

The gasoline subsidy: the eternal debate over what to do with the funds

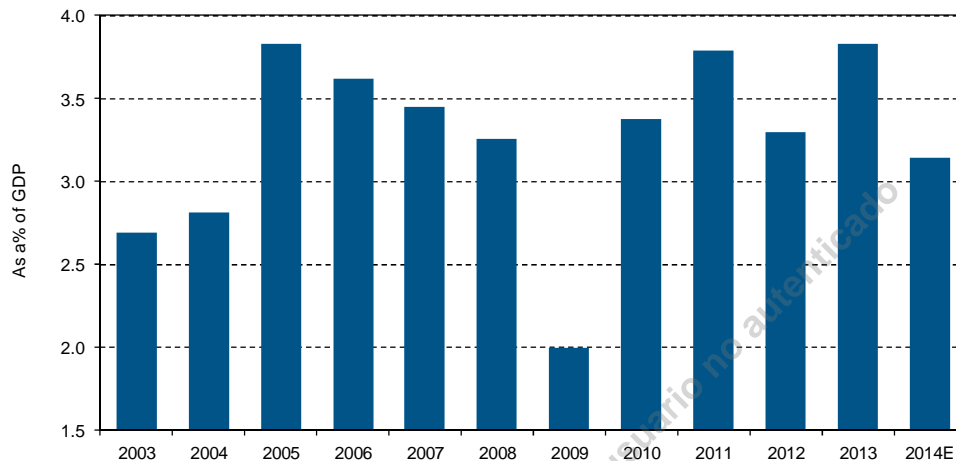
The gasoline subsidy is an issue we have discussed previously in our reports. At the close of the Third Partido Socialista Unido de Venezuela (PSUV) Congress, President Nicolás Maduro called for a debate to be held on the increase in the price of gasoline and added, *“the price of gasoline has lagged behind; a bottle of water costs three times what it costs to fill a 50 liter tank with gasoline, which is why I’ve decided to start a national debate with all sectors so as to establish a new system of fuel prices.”* Given this situation, at **Ecoanalítica** we have decided to focus this week on the use to which the additional revenues are to be put once the government decides to reduce or eliminate the gasoline subsidy.

Where are we on the subsidy issue?

According to economic theory, subsidies are justified when there are market shortcomings that discourage investment in activities that have a significant social return. In Venezuela, one of the most highly subsidized sectors is gasoline. According to PDVSA’s reports, the cost of producing 95 octane gasoline in 2013 came to nearly VEB 13.41 billion, although that figure would be VEB 43.38 billion if we were to take the average cost per liter established last year by the president of PDVSA, Rafael Ramírez, of between VEB 2.4 and VEB 2.7.

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The opportunity cost of the subsidy on gasoline



Sources: Pdvsa and Ecoanalítica

In order to avoid losses, a price 28 times higher than the current price on the domestic market would be necessary, in other words, it would have to go from VEB 0.09/liter to VEB 2.5/liter. However, **Ecoanalítica** considers that there is another aspect that gives cause for alarm: the revenues that the country fails to receive as a result of selling gasoline on the domestic market at below international prices, in other words the opportunity cost. In our report No 13 on the gasoline subsidy, we estimated an opportunity cost in the region of VEB 12.01 billion, 3.8 percentage points of the Gross Development Product (GDP).

So, if the costs are so high, why maintain a subsidy that, besides being regressive, would seem to be inefficient? The answer is to be found in the ideology behind this subsidy: the idea that oil generates enormous wealth and that, since it belongs to all Venezuelans, gasoline should be as cheap as possible. However, it is a myth that, because we are oil producers, we should give away gasoline. An example that proves this point is Norway, at the other extreme, which has the most expensive gasoline in the world.

But this discourse seems to have had its day, even among members of the government. Ramírez, in one of his recent discussions on the subsidy, commented that it was absurd that Venezuela was the country with the cheapest gasoline. *“Statistically, Venezuela is the country with the cheapest gasoline of all... Not even Saudi Arabia, which has such a high level of income (has such cheap gasoline).”*

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Possible scenarios

At **Ecoanalítica** we estimate that there are three possible gasoline price increase scenarios:

- **The first scenario**, where the price is put up to approximately international levels (VEB 4.3/liter), which would cover the accountable cost and provide the oil industry with additional annual revenues in the region of 4.0% of GDP.
- **The second scenario**, where the government is less ambitious and increases the price to VEB 2.7/liter, in other words to meet the cost of production, so that, while this would not produce profits, it would not generate losses either. The additional annual revenues that this increase would generate would be equivalent to 2.7% of GDP.
- **The third scenario**, where the increase is more timid, putting the price of gasoline at VEB 1.7/liter. This increase only covers 70.0% of production costs, which means that the subsidy would continue, but be much less than at present. In this scenario, we estimate additional annual revenues in the order of 1.7% of GDP.

At **Ecoanalítica** we consider that the most likely of these three scenarios is the third one, as the government could be reluctant to eliminate the subsidy altogether given that this is a political banner as far as the cabinet is concerned; moreover, keeping the subsidy is in line with the slogan that “oil belongs to all Venezuelans.”

A shock adjustment or a gradual adjustment

Another of the debates that has arisen around the issue of increasing the price of gasoline is on how to implement the measure. When implementing economic policies, there are generally two ways of doing it: by means of a shock adjustment or a gradual adjustment. A shock adjustment is where the economic measure is implemented in full at one point in time, a time that is determined by the policymakers at their discretion; a gradual adjustment, on the other hand, is one where the measure is implemented over a period of time and is generally announced beforehand.

At **Ecoanalítica** we are of the opinion that both methods have their pros and cons. However, under the present administration, a gradual adjustment might not be as efficient as a shock adjustment, as the government could dispense with this type of adjustment, given the high political costs resulting from the increase in price.

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So it would seem that a shock adjustment is the ideal one for reducing this subsidy: by increasing the price of gasoline all at once, the government would gain credibility; it would have to assume the political costs only once; and the additional revenues would start to come in immediately.

Price isn't the only issue; there's the matter of additional revenues too

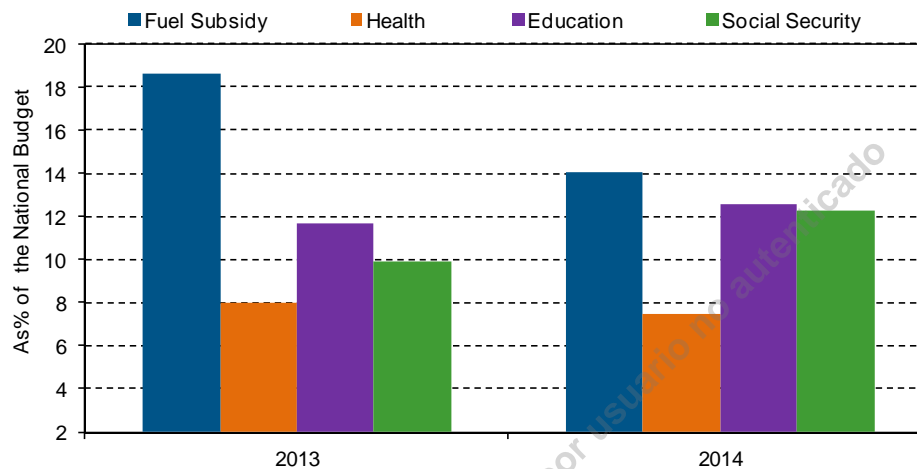
Recently, President Nicolás Maduro announced that, if there were a reduction in the subsidy, the revenues it generated would go into a social fund, the purpose of which would be to meet the country's needs. He also said that the fund's revenues would be distributed as follows: 20.0% to the Great Venezuela Housing Mission, 20.0% in university grants, 20.0% to the Great Love for the Elderly Mission, 20.0% to the Safety for the Nation Plan, and the other 20.0% for road works and public services.

At **Ecoanalítica** we consider that this fund, if it is set up, would become another tool that the State would have to manage resources at discretion. In other words, allocating 20.0% of these fresh revenues to the Great Venezuela Housing Mission does not guarantee that the government will, in fact, increase investment in that mission; on the other hand, it could be that the investment of these fresh funds is insufficient, so leaving us no better –or even worse- off than before.

The gasoline subsidy, at least in the last two years has been greater than the budgetary expenditure on the areas of education, health and social security, sectors that have been identified as priorities by the Government. By 2013 the subsidy on gasoline represented 18.5% of the National Budget, 10.6 percentage points (pp) more than the budget designated to health, more than 8.6 intended for social security and 6.9 pp more than for education. Also for 2014 estimates that the subsidy on gasoline represents 14.0% of the National Budget, more than 6.6 pp allocated to health, 1.5 pp more than on education and 1.8 percentage points more than the intended social security.

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Fuel Subsidy vs Other Budgetary Expenditures (participation in the budget)



Sources: MF, Pdvsa and Ecoanalítica

How should the revenues be used?

Before suggesting which would be the ideal mechanisms for redistributing these new revenues, it has to be stressed that it is necessary to invest in the industry itself, at least in the short term, as it has been neglected in recent years by the State. In the case of Iran, for example, only 50% was used for direct transfers.

There are three ideal mechanisms for handling these fresh resources: a compensation and savings fund, labeled expenditures, and direct transfers.

Setting up a compensation and savings fund does not seem a bad idea, in principle; however, it would not be an ideal solution in this situation. The government's lack of credibility and transparency would make this mechanism highly discretionary and it would not be possible to guarantee the objective and rational use of the resources, with the result that we would, once again, fall into the inefficient use of resources.

Labeled expenditures, on the other hand, has the advantage of being slightly less discretionary and more transparent than a fund. The problem is that this mechanism is not necessarily universal; in other words, its implementation could leave out a sizeable segment of the population, and it is the State that decides to whom the spending is channeled. This is the mechanism that was proposed by Maduro at the PSUV congress.

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Last of all, we have the direct or cash transfer. This would seem to be the best mechanism for Venezuela, as it could be universal (provided its scope is not restricted), and, since the transfers would be direct –in other words, the government would deposit them directly into a family or personal account-, transparency and credibility would be guaranteed. A successful example of this policy worth studying is the mechanism used in Iran in 2012, which resulted in positive externalities such as the bankarization of a large part of the population.

All these mechanisms would seem to be acceptable. However, given the weakness of the country's institutions, at **Ecoanalítica** we are of the opinion that direct transfers would be the best mechanism of the three, as it would ensure the best redistribution of resources by the State and it is transparent, universal, and, above all, credible (all of which are necessary features of a policy if it is going to be effective).

So, what will the decision be?

The subsidy will have to be eliminated or reduced sooner or later. This is a decision that has been put off for too long. Continuing with expenditures of this type is not a viable option for the government or for PDVSA, particularly when they are facing such a complicated scenario and need to increase the number of barrels that generate cash.

On the other hand, elimination of this subsidy has to be accompanied by a revision of the energy agreements (Cuba and PetroCaribe), which, while they are not comparable, they do not generate revenues for PDVSA, as payment is in kind not in dollars. In other words, both policies need to be revised and be part of the policy plan drawn up by the policymakers.

Moreover, while it is true that the price increase is giving cause for concern, it is something that is manageable, as studies by José Ramón Morales and Douglas Barrios (*Rethinking the Taboo: Gasoline Subsidies in Venezuela*) clearly explain. The crux of the matter is how you go about implementing the policy so that you can mitigate its negative impacts; hence, planning and implementing the policy is the key here. Likewise, the use to which the additional funds are to be put should be a core issue for debate, particularly if you want to use them to implement a social policy and truly support the lowest income sectors of the population.

It is possible that little of what we are recommending will be done and that, despite all the dust that has been raised over the issue, in the end this is not a measure that will be taken in the short term. *Chavismo* is still fearful of the repercussions that it would have, which means that it will continue to analyze when it would be the best time to take it. In

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view of all that, it should not be ruled out, first, that the adjustment will be fairly small and, second, that it will not be implemented soon, unlike changes in the foreign exchange policies, such as devaluation for example

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ECONOMIC TIPS

More and more controls. In November 2013, the National Assembly (AN) granted President Nicolás Maduro special powers to legislate for one year. In the nine months since then, the President has already passed four laws and a decree that have tightened controls in key sectors of the economy: the Fair Costs and Prices Act, the Foreign Trade Center (Cencoex) and Venezuelan Foreign Trade Corporation Act, and the decree setting vehicle prices, which have regulated the profit margins and costs and centralized imports; and the Foreign Exchange Crimes Act and the Commercial Establishments Rentals Act have simply increased direct control of economic activities.

Labeling merchandise. The National Fair Prices Superintendent, Andrés Eloy Méndez, announced that the government is to implement a system at customs posts shortly to identify and start marking all imported products purchased with SICAD or Cencoex dollars. In an interview, Méndez explained that the purpose of this initiative is to prevent some businessmen from selling their products at the free dollar rate when they have received foreign currency from the State for their imports. *“Some disrespect people by selling at free dollar prices. We’re going to defend Venezuelans’ purchasing power,”* said the superintendent.

And what about the biometric system? Méndez also revealed that he had held a meeting with all the owners of supermarkets and pharmacies in the country to explain the reasons for the biometric system and its implementation, claiming that they were receptive to implementing the device. *“The biometric system is to attack what we know as ‘bachaqueo’ (an illegal activity that seeks to take advantage of state resources or subsidies for personal gain). It’s going to allow us (to ensure) that the Venezuelan can buy what it needs. Someone who works and goes to shop a five o’clock in the afternoon doesn’t find anything. We’re going to avoid that with this system.”* At **Ecoanalítica** we consider that the system is not going to solve the problems of shortages or smuggling, as the causes of both stem from the current rigid price controls in the economy.

Against lifting controls. It would seem that the Venezuelan Government continues to be committed to extending controls to fight the shortages and smuggling (mechanisms that run counter to economic theory) by implementing measures such as the biometric system. However, according to

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President Nicolás Maduro, *“the biometric system is not intended to regulate; it’s so that everything that the Republic produces reaches the people.”*

The system that will “eliminate” shortages. President Nicolás Maduro announced the creation of a new system, whose main function will be to control food products; in other words, it will control those who produce food, where food products are distributed, where they are sold, who imports them, and at which ports they arrive, among other things. This new system, which is expected to be officially announced soon, will be similar to the one implemented by the National Agricultural Silos, Warehouses and Depots Superintendency (SADA).

The legal reserve on foreign currency deposits is back. The Central Bank of Venezuela has issued a new resolution that abolishes the exoneration granted to banks with regard to the legal reserve on foreign currency deposits. The Central Bank lifted the exoneration but did not explain how much (what percentage of the deposits) the new legal reserve would be or the date that it would go into effect. At **Ecoanalítica** we consider that the Central Bank should issue a resolution specifying the amount of the legal reserve and the date it will go into effect.

Revenues from loans down. Revenues received by the National Treasury in the first half of 2014 (1H2014) from the placement of debt—sale of securities— came to VEB 52.8 billion, down 37.2% from the 1H2013. Based on the behavior of the Treasury’s borrowing in recent months, it is not expected that further debt will be issued as happened in the period 2011-2013.

A steadily climbing parallel exchange rate. The increase in liquidity and the shortage of foreign currency are the main causes (apart from expectations) of the high price of the parallel dollar. So far this year, the government has not changed its course, the printing of banknotes continues, and the contraction on the supply in the currency market goes up daily. Between July 2013 and July 2014, the Central Bank injected a total of VEB 83.46 billion into the state-owned companies, whereas, over the same period, there was no increase in the amount of dollars made available to the private sector at the preferential SICAD I exchange rate and the acquisition of foreign currency by the private sector at the SICAD II rate tended to decrease.

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The debt, a source of never-ending stress. In the past few years, the government has tended to seek financing via bond issues. According to Central Bank figures, the debt has reached uncomfortable levels. Liabilities in dollars increased by 105.0% between the 3Q2008 and the 3Q2013 to US\$104.0 billion. Moreover, the lion's share of payments falls due in the last quarter of this year. It is planned to disburse US\$6.0 billion, which is 242.0% more than the liquid reserves at the close of 1H2014.

Possible default makes the markets nervous. Increasing expectations of a default by Venezuela has caused a reduction in sovereign debt bonds in investment portfolios, resulting in a slump in their price. Last week, PDVSA's bond with maturity in 2022 lost 5.5 points, closing at 92.5% of its face value and the sovereign bond issued by the Republic with maturity in 2027 posted a drop of 4.24 points, closing at 78.5% of its face value.

Interest rates. The lending rate for the second week of August was at 18.5%, without changes compared to the previous week. The time deposit rate was at 14.5%, down by 0.1 compared to the previous week, while the passive rate was at 14.1%, without variations compared to the previous week.

International reserves. International reserves drop by 0.8%, going from US\$20.41 billion during the second week of August to US\$20.25 billion during the third week of August. Compared to the same period last year, international reserves have decreased by 12.4%.

Central government expenditure. On August 22th according to figures from the NTO primary spending was VEB 21.59 billion, which means an increase of 70.8%; when it is compared to the same period last year. So far this year, the primary expenditure accumulates VEB 534.01 billion 84.1% more than the same period last year.

Monetary liquidity. Money liquidity (M2) increased 0.6% in the third week of August from the week prior, to settle at VEB 1.5 trillion. The M2 has increased 68.5% in relation with the same period last year.

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Supply through SICAD II (US\$ MM)					
Day	Total daily	Public Sector	(%)	Private Sector	(%)
8/5/2014	33.8	28.7	84.9	5.1	15.1
8/6/2014	44.7	32.1	71.8	12.6	28.2
8/7/2014	20.1	19.0	94.5	1.1	5.5
8/8/2014	22.4	19.5	87.1	2.9	12.9
8/11/2014	22.8	20.5	89.9	2.3	10.1

Source: Ecoanalítica

OIL TIPS

Cuba: the great beneficiary. More than 20 countries have received Venezuelan crude on preferential terms, but Cuba seems to be the one to have benefited most. It accounts for 39.0% of the total value of shipments (US\$21.3 billion of the US\$54.9 billion in shipments sent between 2006 and 2013). Besides that, since 2000 it has received US\$1.7 billion in loans, US\$375 million in donations of services and food, and US\$332 million for electricity and telecommunications projects.

An end to generosity? Between 2006 and 2013, oil shipments under cooperation agreements, including PetroCaribe, came to US\$54.9 billion. However, Venezuela's financial needs at a time when putting up the price of gasoline is being proposed are threatening to curb oil solidarity. Crude shipments under cooperation agreements have gone down by 19.0% since 2011, according to PDVSA's report and accounts. These agreements are extremely costly and mean the mass destruction of strategic plans, according to José Toro Hardy, a former director of PDVSA.

A warning that Citgo might be confiscated. The journalist José Vicente Rangel warned of the possible intention on the part of the US authorities to confiscate Citgo, the PDVSA affiliate that operates in the United States. He added that, for that reason, they have launched a media campaign to disseminate versions that will cause alarm in the Venezuelan Government and at PDVSA. However, according to the oil specialist Rafael Quiroz, ExxonMobil's lawsuit against PDVSA is not sufficient reason for the US Government to confiscate a company such as Citgo. *"Of course, there is always the risk, as with any other company,"* he said.

An unobtrusive drop. The barrel of Venezuelan crude closed the week at US\$90.9, down US\$1.1/bl from the previous week, according to the Ministry

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of Oil and Mining. As a result, the Venezuelan basket posted its lowest price this year. In January Venezuelan crude started with at US\$95.5/bl and peaked in June, when it reached US\$99.1/bl. Since then, prices have not been maintained but have been experiencing slight drops as a result of the ample availability of supplies in the main centers of consumption.

Two years on and Amuay has still not recovered. Amuay Refinery processes 448,000 barrels a day (b/d) of its capacity of 645,000 b/d, making it 69.5% operational, noted PDVSA when recalling that, on August 25, it was two years since the fire at Paraguaná Refining Center (CRP) that left 47 dead, 135 injured, and material losses of US\$1.1 billion. Although Minister Ramírez had said that CRP would be fully operational by December 2012, the fact is that it was not until March 2013 that it was operating at the same levels as before the fire and is still not operating at 100%.

Bicentenario lends to PDVSA. Banco Bicentenario is to grant PDVSA a total of US\$1.2 billion in loans for developing the Sugarcane Derivatives Agro-industrial Complex. The Ministry of Agriculture and Lands published a resolution in which it authorizes the financing for the oil industry. The total amount of the authorized loans may not exceed 10.0% of the state-owned bank's net worth, according to the regulations.

International oil baskets. At closing time on August 22th in the New York Stock Exchange, the price of the WTI was US\$95.1/bl, down by 2.2% when compared to the reported the previous week. The Brent decreased by 1.4% when compared to the previous week, to reach US\$102.3/bl.

Local oil basket price. The Venezuelan oil basket price closed at US\$90.9/bl on Friday August 22th, decreasing by 1.2% when compared to the reported the previous week. The annual average price of the Venezuelan oil basket is US\$96.4/bl.

BUSINESS SECTOR TIPS

Because more checkouts will solve the problem. Fair Prices Superintendent Andrés Eloy Méndez stated that he is thinking of issuing a directive to force stores to increase the number of checkouts in order to reduce customer queues. Moreover, provision is being made for each

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product that goes through customs to be marked with a label saying if it was imported with dollars allocated by Cencoex or SICAD to prevent a price based on the parallel exchange rate being charged.

As long as they pay. The Central Bank forestalled the many interpretations that were being spun concerning payment of the debt with the automotive sector and clarified that it would be recognized and paid at the VEB 6.3/US\$ exchange rate as requested by sector representatives and workers. In an official notice published in *Gaceta Oficial* No. 40,478, dated August 19, 2014, the Central Bank corrected the text of Foreign Exchange Agreement No. 29 of August 8, 2014.

If there's nothing to sell, there's nothing to buy. In a situation where vehicle assemblers are experiencing a sharp drop in production, the banks are noticing that vehicle loans are losing weight in their portfolios. At the close of the 1H2008, the banks allocated VEB 10.6 out of every VEB 100 granted in loans to vehicle purchases and at the close of the first half of this year they allocated only VEB 2.3 out of every VEB 100. Bank executives explained that the shortage of vehicles has caused the number of loan applications to drop.

Speed up the deliveries! A group of people affected by the Automotive Productive Venezuela program has demanded that the authorities speed up the delivery of Chery and Venirauto vehicles. Jorge Martínez, representing the group, said that there are some 4,200 people who made the down payment between six and 12 months ago and still have not taken delivery of their automobile. *"They say they're delivering 350 cars a week, but it's not to us. So who are they giving them to?"* asked Martínez.

And the government's version. In the past eight months, the Automotive Productive Venezuela program has handed over 6,155 Chery vehicles (Orinoco and Arauca models) to Venezuelans who have completed the registration process, according to Minister for Industry José David Cabello. He also said that, since May, they have attended to 9,000 users at a rate of approximately 150 a day to deal with their requests, concerns, and complaints.

Fewer meetings and more action. Minister for Economy, Finance and Public Sector Banks Rodolfo Marco Torres met with representatives of Toyota and Chrysler de Venezuela with a view to boosting the automotive

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industry. The minister also met with representatives of the automotive and auto parts sector to discuss actions associated with their production in Venezuela. Attending the meeting were Ford Motors de Venezuela, General Motors de Venezuela and Mitsubishi, as well as Danaven and G Andinas (companies that produce vehicle axles and shock absorbers) and Turboauto y Geandina (a corporation that encompasses seven auto parts companies).

Brazilian margarine. A discrepancy between the data and the actual situation: whereas margarine appears only sporadically on the shelves of many stores, data from Brazil reveal that, this year, margarine imports from Brazil have shot up by more than 700.0% and that margarine is one of the food items to have posted the biggest increase in sales so far this year. According to Brazil's official statistics, between January and July this year, more than 17,000 tons of margarine were imported from Brazil, 2,293 tons more than in the same period in 2013.

US\$2.23 billion for the health sector. The president of Cencoex, Alejandro Fleming, announced that, between January and August 21 this year, the agency had authorized the disbursement of US\$2.23 billion for companies in the health sector. According to official data, in the first seven months of the year, Cencoex disbursed US\$2.05 billion to 374 companies, with US\$1.40 billion going to companies belonging to one of the seven associations in the health sector and US\$577 million going to 213 companies that are not members of any association, as classified by Cencoex.

At a snail's pace. According the annual report by Internet World Stats, which publishes figures released by telecommunications regulators worldwide, Venezuela is clearly lagging behind in terms of Internet access speed. Venezuela averages 1.7 megabits per second (Mbps), the lowest of the ten South American countries surveyed. Ahead of Venezuela are Bolivia, with an average speed of 1.85 Mbps, and Paraguay, with an average broadband speed of 3.51 Mbps.

The manufacture of plastic containers in serious difficulties. The president of the Venezuelan Chemical and Petrochemical Industries Association (Asoquim), Juan Pablo Olalquiaga, warned about the lack of raw materials for manufacturing plastic containers. This situation has affected the food, pharmaceutical and other industries that need plastic. Olalquiaga insisted that the debts with suppliers are the main cause of the problem.

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The meetings continue. The negotiations on the dispute between the foreign airlines and the Venezuelan Government are starting overcome the obstacles. Lufthansa, Alitalia and now Copa Airlines are the foreign airlines that have made progress with the economic cabinet in August. Minister for Economy, Finance and Public Sector Banks Rodolfo Marco Torres had a meeting with Panama's Copa Airlines to discuss matters relating to its operations in Venezuela.

Alitalia tickets sold at agencies. Representatives of certain travel agencies in Venezuela reported that they had been able to offer tickets for routes covered by the European airline Alitalia. Via specialist programs that travel agents have at their disposal, such as Sabre Travel Network, the agents were able to sell air tickets from Caracas to Rome, including connections. Sector sources, who preferred to remain anonymous, said that tickets to Europe in economy class cost between VEB 34,000 and VEB 57,000.

WORLD ECONOMY TIPS

Industrial activity drops. It seems that growth in China's great industrial sector slowed down in August, posting its lowest level in three months. HSBC/Markit's preliminary Purchasing Managers Index (PMI) for China dropped from 51.7 in July (the highest in 18 months) to 50.3 in August, which was lower than estimated. Even though this drop is somewhat disappointing, there was still growth, as the PMI was above the 50 points that separates growth in activity from contraction.

There's still time. The governor of the Bank of Japan, Haruhiko Kuroda, said that the bank could continue implementing its aggressive quantitative easing policy for some time in order to completely beat inflation. *"We have committed ourselves to an ultra expansive monetary policy until we reach the inflation target of 2.0% and manage to sustain it,"* added Kuroda.

Ready for more adjustments. The president of the European Central Bank (ECB), Mario Draghi, maintained that he is confident that the stimulus measures announced more than a month ago will manage to boost demand in the European Union's economy, but said that, despite this, the bank is ready to act once again. *"The Governing Council would use also unconventional instruments to safeguard the firm anchoring of inflation*

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expectations over the medium- to long -term,” added Draghi when talking of the possible additional measures that the ECB would take.

Merkel and Rajoy agree. The President of the Spanish Government, Mariano Rajoy, and Germany’s Chancellor, Angela Merkel, agreed to move ahead with structural reforms in order to consolidate the still incipient growth in Europe, while rejecting recent criticisms of the austerity policies in the region. *“We must continue with policies of fiscal consolidation (...) Structural reforms are sometimes hard, but they are the ones that increase economic competitiveness,”* commented Rajoy, referring to the views he shares with Germany’s Chancellor.

She admitted it. Germany’s Chancellor, Angela Merkel, admitted that the crisis in Ukraine has had an impact in Germany, which is apparent in the 0.2% contraction in the first European economy in 2Q2014. *“There are, however, some uncertainties - I don’t want to conceal that - the whole Ukraine-Russia situation shows that we of course have a big interest in our international relations being constructive again,”* explained Merkel, adding, *“But I nonetheless expect that our overall annual growth rate will be good, if nothing dramatic happens.”*

A reformist cabinet. France’s Prime Minister Manuel Valls is currently in the process of taking decisions to form a new cabinet that views the reforms favorably, following the sudden departure of some ministers who opposed the harsh budgetary measures. Valls will seek the broadest possible base in his second cabinet in five months before starting tough negotiations at home with the partners of the European Union on France’s budget for 2015.

Countdown. It seems that the problems in Brazil are continuing. Many of the country’s main construction companies, automobile manufacturers and retailers are currently laying off workers due to the considerable weakening of the main South American economy. Things do not look good for Dilma Rousseff, who is to run at Brazil’s presidential elections shortly in the hope of reelection. Even though the unemployment figures are still at historic lows (5.0%), the labor climate looks increasingly unstable.

Argentina still in difficulties. The World Trade Organization (WTO) explained that a WTO panel ruled against Argentina in a dispute filed by the European Union, the United States, and Japan over trade barriers implemented by Argentina. The WTO panel stated that the infringements by

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Argentina stem from the practice of not automatically issuing import licenses during part of 2012 as a means of protecting its fragile economy.

Are you crazy? Argentina's Vice Minister for the Economy, Emanuel Álvarez, has said that Argentina will immediately appeal the WTO's ruling in favor of the European Union, the United States, and Japan. "*The Argentinean customs are not closed but taken care of,*" said the vice minister, explaining that "*the actions we (Argentina) take also seek to protect importers who do things right and even benefit the country because they make it possible to collect more in duties.*"

POLITICAL TIPS

An unconstitutional system. Governor of Miranda Henrique Capriles Radonski claimed that implementing fingerprint detection machines (*captahuellas*) for buying mass consumer products "*is unconstitutional,*" asking, "*Where in the Constitution does it say that it is the government who decides what you eat and when you eat?*" As Capriles sees it, this should be one of the motives for generating protests in the country, because "*protests have to focus on what concerns Venezuelans. The 'papahuella' (foodprint) is a great opportunity for workers who are affected, for all Venezuelans to focus on an issue, to turn out at stores to protest.*"

Ledezma proposes another measure. The Metropolitan Mayor of Greater Caracas, Antonio Ledezma, has proposed installing "*cazahuellas*" ("*print-trappers*") at CADIVI, PDVSA, and the Central Bank to accompany the implementation of the government's biometric system. "*Let's have the government swipe a biometric control card for every barrel of oil that comes out of our wells to be sent to parts unknown for resale, at the full price, on the international markets or is shipped to Cuban ports knowing that they won't pay us a single cent,*" added Ledezma.

It's the model that's failed. Governor Henrique Capriles Radonski explained that the reason why several ministers have handed in their resignation to President Nicolás Maduro is not their lack of ability, because, in his opinion, it is the failure of the model that has been implemented in Venezuela that has caused the government problems. "*It's not a question of changing ministers; it's the government's corrupt model that doesn't work. The government*

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should call on all sectors in the country to reach a national agreement, so that there's real dialog; but they prefer to continue lying to the people," added Capriles.

On the brink of bankruptcy. The Association Mayors for Venezuela has warned that the economic crisis is seriously affecting the country's mayoralties and that they are on the brink of bankruptcy. This becomes obvious when one reads an analysis by Professor Carlos Mascareño, a researcher at the *Universidad Central de Venezuela's* Center for Development Studies, who explains that the majority of the country's 335 town councils depend on Caracas and that less than 40 have financial autonomy of nearly 80.0% thanks to the taxes they collect, whereas the rest are highly dependent on transfers of funds from the Central Government, which, according to Mascareño, have been scant in 2014.

A sick health sector. Governor Henrique Capriles Radonski holds the Venezuelan Government responsible for the shortage of medical supplies at the hospitals and the problems in the health system. *"We need to remember that it's the government that controls the dollars that are needed to buy medical supplies; and there isn't enough foreign currency available because they stole it. What are the consequences for the health sector? Total absence of up to 85.0% in health equipment and inputs and shortages of medicines of more than 60.0% throughout the country,"* said the governor.

At whim. Deputy Vestalia Sampedro, a member of the AN Finance Committee, said that the Nicolás Maduro administration doles out resources to the regions and municipalities as dictated by the political whim of the moment. Sampedro further explained that there is no planning in Venezuela and that resources are allocated as the Executive sees fit in response to the ups and downs that occur in Venezuela, a situation that has seriously affected the opposition mayoralties.

A German terrorist in Mérida. The alleged German terrorist wanted by the German Government, Bernhard Heidbreder, was arrested in Mérida by members of the Criminal and Penal Scientific Investigation Corps (CICPC), who responded to a red alert issued by Interpol. Heidbreder belongs to the German leftwing organization K.O.M.I.T.E.E, with which he perpetrated an attack on a building belonging to the Germany army in 1994 and planned an attack on an immigrant center that was being remodeled in 1995.

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Investigation of registry and notary offices. Minister for Homeland Affairs, Justice and Peace Miguel Rodríguez Torres has ordered an investigation of the Autonomous Registry and Notary Service (SAREN) after receiving a number of complaints from users. So far, the ministry has conducted 467 inspections around the country, which have resulted in 27 arrests. This first phase of the inspection was conducted in the Capital District and Bolívar, Anzoátegui, Zulia, Delta Amacuro, Lara, Mérida, Aragua, Miranda, Carabobo, Yaracuy, Trujillo, Táchira, Sucre, Nueva Esparta, Vargas, and Portuguesa states.

Unsustainable and unjustified. The president of the Christian social democratic party COPEI in Caracas, Antonio Ecarri, maintained that, in Venezuela, *“we are facing an economic crisis that is totally unsustainable and, what is more, unjustified. How is it possible for an oil country to have an economic crisis in an oil boom? That’s due to two factors: incompetence and corruption.”*

LEGISLATIVE TIPS

That’s not for export! The presidential decree that forbids the export of 21 food items, 11 personal hygiene products, medicines, products for construction, and finished products was published in *Gaceta Oficial* No. 40,481, dated August 22. The decree states that the police and the military authorities shall implement the inspection, verification, and protection plans at commercial, industrial and service establishments and shall also apply the pertinent sanctions.

They are to propose a law to dollarize the economy. Economists belonging to the Democratic Unity Alliance consider that adopting the dollar as the local currency is the solution to the economic crisis the country is currently experiencing, citing examples of other Latin American countries, such as Panama, Ecuador, and El Salvador. Deputies to the National Assembly Walter Márquez and Abelardo Díaz, together with a team of economists and parliamentarians belonging to the Unity Alliance, are to present the proposal to the National Assembly next month.

No rendering of accounts. Despite the fact that public officials are under the obligation to render an accounting of their activities, a large number of the

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deputies in the National Assembly have still not done so. At this point in the year, 47.0% (77) of the deputies have not submitted a report of their activities in 2013. A look at the two benches reveals that 52 of the deputies who still have not submitted their reports belong to the PSUV and 25 belong to opposition parties.

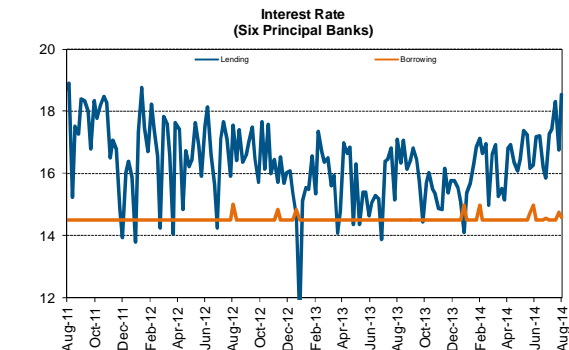
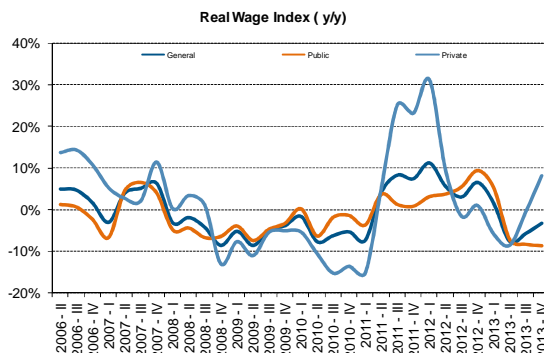
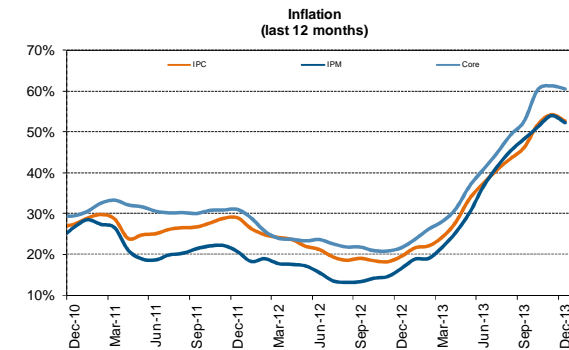
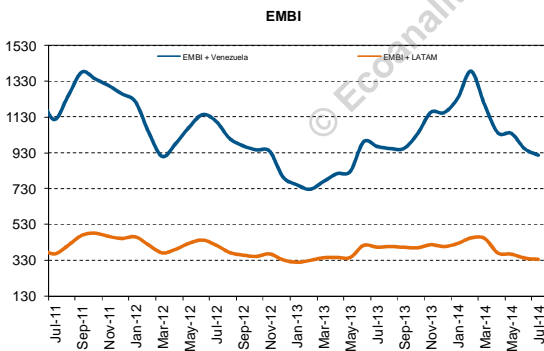
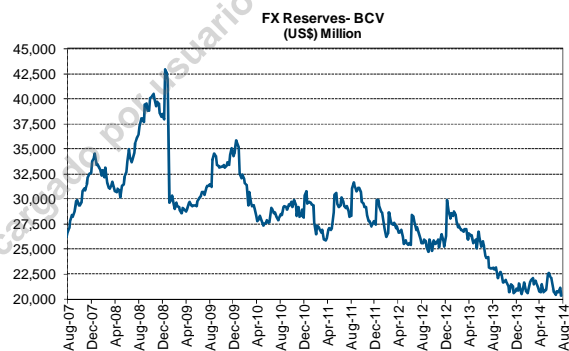
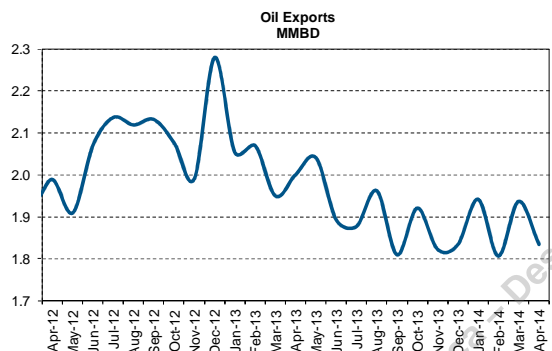
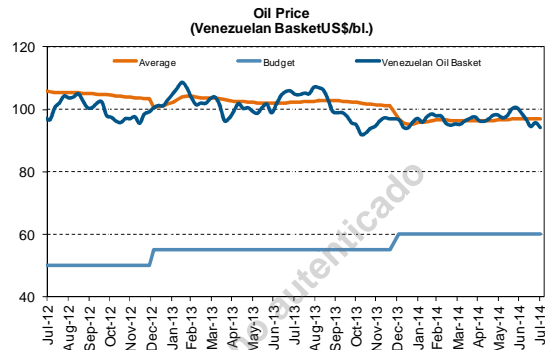
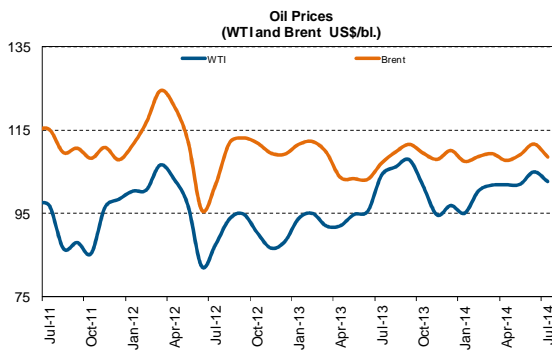
Foreign exchange agreement for the automotive sector amended. An amendment to Foreign Exchange Agreement No. 29, which applies to operations in the automotive sector, has been published in *Gaceta Oficial* No. 40,478, dated August 19. According to the new regulations for the automotive industry, it will be allocated foreign currency at the SICAD I exchange rate, which is currently at VEB 11/US\$, and disbursements for paying its debts will be at the VEB 6.3/US\$ rate, “*if the import closeout files have been submitted to the importer’s foreign exchange operators at Cencoex.*”

Electricity regulations published in *Gaceta Oficial*. In a resolution published in *Gaceta Oficial* No. 40,479, the Ministry for Electric Power established a special energy supply regime for high demand users. The users to whom this resolution applies are those whose “*Contracted Allocated Demand is equal to or greater than 5 megavolt amperes at point of delivery.*” The contracts are to be submitted to the Ministry for Electric Power and the scenarios of minimum and maximum charges that are to be the basis for negotiation will be presented within 20 days.

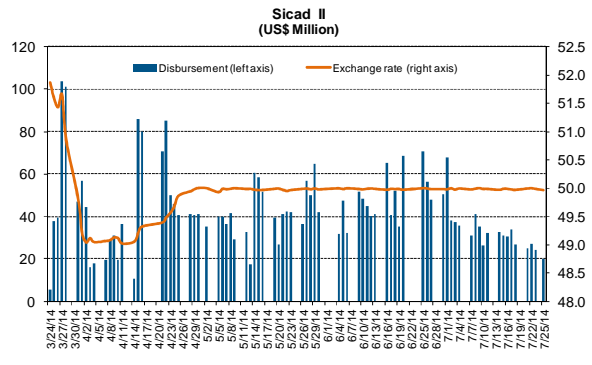
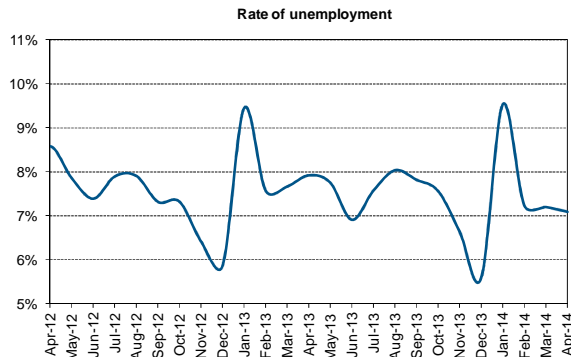
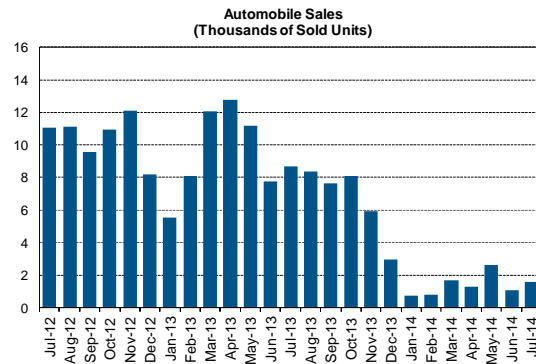
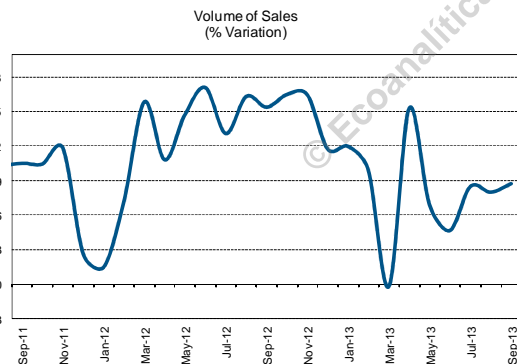
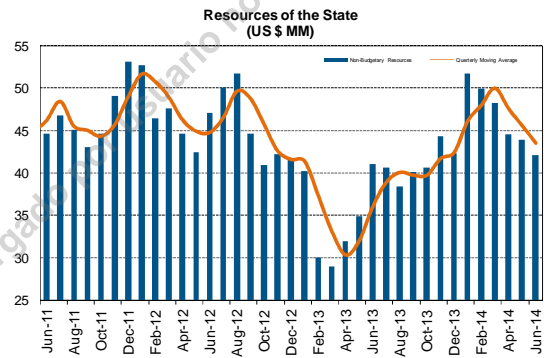
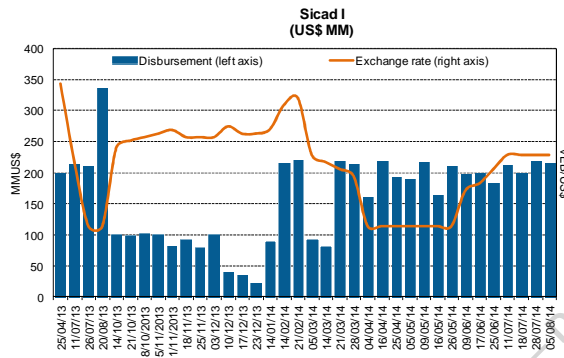
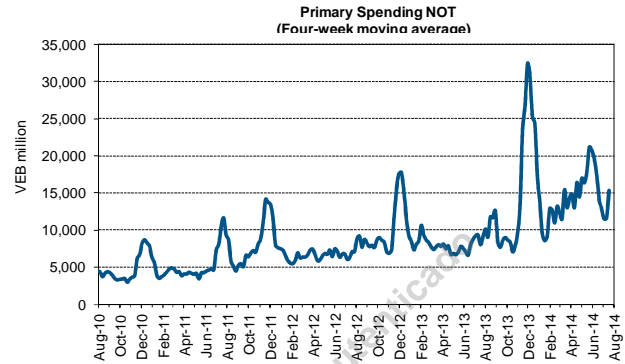
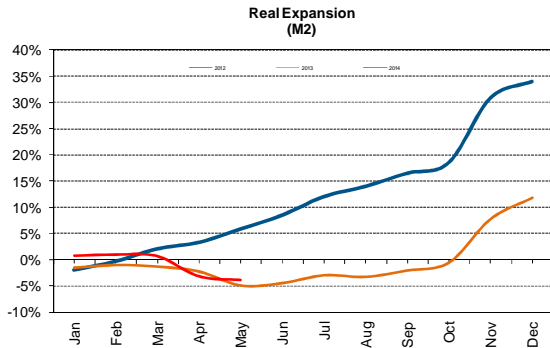
The CNP would disappear under the new law. The possible creation of the “National Association of Social Communicators,” a parallel body to the National Association of Journalists (CNP), would seem to endorse the promulgation of a new code of ethics for Venezuelan journalists and communicators. Although the media editor and promoter of this law, Gastón Guisandes, denied this possibility, Article 1 of the working papers states: “*Exercising the vocation through natural formation and practice or via the academic profession of Social Communication shall be governed by this law and its regulations.*” The debate on this bill could start in September.

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ECONOMIC OVERVIEW



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