

**Employment in the service sector out of fuel.** Improvements in the service sector in the beginning of the year, which represents one fourth of the US employers, seem to have stopped, although the private sector had a slight improvement of 0.3% in July, compared to the same month in 2009 and the public sector showed no variation. Both sectors show the same trend, which is concerning because this indicator is closely linked to the growth of the economy.

**Sales stabilize.** Sales of chain stores stabilized after a drop for three consecutive weeks, informs Haver Analytics. Consumers were not as reluctant to spend, which translates into a 0.2% increase. However, the accumulated value for the month fell 0.5%, compared to an average 2% in July.

**Income rises in the United Kingdom.** The average income in the United Kingdom started to improve in June, with an increase of 0.2% in real terms, although in the private sector it fell 1.1%. On average for the quarter, income fell 7.3% in real terms. In the last six months, income fell 1.2% in real terms, and in the last twelve months, they fell 1.3% in real terms.



**Real estate sales at a 15 year low.** As reported by the National Association of Real Estate Agents through Reuters, sales of used properties suffered a record drop, reaching its lowest level in the last 15 years, and underscoring the difficulties of the market to reach a bottom without the help of the US government. This result is much worse than market perspectives, and the data show that the fall will continue throughout the third quarter.

## Political Tips

**Hugo Chávez: In 20 years there will be no more crime.** President Hugo Chávez asserts that in 20 years there will be no crime Venezuela. *"What we are experiencing, and I'm being blamed for, is the result of what the Fourth Republic sowed"*. Thus, he is confident when he says that in about 20 years, the Revolution will have eliminated crime. He explained that *"most of today's prisoners"* are around 20 and 25 years old, that is, they were around 10 years old when he came into power.

**One firearm for every 3 Venezuelans.** The Defense Commission of the National Assembly estimates that there are between 8 to 10 million of illegal arms in Venezuela. Juan José Mendoza, President of the Commission, explained that a sentence of 11 years in prison is being studied for those that carry a firearm illegally, an increase in the sentence of more than 100%. If the gun permit has expired, there will be a fine of around 60 and 80 tax units.

**Military deployed to fight crime in Táchira.** The Minister of Defense, Carlos Mata Figueroa, informed that the government will improve security in the border area, particularly in the state of Táchira; the army will be used to safeguard the state, and the Minister trusts that crime levels will be reduced in the region.

**"El Nacional" under investigation by CICPC.** The director of the newspaper "El Nacional", Miguel Henrique Otero, informed that a commission of the CICPC and a prosecutor from the Public Prosecutor's Office went to the headquarters of the newspaper to inspect the camera that took the picture of the Morgue in Bello Monte. Otero considered this as *"prior censorship, which we haven't experienced in the last 50 years"*.

**The sanction does not affect freedom of speech.** The Public Defense Office said on Wednesday, through a communiqué, that the measure adopted by the 12th Court of the First Instance for the Protection of Children and Adolescents, prohibiting the



publication of violent images, does not affect the freedom of speech and information. On the contrary, they say that the measure protects the psychic and moral integrity of the country's children, and that the Venezuelan State has the constitutional obligation to safeguard the full enjoyment of rights and guarantees by children and adolescents.

**Observers defined.** The president of CNE, Tibisay Lucena, explained that each organization authorized to observe the elections of September 26 will have 642 observers throughout the country. Lucena said that for this Sunday's drill they will have pilot centers in 335 municipalities, and 52 centers ready.

**"Brújula Electoral"**. Tibisay Lucena, president of CNE, announced that the voter's guide called "Brújula Electoral" (electoral compass), will start circulating throughout the country, to reduce the time that voters will require to make their choice at the voting machines.

**"Operation Demolition"**. Regarding the next parliamentary elections, President Chávez said that the operation in September will be called *"operation demolition"*. *"Oligarchs start trembling, because we will demolish you"*, he said. He also said that *"it would be a real tragedy if the fifth column gets the majority at the National Assembly"*. He insisted on the need to *"demolish the fifth column, the enemy of the homeland, and to obtain at least two thirds (2/3) of the National Assembly to guarantee the continuity of the revolution"*. In his swearing-in speech, he also informed that every child entering school will receive a lap top. Finally, President Chávez swore in the members of PSUV, driving them to go to battle and *"to give the plains and Venezuela a new victory; go demolish the counter-revolutionary forces"*, he ordered.

**"Aló, Presidente" suspended.** "Aló, Presidente", the program conducted by Head of State, Hugo Chávez, will be suspended until October 3, in order to respect the norms established by the National Electoral Council (CNE) for the campaign period for the parliamentary elections of September 26, which will begin on Wednesday, August 25.

**Indigenous representative for the Latin American Parliament.** Not only members of the National Assembly will be elected on September 26, voters will also select a representative for the Latin American Parliament (Parlatino): in the upper part of the ballot, voters must select a list vote of their preference, to select the 11 members that will represent Venezuela at Parlatino, and in the lower part of the electronic ballot, there will be options to choose the indigenous peoples representative for the Latin American Parliament.

**Psuv started its campaign with fireworks.** At midnight on Tuesday, the United Socialist Party of Venezuela (PSUV) announced with fireworks the beginning of the



electoral campaign for the September 26 parliamentary elections, at each of the 5 electoral circuits of Caracas.

**Radical transformation.** The Executive Secretary of the General Police Council, Soraya El Achkar, said that the council is moving forward to strengthen and radically transform police departments, to reinforce security throughout the national territory. *"We have already issued 15 ministerial resolutions regarding focal issues for the Venezuelan police, care for the victims, patrol, disciplinary regime, equipment, facilities"*, said El Achkar.

**"Caracas Segura" Plan started.** Minister Tareck El Aissami, informed that on Tuesday, the plan "Caracas Segura" started in the area of Petare, Caracas, as part of the re-launching of the Bicentennial Security Device ("Dispositivo Bicentenario de Seguridad"). The plan has 10 patrol cars, 30 motorcycles, and 237 officials.

**USA insists on proposing Palmer as ambassador in Venezuela.** Despite President Chávez's public comments saying that Larry Palmer (proposed as US ambassador in Venezuela), "disqualified" himself with his comments about the "low moral values" of the Venezuelan military forces, and the alleged "interference of Cuba", Philip Crowley, spokesman for the US State Department said: "We believe that Larry Palmer, if confirmed by the Senate, will in fact be an effective ambassador and an effective interlocutor between our government and Venezuela".

**Parliamentary election campaign started on Wednesday.** This Wednesday August 25th marked the beginning of the campaign for the parliamentary elections to be held next September 26. From 6:00 a.m. Wednesday until 12:00 pm on September 23, registered candidates will advertise their vacancies for the 2719 legislative elections. A total of 1548 candidates will deploy they campaigns (between main and alternate) for the 110 nominal charges (by name); 845 list-type applications for 52 seats to be chosen for this mode (distributed in 24 states in the country); 37 candidates (between main and alternate) for the three indigenous charges in dispute; while the 12 seats in the Latin American Parliament will be choosing 276 people (between main and alternate).





**ECONOMIC OVERVIEW**

