



Weekly Report

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*The Mexican Oil Reform: A
case worth reflecting upon*

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If turn the clock back to the year 2008, the country Mexico, you'll find that that country's largest company, Petróleos Mexicanos (Pemex), is operating completely adrift, without a clear strategy, condemned to be without the resources and the technology that would allow it to be competitive at the international level. Mexico nationalized its oil industry in 1938 and created its state-run monopoly Pemex. It instituted harsh strict restrictions for private investment in the oil industry, harsher even then countries such as Cuba, China, and Russia.

Keeping this in mind, how do you explain to the Mexican people that are so proud of the country's largest industry, when Administration after Administration have failed to let the company develop as it should?

**A dark
future in
store**

During the first nine months of 2008, Pemex's oil production volume dropped by 9.7% compared to the same period the previous year, with production hovering around a daily average of 2.8 million barrels a day,



which is similar to the production levels of almost 10 years back, according to last set of figures released by the Mexican state-run company to date.

The revenue coming in due to Mexican oil sales represent almost a third of the Government's revenues. With oil production dropping significantly, it was necessary for the Administration to take action to stop said trend.

Meanwhile, the petrochemical was also in disarray leading to the increase in purchase of gasoline on the foreign market which in 2007 represented 69% of domestic demand.

Mexican oil production reached its peak in 2004 when the industry produced 3.7 million barrels a day. From that moment, until the third quarter of 2008, Pemex registered an average yearly drop in production of 15.4%, going from the sixth largest oil producer in the world to eleventh.

Is Pemex a mirror image of Pdvsa?

Looking at both companies and their past histories, one can see the similarities. We would like to highlight two important differences. The first is that a significant part of the drop in Mexican oil production can be explained by the natural decline in production that an oil well registers over time, many cases which were irreversible. This is totally different to what is happening in Venezuela, which has enormous reserves in the Orinoco Oil belt. Second, the Venezuelan economy is much more dependent on oil given that our economy has not diversified.

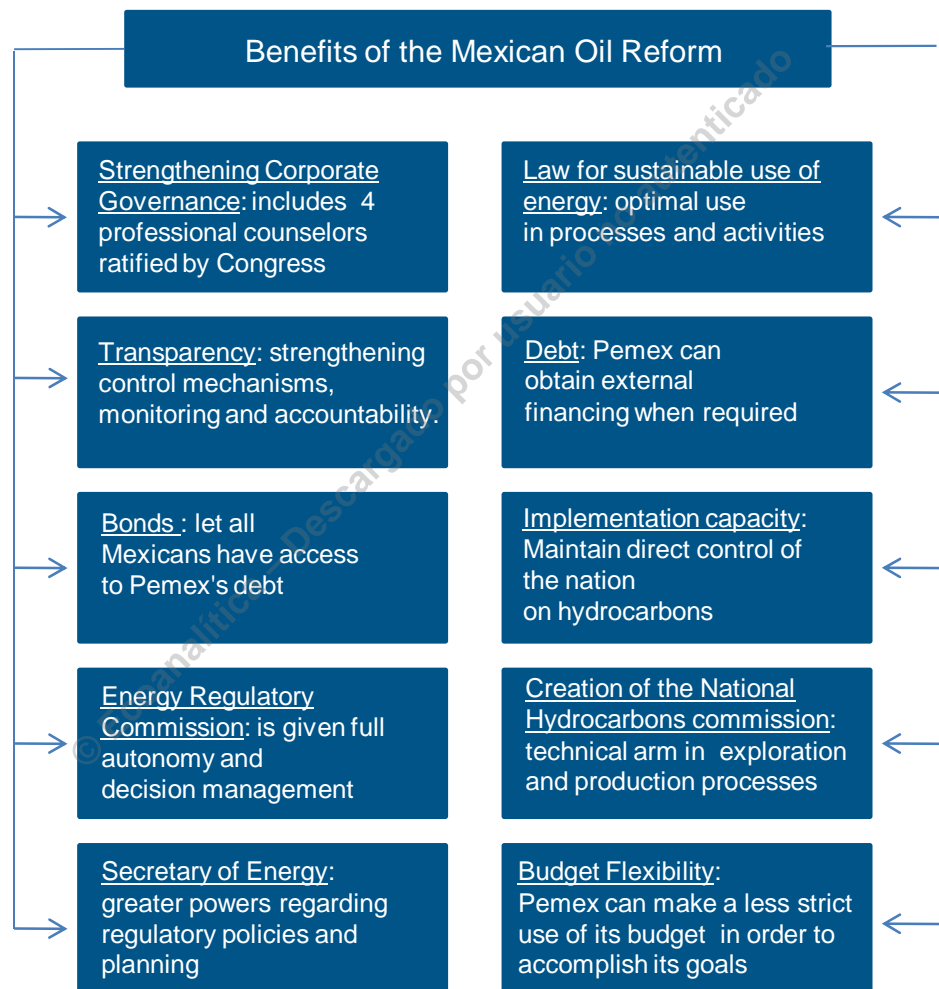
The light at the end of the tunnel: oil reform

On October 28, the Mexican House of Representatives approved the seven points outlining an oil reform to be implemented introduced by President of the Republic, Felipe Calderón. One of the main objectives of the reform was to create initiatives for private sector participation in the oil industry (construction and operation of refineries and offshore deep water exploration). This increase in private sector participation in the oil industry looked to stop the decline in oil production and explore new business possibilities.

Despite it being a very controversial reform, the seven points were approved with votes coming from the three main parties in Congress, the ruling party, Partido Acción Nacional (PAN); the opposition party, Partido Revolucionario Institucional (PRI); and the leftist party, Partido de la Revolución Democrática (PRD). President Calderón congratulated the legislators for having approved the reform, *"the most important one since 1938 when we nationalized the oil industry."*



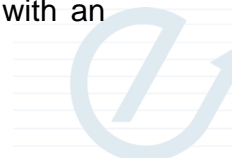
Thanks to this reform, Pemex would be better able to exploit the hydrocarbons available in the country's reserves, especially those in areas difficult to access such as the Cuenca de Chicontepec and offshore deep water deposits in the Gulf of Mexico.



Sources: Mexican Parliamentary Gazette 2622 I-IV and Ecoanalítica

Congress celebrated, but oil prices dropped

Mexican legislators approved the reform, but by the close of fourth quarter 2008, oil prices had plummeted to below US\$50/bl, dropping 52% compared to the third quarter 2008, due to the effects of the financial crisis which began during this period, closing the first quarter of 2009 with an average of US\$39.4/bl.





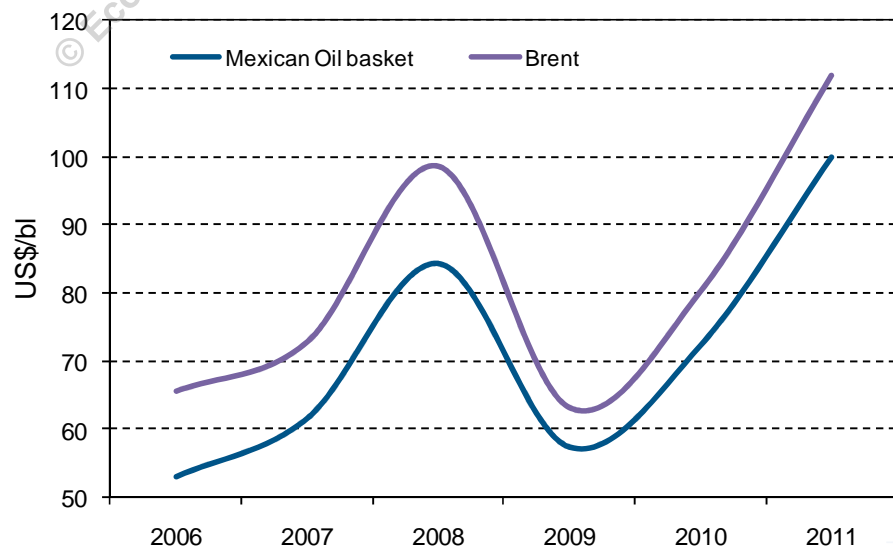
The Mexican oil mix continued to drop due to the drop in consumption of the main economies around the world due to the recession. One must keep in mind that this price was US\$20 less than the US\$70/bl that the House of Representatives had estimated oil prices would be and based the 2008 National Budget on. This unexpected loss of revenue would lead to cutbacks in government spending if oil prices remained at said levels.

So, the oil reform measures which were implemented, if effective, would first produce benefits in the medium term after international oil prices have had a chance to stabilize the price oil crude oil. *“The benefits of the energy reform approved by the Mexican Congress will be felt in a period of three to five years,”* estimated the Mexican Secretary of Energy, Georgina Kessel.

The oil reform measures were expected to increase the country’s economic growth level by at least one percentage point, adding at least 300,000 jobs a year in the medium term.

Despite the fact that the Mexican Congress approved the oil reforms, which according to its proponents, would bring great benefits to the economy, S&P, Fitch and Moody’s did not modify their risk classifications and maintained their outlook stable.

Mexican Oil basket and Brent



Sources: Pemex and Ecoanalítica





All reform brings with it a certain amount controversy

The Mexican Constitution grants the state-run oil company, Pemex, exclusive rights to oil production and extraction. This company is one of the main sources of revenue for the State, which limits the amount that can be set aside for investment in the company. Therefore, the oil company does not have enough capital to develop new projects with its own resource. This sounds familiar, doesn't it?

This is why the oil reform measures included the participation of the private sector in order to carry out oil exploration and crude oil extraction by offering contracts with incentives. These contracts to be used in future tenders are the first of this kind that Pemex has offered. They will contemplate more flexible agreements in order to grant incentives so that companies may recover a percentage of each barrel of crude oil produced, also granting exclusive exploration and exploitation rights in specific regions to specific companies in order to optimize the exploration process.

At **Ecoanalítica**, we believe that much of the controversy surrounding the contracts with incentives is unjustified, since no private sector company has been granted rights over the hydrocarbons being extracted. They are just being granted rights to explore and produce that also benefit the region in question. This is much like the controversy which occurred here in Venezuela with the so-called Apertura Petrolera process, which allowed for the creation of the mixed companies

An industry with clear rules and participation of the citizens

The organization which oversees the private companies in Mexico, the Consejo Coordinador Empresarial (CCE), from the beginning of the negotiations to draft the oil reforms, stated that said reforms must contemplate opening up the Mexican oil fields to private capital for exploration and extraction of crude oil. The CCE asked for *"the participation of the private sector in the exploration and extraction of oil in certain deep water areas."*

In order to achieve greater transparency and fight corruption, the CCE asked that Pemex and the Administration be obliged to regularly report on the use of oil profits, the profits of their investments, the labor situation, and the use of public resources after the implementation of the reform.

The companies represented by the CCE also backed the so-called Citizen's Bonds which could be acquired by the people. *"This is a source of additional financing and it will create greater interest among the citizenry to get to know and monitor Pemex's financial situation,"* stated the CCE.



**The lack of
Electric Power
doesn't help...**

The increase in demand for electric power (5% yearly) in Mexico offers an interesting growth outlook. This growth in consumption must be satisfied in order to guarantee that the oil sector function properly, without power outages and optimizing oil production processes.

During the first semester 2008, the first projects aimed at improving electric power production were designated. During the second semester 2009, bids were accepted for another 18 electric power projects. These projects added 8,000 Mw in power production capacity, explained Alberto Ramos Elorduy, sub-director for Project Development for the Federal Electric Power Commission (CFE).

Mexico needs foreign investors in order to meet its growing demand for electric power that by 2017 will be at 24,775 Mw, requiring around US\$54.33 billion in capital; capital that Mexico doesn't have but the transnational companies do, along with the technology and the experience to complete such a task.

**Present day
Mexico**

According to the U.S. Energy Agency figures, Mexican oil exports to the U.S. dropped slightly in July compared to the previous month. This was due in part to technical difficulties in some of the oil fields. However, during the first seven months of the year (according to the latest figures available), average Mexican oil production has been at around 2.96 million bl/d, relatively stable compared to the same period in 2010. This reflects that the measures to stabilize production are on course so far in 2011.

New oil fields discovered in not so deep waters in the Gulf of Mexico region will help to supplement already existing fields in the state of Campeche. And Mexico's upstream regulator has confirmed the approval of the Agua Fría project in Coapechaca in the Chicontepec field which will be very profitable.

Increased stability in operations and efficiency in oil drilling and extraction will ensure stable oil production. This added to the three private sector contracts on the oil fields along with oil prices looking to remain at relatively high levels in the medium term all set the stage for foreign investment to be taken to the next level, thereby guaranteeing a promising future and progress for the Mexican oil industry and the implications this will have for the countries wellbeing in general.





**Step by step
by but always
looking
forward**

Mexican Mario Molina, Nobel Prize winner in Chemistry 1995, considered that the reform initiatives presented by the Administration regarding the oil industry was not integral nor did it offer a solution for all the economic and environmental challenges currently facing the nation and he suggested that there is a “second step” beyond the changes made by the Congress.

At a discussion table for “*Transition and Secure Energy*” before Congress, the idea of a second package coming after the implementation of this initial wave of reforms was introduced. An integral reform should be introduced, but it should not interfere or get in the way of the first reform measures. There should be no obstacles for Pemex to improve its performance and production which is key to the progress of the country.

**When you
see your
neighbor’s
beard
burn...**

How Pemex was operating before the reform led it to a crisis that was so serious that it prompted Mexican politicians, which were very nationalistic, especially when dealing with the issue of hydrocarbons, to pass long term oil reform measures. No one would have imagined it possible if it hadn’t happened. There is no doubt that PDVSA is in a very delicate situation: oil production declining, fiscal pressures, heavy borrowing, needing investments, etc... Sooner or later, our politicians will have to introduce oil reforms. But in our case, these reforms will have an even more dramatic effect since we are so much more dependent on oil, being the country’s sole source of foreign currency.

At **Ecoanalítica**, we believe that these are the types of reforms that need to be implanted here in Venezuela, that these reforms don’t necessarily have to represent a specific political party or ideology, they are simply necessary for the economy, which depends on the commercialization of this natural resource, which in turn leads to the social wellbeing of the country. In Mexico’s case, we know that this is just the first step on a long road to recovery. But what’s happening in Mexico helps us see that we are going in the opposite direction here in Venezuela. Of course, this doesn’t mean that we can’t change direction. Let’s hope our politicians have the vision to see that this is what’s needed before our economy and our oil industry reach such a state of crisis that there is no other way out and it forces to reform.





Economic Tips

Venezuela drops to the 124th position in global competitiveness. According to the yearly Competitiveness Report of the World Economic Forum (WEF), Venezuela was down two notches in the global ranking and now is the 124th out of 142 countries, with a score of 3.5 points of a maximum of 7. In the analysis prepared based on data from the World Bank, countries are ranked in accordance with 12 pillars of competitiveness that the WEF describes as critical, including institutions, infrastructure, health, education, environment, and macroeconomic environment, among others.

We are among the worst. In terms of institutions, Venezuela had the worst performance with 2.4 points, as well as in terms of inflation occupying the last place at a global scale. In other items, such as property rights (142), copyright protection (140), confidence in the political leaders (141), diversion of public funds (138), organized crime (140), lack of personal security (139), transparency of public policies (139) and public spending misuse (138) Venezuela also had a poor performance.

And what does Property Right Alliance say? According to Property Right Alliance, which is responsible for preparing the ranking, Venezuela occupies the last place in the International Property Right Index, after countries like Zimbabwe, Angola, Bangladesh, Burundi, Ivory Coast and Libya. Sweden, Finland, Singapore, Switzerland, Norway and New Zealand are among the best performers. The Latin American countries with the best performance are Chile (28), Puerto Rico (33), Uruguay (44) and Costa Rica (50).

BCV fixed mortgage interest rates. In an official statement, the BCV published the mortgage interest rates for the acquisition, construction, self-construction and improvement of the main home. For families with a monthly income lower than or equal to four minimum wages, the rate will be 4.66%; families earning between four and six minimum wages per month, the rate is 6.91%; and families earning between six and eight minimum wages per month, the rate is 9.16%.

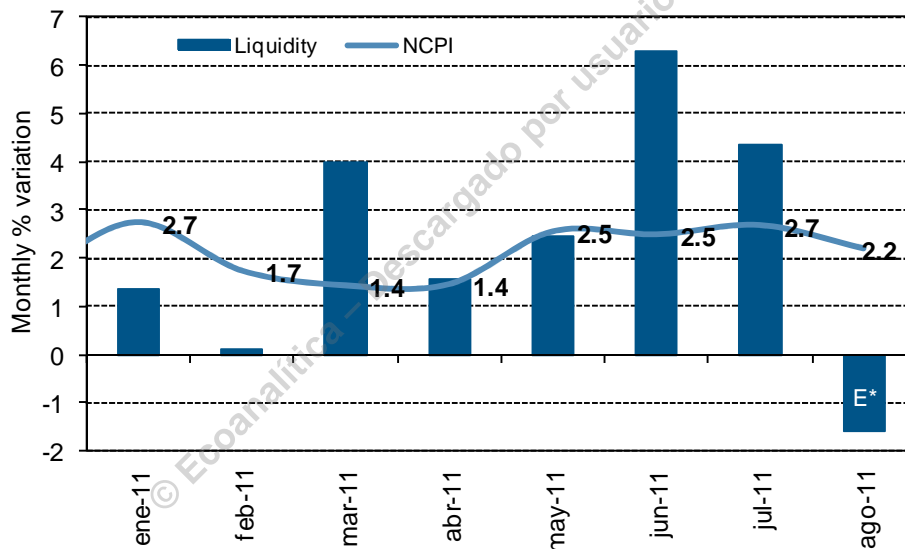
The government will transfer VEB 2.1 billion to states. President Hugo Chávez Frías authorized this week a supplementary appropriation worth VEB 2.1 billion, which will be earmarked for governors and mayors. President Chavez posted at his Twitter account that these moneys correspond to the constitutional revenue sharing. These funds comprise 2011 extraordinary tax and oil revenues. With this operation,



the central government will have transferred an additional VEB 6.9 billion from revenue sharing and VEB 1.5 billion from the Inter-territorial Compensation Fund.

Liquidity rise puts pressure on prices. Between January and July this year, liquidity has registered an increase of 21.8% in nominal terms; this increase is generated by the central government, which has risen spending as a means to give a boost to the economy vis-à-vis the upcoming elections. Furthermore, this increase brings about pressure on inflation, which posted 2.2% in August and has gained 18.6% from January to August.

Liquidity Vs. Inflation



Sources: BCV and Ecoanalítica

*Estimated liquidity

Cumulative inflation per city. According to the National Consumer Price Index, Caracas leads the list of the Venezuelan cities with the higher inflation, posting a yearly cumulative rate of 19.5%, followed by Barquisimeto with 18.6%, Barcelona-Puerto La Cruz with 18.5% and Valencia with 18.4%. The cities with the lower inflation index were San Cristóbal and Mérida with 16.7% and 17.0%, respectively.

And the surprise?... Maracaibo. Surprisingly, Maracaibo, the second city in terms of size and population density, registers a yearly cumulative inflation of 17.5%, i.e. the third less expensive city in Venezuela.





Inflation hits good and health. Over the first eight months of the year, prices of food, on average, posted an increase of 22.9%; medical and paramedical services, including visits and dental treatments posted 22%, hospital services, 29% and transportation, 19.7%. These variables have a determining impact on the standard of living of poor and middle income families.

Cenda food basket rose 2.8%. According to figures of the Centro de Documentación y Análisis para los Trabajadores (Cenda), family food basket cost VEB 3,283.6 in August, or an increase of 2.8% on a month-to-month basis, and 26.8% on a year-to-year basis. A comparison of the minimum wage with the Cenda food basket reveals a minimum wage purchasing power of only 42.9%.

Reserve transfers could affect Venezuela's risk rating. According to Moody's, repatriation of gold reserves could weaken Venezuela's credit rating, bringing about losses for bond holders and attracting a new wave of high-risk investors. Moody's ranks Venezuelan long-term debt as B2 with a stable perspective, but "*...the decision to repatriate gold reserves could be potentially negative in terms of loans, as the management of reserves is less transparent.*"

Venezuela receives US\$4.0 billion from the Chinese Fund for infrastructure projects. Last Thursday, September 9, China deposited US\$4.0 billion corresponding to a new credit trench from the Chinese Fund, which has almost become a bank, according to an announcement made by the Venezuelan president, Hugo Chávez, who last Friday received the Ministers of Foreign Affairs of the Bolivarian Alliance for the Peoples of Our America (ALBA) in the Miraflores Palace in Caracas.

Interest rates. The lending rate for the first week in September was at 17.25%, decreasing by 0.26 percentage points compared to the previous week. The time deposit rate remained at 14.50%, while the passive rate has not experienced any significant variation since January 2010, placing well at 12.61%.

International reserves. International reserves increased 1.9% going from US\$30,835 million during the first week of September to US\$31,425 million during the second week of September. Compared to the same period last year, international reserves have increased by 5.6%.

Monetary liquidity. Monetary liquidity in the first week of September increased 0.4% compared to the previous week settling at VEB 354,407 million. The M2 has increased 32.2% year-on-year.

Sitme figures. So far this year, US\$5,746 million have been negotiated through the System for Foreign Currency Transactions (Sitme), averaging US\$34.6 million a day,



with an implicit exchange rate of 5.3 VEB/US\$. During the second week of August the amount traded reached US\$186.6 million, US\$15.3 million more than last week when US\$171.5 million were traded.

Oil Tips

OPEC reports increase in Venezuelan crude oil extraction. The crude oil extraction volumes reported by the Organization of Petroleum Exporting Countries (OPEC) each month indicate that in August, Venezuela's crude oil pumping contracted by 17,000 barrels, down to 2.40 mb/d, as compared to July, 2011. However, the 2.40 mb/d volume reported in August 2011 is 3.5% higher than the one reported in August of 2010, when production reached 2.31 mb/d, according to OPEC.

OPEC increased crude oil extraction. OPEC countries increased their crude oil extraction volume by 2.6% in August of 2011, compared to August of 2010, indicates the organization's report. During last month, the total production of OPEC countries (Saudi Arabia, Iraq, Iran, Kuwait, Venezuela, Algeria, Angola, Ecuador, Nigeria, United Arab Emirates, Libya and Qatar) was 29.92 million barrels per day, while in August of 2010 it was 29.15 million barrels.

IEA predicts negative outlook for crude oil consumption. In its monthly oil market report, the International Energy Agency (IEA) said the financial and economic adversity would gain momentum and that the significant economic threats implied risks of contraction for the crude oil demand in 2011 and 2012. David Fyfe, head of the IEA oil industry and market division said the crude oil market had been tight these past few months, but that the balance could be relieved if there were no more supply interruptions.

Crude oil shipments to US contracted in August. Venezuela's crude oil exports to the United States were under 850 thousand b/d (kb/d) in August, according to preliminary data issued by the US Department of Energy. This number represents a 14% decline from the volume sent in the same period of 2010 when an average of 993 kb/d was reported. The volume sent to US territory in August is slightly larger than July's average of 840 kb/d.

Pdvsas bought 17 drilling rigs from a Chinese corporation. The commercial relation between Pdvsas and China keeps growing; this time with the negotiation of a



set of drilling rigs bought by the Venezuelan state oil company from the Chinese corporation Honghua Group Limited. According to a report presented by the Asian factory to the Hong Kong Stock Exchange on August 24, a purchase-sale agreement was signed with Pdvsa Servicios for 17 land drilling rigs. Though there are no further details, it is specified that the transaction was closed at an estimate cost of US\$240 million.

Less drills reported. Oil sector sources indicate that the count of active drilling rigs in Venezuela decreased by 5 drills between June and July of 2011, going from 85 to 80 units. However, the number reported in July is higher than in the same period of 2010 when 70 active drills were reported, 62 for crude oil extraction and 8 for natural gas drilling.

US crude oil imports down during 1S2011. According to the US Department of Energy, during the first semester of 2011, the United States imported 8.84 mb/d of crude oil, while foreign crude oil purchases reached 9.31 mb/d in the first semester of 2010, a 5% decline.

Pdvsa buying food. The incursion of Petroleos de Venezuela (Pdvsa) in business sectors other than oil and gas exploitation has left good administrative results, according to statements provided by a high executive of Pdvsa to officials of the Embassy of the United States in Caracas in February of 2010.

WikiLeaks keeps publishing information. One of the diplomatic wires revealed by WikiLeaks indicates that Bariven, Pdvsa's purchasing and procurement affiliate, faced trouble since 2003 to coordinate the purchase of food to be distributed by government networks such as Mercal and Pdval. The document indicates that a Pdvsa executive acknowledged that *"Bariven's lack of technical experience in purchasing food caused its front-end efforts to support Pdval to be plagued with faults and mistakes."*

Fuel delivery shortage attributed to tanker fleet. Fuel supply in different areas of Caracas has been affected by distribution and delivery problems from filling facilities to gas stations. According to sources from the hydrocarbon sector, over the last few weeks there's been many obstacles to regularize deliveries.

Urging to stop environmental damages in the Paraguana Peninsula. Seventeen environmental organizations requested the moral Republican Council to immediately dismiss the current management team of the Refining Complex of Paraguana, who they claim are responsible for the environmental crisis in the area. *"We are fighting to recover the sea bed, drag fishing was prohibited but now Pdvsa is devastating everything. We ask for the destitution of the upper management team and the*



application of the environmental penal law,” said a representative of Red Manglar and member of the Ecologic Association for the Preservation of the Environment in the state of Falcon, Henderson Colina.

Workers resume protests in Puerto La Cruz Refinery. Just as agreed in an assembly, oil workers once again gathered outside the Refinery of Puerto La Cruz to demand their labor benefits stipulated in the collective labor agreement and to urge the authorities of the Single Federation of Oil Workers of Venezuela (Futpv) to submit the draft of the collective labor agreement before the Labor Inspectorate so that they can start negotiating the new collective agreement, as it expired in January of 2011.

International oil baskets. At closing time on September 9 in the New York Stock Exchange, the price of the WTI was US\$87.5/bl, a 0.5% decrease compared to the US\$87.9 reported the previous week. The Brent decreased by 0.1% to reach US\$113.1/bl, compared to the previous week's US\$113.3/bl.

Local oil basket price. The Venezuelan oil basket price increased last week, closing at US\$103.3/bl on Friday September 9, a 1.4% increase compared to the US\$101.9/bl of the previous week. The annual average price of the Venezuelan oil basket is US\$98.98/bl.

Business Sector Tips

Venezuelan consumers yet to recover confidence. Datanalisis' Consumer Confidence Index, which includes statistics as of the end of June of 2011, indicates that so far the increase of oil prices, the growth of liquidity and the raise of the minimum wage have not changed the pessimism of most families as to the economy. The survey determined that only 29.8% of the nation's families are willing to acquire long-lasting goods such as furniture, domestic appliances, cars, apartments.

Number of private sector employers decreasing. The number of private employers has decreased 1.8% over the year, despite the three quarters of growth accumulated by the Venezuelan economy. The National Institute of Statistics (INE) indicates there were 398,711 employers as of July of 2011, compared to last year's 406,146.





Currency authorizations for Asian bi-national chambers. The Currency Administration Commission (Cadivi) has authorized US\$389 million for companies of Asian bi-national chambers. So was informed in a meeting celebrated on August 9 between representatives of said business organizations and Cadivi authorities.

Automotive sector is skeptical. Government production plans, outlined late in 2010, are contrasting with the sector's performance. Manufacturers' representatives assure that the official projections of producing 170,000 units in 2011 do not match the sector's reality, as it is oppressed by bureaucratic obstacles.

Therefore, vehicle sales are plummeting down. New vehicle sales contracted 3.5% compared to last year, according to the Venezuelan Automotive Chamber (Cavenez). The sector's monthly report indicates that manufacturers sold 78,346 cars between January and August of 2011, 2,850 less than in the same period of 2010. As opposed to other years, this year's increases in oil prices, government spending and liquidity have not resulted in a recovery for the automotive sector.

Venezuelan investment in Colombia expands. According to the Central Bank of Colombia, Venezuelans invested US\$40 million in 2010, and only in the first quarter of 2011 they invested almost half of that amount, nearly US\$19.3 million. *"Venezuelans are clear they can produce money here but they diversify their investments with their minds in countries that offer more economic stability today,"* said Margarita Maria Restrepo, manager of Casa Propia, a company that represents 6 of Colombia's most important construction companies.

More doubts about the commercial future between Colombia and Venezuela. The message sent by the President of Colombia to Colombian exporters added uncertainty to the future of the commercial relations between Venezuela and Colombia. *"Yes, we are uncertain, we wish we had some clear rules, more positive signs,"* said Luis Alberto Russian, executive president of the Chamber for the Economic Integration of Colombia and Venezuela (Cavecol).

Raw milk price remains distant. The price of milk at farm level has been set at VEB 2.5 per liter for 18 months, a price that does not cover production costs. As a matter of fact, a study prepared by the Venezuelan Federation of Stockbreeders (Fedenaga) in the north of the Táchira state determined that producing one liter of milk cost VEB 5.56. This means the regulated price is behind the cost of production by 122.4%.

How much has been invested in construction supplies through Fonden? The National Government, through the National Development Fund (Fonden), has invested US\$241 million in the creation of factories to produce construction supplies. Although the authorities state they are making efforts to encourage industrial activity,



official numbers indicate the execution of projects to manufacture construction supplies is slow.

To live with dignity? The Great Housing Mission Venezuela is not 100% optimal in light of the reports of lacking basic services in the units. For instance, in Ciudad Caribia, buildings have no electricity, no gas and it's not easy to access the complex because the road is not paved and has a 75° slope. Moreover, the area is close to a geological fault and landslides have already been reported.

Production and investment in the cement industry. The minister of science and intermediate industries, Ricardo Menendez, said cement production was at 5 million metric tons. The official said that only in August, cement plants generated 732,000 tons, adding that the Administration had invested US\$260 million in cement companies in order to increase their capacity.

Fixed-term deposits hit lowest figure since 1986. Between June of 2009 and June of 2011, fixed-term deposits have reported a vertiginous fall by 65%, going from VEB 33.64 billion to VEB 11.59 billion. This results in a reduction of the ratio of fixed-term deposits to total deposits from 14% to 3%, the lowest level since 1986. The decline in the payment of interests to depositors has slightly compensated the impact of regulations allowing banks to maintain profitability, banking experts explain.

For one more year the franchise sector shows two faces. On the one hand, franchise stores' sales are stagnant, and on the other, the number of franchises in the market keeps growing. Alfonso Riera, director of the Venezuelan Chamber of Franchises (Profranquicias) said that so far this year, the sector reports a 20% sales contraction.

Government proposes Smurfit to relocate forest production. The Venezuelan government announced it had proposed the local unit of the Irish cardboard company Smurfit Kappa to relocate its forest production in Venezuela, days after President Chavez ordered to speed up the process to take over the company's land.

Indepabis denied rate adjustment to Movistar. The Institute for the Defense of People in the Access to Goods and Services (Indepabis) prohibited Movistar from raising its service rates. *"There is no reason to increase rates the way they apparently want to,"* said Augusto Montiel, president of Indepabis, according to a press release from the Government.





World Economy Tips

China reconfirms it will maintain its monetary policy. On Monday, September 12, the Central Bank of China announced the inflation, which had slowed down in August from a three-year high, was still too high so it will maintain its monetary policies despite the popular debate among economists over possible monetary expansion measures.

China inflation down. Last week data showed Chinese consumers' annual inflation had decreased to 6.2% in August from 6.5 in July, as the domestic demand had a positive performance and exports proved elastic against the European debt crisis and the deceleration of the US growth. *"The inflation is still too high, and stabilizing general price levels is still the number one priority of the macroeconomic policy,"* said the People's Bank of China in an official statement.

European stock exchanges plummeted down to two-year low. On Monday, September 12, European stock exchanges plummeted down to a two-year low, after generalized sales for the increasing possibility of Greece declaring debt default and an increase of Italy's sovereign debt yields. FTSEurofirst 300, one of the main European indexes, closed with a provisional decrease by 2.5%.

Greece against the wall. On Monday, September 12, Greece's vice minister of Finance said his nation had enough cash to operate until October, while the possibility of a default started to spread from Germany. The fear of default in Greece affected especially French banks, as they are extremely exposed to the Greek debt.

EU says they can't rule out more rescues for Greece. The European Union's Competence Commissioner, Joaquin Almunia, said in an interview published last Monday, September 12, that the European Union could not rule out the possibility of new rescue packages for the Euro zone, and said he didn't see a threat of recession. In a public interview on the newspaper Expansion, the commissioner said the possibility of new rescues *"depend on the economic situation and the impact of that situation on financial entities and the financial system."*

Italy asked China to purchase bonds. Italy asked China to purchase its bonds in light of the difficulties faced by the third largest economy of the Euro zone to convince markets it is capable of managing the debt burden. The Financial Times online said



Rome has asked Beijing to make “significant purchases” of Italian debt. The Wall Street Journal published Italy was expecting China to buy “large amounts” of debt.

Asian stock exchanges showed slight improvement. Asian stock exchanges reported a slight growth and the Euro moved away from a seven-month low on Tuesday, September 13, after a report said Italy might obtain financial aid from China, unleashing a wave of short coverage. However, there is still fear that Europe might fall in another banking crisis.

US Treasury bonds down for risk aversion. The prices of US treasury bonds went down on Monday, September 12, after a search for safe assets, following a deterioration of the European crisis, risk aversion led the yield of reference 10-year bonds to fall to 60-year low.

Obama urges European leaders to act against the crisis. “Euro zone leaders need show markets they are taking responsibility for the debt crisis and work out how to tally monetary union with budget policy,” said US President, Barak Obama. “Greek is the immediate concern, but an even bigger problem is what may happen should markets take another run at the larger economies of Spain and Italy,” he said.

Latin American currencies to feel the impact. Most Latin American currencies could absorb this week global markets’ fears over the path of the global economy and operate in decline, a situation that would especially impact the Mexican peso and the Brazilian real. Beyond any doubt over whether the US will be able to carry out a stimulus plan for employment and the economy, the markets’ attention will be focused on the European debt crisis.

Plan to reduce the impact of the climate change on the Caribbean. BID Group’s Multilateral Fund of Investments (Fomin) will invest US\$1.5 million to launch a pioneer initiative to help coast communities and small and mid-sized enterprises in the Caribbean defend themselves from the impact of the climate change.

Political Tips

Finally! 2012-2013 electoral calendar released. Last Tuesday, the National Electoral Council agreed to set the presidential election for Sunday, October 7 of



2012, so was informed by Rector Vicente Diaz on his Twitter account. Governor election was set for December, 2012, and Mayor election was set for April of 2013.

Former minister Tobias Nobrega banned from public office for 15 years. *Official Gazette N° 39,755* of September 12 published a resolution of the General Comptrollership of the Republic banning former minister of Finance, Tobias Nobrega, from public office for a period of 15 years. The Public Ministry indicted Tobias Nobrega in 2009 for alleged irregularities during his service at the Ministry of Finance between the years 2002 and 2003.

President Chavez announced fourth chemotherapy cycle. President Hugo Chavez announced last Thursday it was “*very likely*” he would start a fourth chemotherapy cycle within a few days as part of his cancer treatment.

3,600,000 Venezuelans have been registered in the census in one week. Little over a week after the XIV Population and housing census began, 3,603,365 Venezuelans have been registered, according to the latest report published by the National Institute of Statistics (INE) broadcasted by the Venezuelan News Agency (AVN).

General Procurer rejects rulings of IACHR. The General Procurer of the Republic, Carlos Escarra, said that an eventual sentence of the Inter-American Court of Human Rights (IACHR) on the subject could neither “*overlook Venezuela’s Constitutional legal system, nor overrule Venezuelan institutions,*” so it would need to respect the current political exclusions.

Like foam. The number of Venezuelan public officials and former officials included in the US list of people suspected of being linked to drug traffic and other illegal activities is growing like foam, going from three to seven in three years. The list includes assembly member Freddy Bernal, General Cliver Alcala, former deputy president of Parlatino, Amilcar Figueroa, and Intelligence Officer, Ramon Madriz.

US black list a joke. After stating that the black list of the US Department of Treasure was “*a joke,*” President Hugo Chavez challenged his North American homologue, Barack Obama, to show “*a single piece of evidence*” justifying the inclusion of four Venezuelan citizens in the referred list, something President Chavez labeled as an “*infamy.*”

Opposition doesn’t rule out the possibility of changing the primary election date. National Assembly Representative for the Zulia state, Julio Montoya, warned that, if the presidential election was moved forward, they would also establish a new date to choose the single opposition candidate, so far set for February 12.



According to Hinterlaces, Chavez has gained approval. People's approval of President Hugo Chavez went up by four percent points in two months, leaving him at 58%. Oscar Schemell, director of Hinterlaces, is convinced that the President is *"raising popularity because people think he is a good, humanitarian man who loves the poor and has good ideas and projects (...) That's why they excuse his lack of solutions and the aggravation of the main issues of Venezuelan citizens: crime rate, inflation and unemployment."*

Chavez leads polls, according to GIS XXI. According to a political situation study carried out in August, 2011 by the firm GIS XXI, if the presidential election were today, 57% of the people would vote for Hugo Chavez Frias, while 22% would vote for an opposition candidate, 10% would tend to vote for an opposition candidate, depending on who it were, 5% would not vote and 6% have not made up their minds.

All in the family. According to presidential *decree N° 8,448* published in *Official Gazette N° 37,751*, Argenis Chavez Frias was appointed as president of the National Electric Corporation (Corpoelec). The brother of President Chavez will substitute Ali Rodriguez Araque, who will remain as minister of Electric Energy.

National Assembly urged to disqualify Salas Feo for public office. Revolutionary representative Saul Ortega asked the National Assembly to politically disqualify Governor of Carabobo, Henrique Salas Feo, for embezzlement of public funds and causing damages to the state's wealth. The president of the Legislative Council of the Carabobo state (CLEC), Miguel Flores, said the entity was waiting for a sentence from the General Comptrollership of the Republic or the Public Ministry, where the evidence against Governor Salas Feo were introduced.

Housing deficit to increase with the tenancy law. According to representative Cesar Rincones, vice president of the National Assembly's Administration and Public Services Commission, the approval of the tenancy law draft will have negative consequences for the nation. Rincones said the normative was in absolute favor of tenants while violating the rights of landlords. *"It seems as though the Government wants to use this legislation to reduce the housing deficit by taking properties from some citizens and giving them to others,"* he said.





Legislative Tips

National Assembly approved statement of rejection. In an extraordinary session, the National Assembly, with the majority of votes from revolutionary representatives, approved a statement of rejection for the inclusion of four Venezuelan public officials in the list of people suspected of aiding drug traffic. According to the statements of pro-government representative, Hector Navarro, the intention of the United States is *“to prepare the grounds to destabilize our country with violent policies.”*

National Assembly subcommittee to summon UC rector. According to statements of Representative Henry Ventura, member of the National Assembly subcommittee in charge of investigating the sale of admissions in the University of Carabobo, the parliament will be summoning the rector of said institution after September 15 to provide information to debate the accusations. The parliament member mentioned it was interesting how there were 380 vacancies in the University's Law School and 2,713 people were admitted.

National Assembly to discuss vehicle prices. Representative Jesus Faria said the parliament's Economic Development Subcommittee would begin a round of meetings with representatives of the automotive sector on Tuesday, September 13 to discuss the price of vehicles in the local market. According to Faria, speculative practices impact the determination of vehicle sale prices, so the purpose of these meetings will be to identify the speculative factor involved in altering prices.

Private clinics, suppliers and insurance companies: each looking out for themselves. In the work tables set up to discuss the new law to regulate private health, as to the issue of private health service prices based on the sector's cost structures, each party has its own arguments: private clinic owners blame it on the high prices of suppliers, suppliers blame it on Government policies and insurance companies denounce abuses in private clinic prices.

Consultation about energy law draft to begin on the 19th. According to Representative Luis Acuña, president of the National Assembly's Energy and Oil Commission, the instance in planning the popular consultation of the draft of the law for the rational and efficient use of energy for the second half of October. According to Acuña, the commission expects the participation of all sectors of society.





Parliament radicalizes tenancy law. The articles in the tenancy law draft approved so far by the National Assembly's Administration and Public Services Commission are much less balanced than those presented by the Metropolitan network of tenants in March. Before, the period of contracts would be of mutual agreement, now the law establishes a minimum of three years.

... no warranty deposit. The parliamentary instance eliminated the second chapter in the draft in which it was established that landlords could not request security deposits for more than an amount equal to two months of rent. The normative now establishes tenants are not required to provide a security deposit.

...plus, the previous draft proposed for tenants on default of payment to lose the rights states by law and be sued by the brief procedure established in the Civil Code. The article approved allows tenants to reach a reconciliation agreement with the landlord provided they pay the delayed rent.

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ECONOMIC OVERVIEW

