



Weekly Report

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By:
Asdrúbal Oliveros
Ángel Alayón

and Ecoanalítica's Team*

Law of Fair Costs and Prices: some frequent questions

*Adriana Morillo, María Gabriela Benítez and
Pilar Navarro

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On July 18 the decree with rank, value and force of Law of Fair Costs and Prices was published in Official Gazette N° 39.715. The law will fully enter into force on November 22nd 2011, and has generated many questions among Venezuelan entrepreneurs. Here we will answer some of them.

1. Is my company subject to the Law?

The law states that individuals or companies, public or private, domestic or foreign, which by their activities within the national territory produce, import or trade goods or provide services, and receive a monetary payment that satisfies the exchange, are subject to it. That is, for any intents and purposes, any company is subject to it.

2. The law mentions excessive profits: How can it be established if a company has excessive profits? What is a reasonable profit margin?

The law intends to control companies with profits "*excessive compared to the cost structures of the goods they produce or trade or the services they provide*". The law doesn't establish any methodology to determine when a profit is excessive. In any event, Edmeé Betancourt, Minister of Trade, recently stated that 10% is a reasonable profit. The Minister didn't specify if that was before or after taxes. Take into consideration that when the



Minister talks about profit percentages, it is very likely she refers to a percentage over total costs (Mark-up). Now then, several officials in the area have stated that profit margins may vary by sector, but haven't given much information.

3. Does this law imply that starting on November 22 all goods and services will have regulated prices?

No. The law establishes the regulation of prices for those goods and services that the Cost and Prices Superintendence considers has excessive profit margins, which doesn't imply a priori, that all prices in the economy will be regulated. However, the legal power to regulate the price of any good or service does exist, according to this Law. The Law also mentions a "classification of goods and services" which could be a way to regulate different sectors in the economy.

4. So then, what is the obligation of my company with respect to the Law?

The first obligation is to register your company in the National Registry of Goods and Services. The authorities must issue a regulation to list the requirements to register, which should be published before November 22. That's what was stated. The Law establishes that you must notify the prices of your products or services before it enters into force, as well as notify any future price changes. If the Superintendence has already established a fair price for your product, and you have to modify it, you must make the request before the National Superintendence of Costs and Prices.

5. How many types of "prices" exist, according to the Law?

There are three types of prices: 1) those freely established before the Law entered into force, 2) those established by the government in its different regulations, and 3) those established by the National Superintendence of Costs and Prices, within the framework of its functions.

6. According to the law, what are the components of prices?

The Law states that to establish fair prices it will consider the following elements:

- a) Cost structure, which includes: direct and indirect costs, general expenses, administrative, distribution and sales expenses if applicable, and the expected profits based on expectations and risks assumed.
- b) Elements that due to their relation to the case considered establishing a fair price for the good or service has merits presumed valid to establish the aspects that are part of its price or cost.

7. Does the law say something regarding margins from channels and discounts?

No. The law refers to prices, but doesn't state if margins and discounts must be considered for notification purposes. There are companies whose products have a price well below the list price, for example, so the



difference in the profits reported may vary significantly, depending on the profit reported.

8. What should be the relationship between the cost structure and the company's accounting?

The Law says that informed costs and expenses must not exceed those in the accounting. A possible interpretation of this provision is that the cost structure must be "auditable", that is, the costs and expenses presented must be reflected in the company's accounting. Of course, this provision may have financial implications, from the point of view of the concept of reversals.

9. Is there a format to provide cost structure information?

So far there is no such format, although the Law mentions that it may be published in a regulation. (See the answer to question 6)

10. The cost structure is by product, or by company?

The Law establishes that the cost structure must be by products; the challenge for companies is to assign costs shared between products.

11. What scenarios must my company consider?

There are two basic scenarios: 1) You notified the prices (and costs, if the regulation requires them) of your products and services, and the Superintendence decides not to go to a process of establishing the fair price of your product, in which case you may be able to continue selling your product at the price informed to the Superintendence. 2) The Superintendence determines the fair price for your product or services, and establishes the price at which you should sell your product. In any event this Law allows the State to regulate the price of a good or service, even if it isn't an essential product.

12. And if I introduce a new product in the market?

The Law says that when one of the subjects adds new goods or services, it must follow the procedure in the Law, to establish its fair price. Some lawyers interpret this provision as an obligation to notify prices and costs before the Superintendence¹.

¹ **Note:** These comments do not replace the legal analysis that the lawyers of your company will make about the Law of Fair Costs and Prices, and is not intended to be a thorough analysis of the Law. The Law of Fair Costs and Prices has significant strategic implications regarding the management of costs, price strategies, and the behavior of competition, and we think that our clients must be informed about their responsibilities and the evolution of the regulation.



Economic Tips

New bond issue for US\$3.0 billion. The Ministry of Finances announced on Tuesday, October 11 a new issue of bonds for US\$3 billion, that companies and individuals may buy with bolivars and then re-sell abroad to obtain foreign currency.

The minimum amount of the investment is the equivalent of US\$3,000; the bonds will have an interest rate of 11.75% and investors may present their purchase orders from Thursday the 13th, to Friday the 14th at noon of this month.

40% will be destined for the productive sector. According to the notification issued by the Ministry of Finances, up to 40% of the offer will be exclusively for companies in the national productive sector.

It will be at US\$50! After two consecutive years calculating the national budget based on an oil price of US\$40 per barrel, which the government has explained as an exercise in prudence (later came the additional credits, the special funds out of the control of the BCV, and the huge indebtedness), for the 2012 budget, as was estimated by *Ecoanalítica*, the government is reviewing its position and will calculate it based on a barrel at US\$50. This price is still between US\$35 and US\$50 below our estimates for the Venezuelan oil basket for next year.

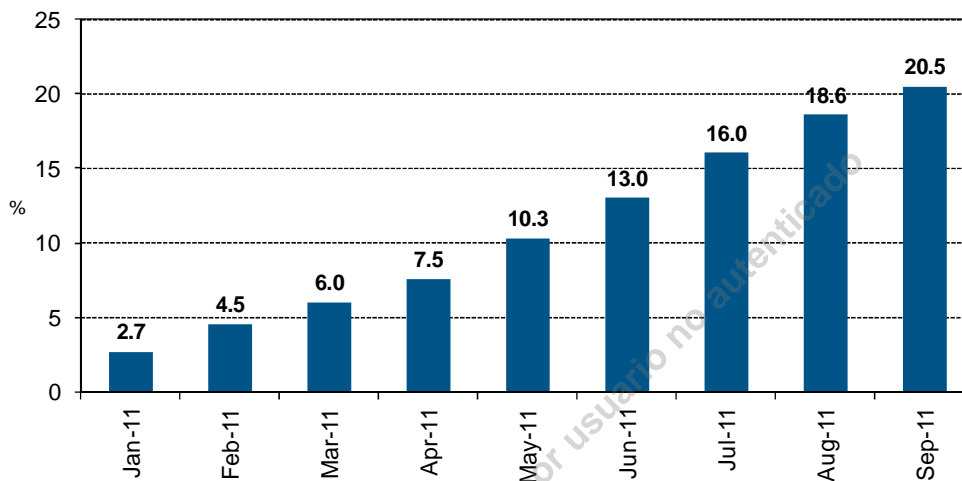
...The remaining premises will be similar to those in the 2011 budget, when the projection was a 2% growth, and inflation between 23% and 25%. The Administration defined the allocations for ministries, regional governments and other public administration entities. It is still unknown how much the total expenditure will be, but according to Congressman Ricardo Sanguino, president of the Parliamentary Finance Commission, social investment will continue to be a priority.

Inflation: At a conqueror's pace! Although according to official economic authorities, inflation between August and September dropped from 2.2% to 1.4%, respectively, accumulated inflation for September was 20.5%, very close to the "maximum inflationary target" established by the Government for 2011, between 23% and 25%.





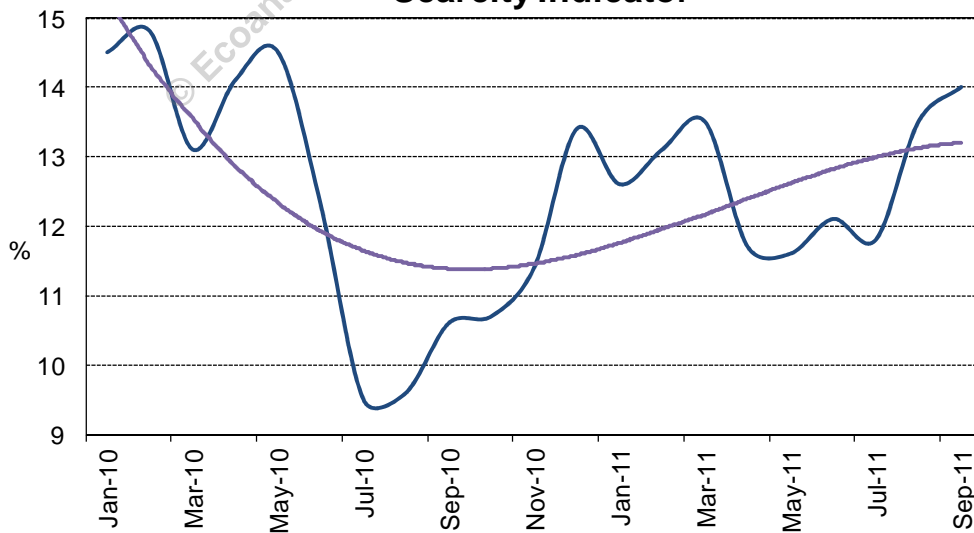
Accumulated Inflation



Sources: BCV and Ecoanalítica

Scarcity index increases. Also in September, the scarcity index increased again, at 14.0%, while the diversity index fell 7.3% inter monthly. In the last three months, this last index has decreased by 11.7%.

Scarcity Indicator



Sources: BCV and Ecoanalítica.





Inflation of domestic products is greater than of imported products. According to wholesale price figures published by the Central Bank of Venezuela (BCV) for September, the seventh consecutive month, domestic products increased their price more than imported products. In the ninth month of the year, goods manufactured in the country became 1.8% more expensive, while those brought from abroad increased only 1.0%.

Well above the region's average. Venezuela is the country with the highest inflation in the region. Although in September inflation increased 1.6%, lower than in August (2.2%), for the year the NCPI is accumulating an increase of 20.5%, or 13.5 percent points above the region's average, of 7.0%.

More information about the census. 36 days after the National Census started, the National Institute of Statistics (Instituto Nacional de Estadística - INE) already has some partial results, after registering 13,600,000 people in 3,000,000 homes: 1) The largest population group is between 15 and 64 years old; 2) The group between 0 and 14 years old has reduced; 3) The number of people older than 65 years increased; and 4) Life expectancy went from 58 years in 1950 to 74 years. Conclusion: Venezuela is still "a young country" but not as much as in the last census.

Extreme poverty increases. According to the results of the income level method implemented by the National Institute of Statistics (INE) to measure poverty (an interim analysis that compares family income with the regulatory food basket), although the percentage of poor homes has fallen from 49% in the first semester of 1998 to 27.4% in 2011, this figure increased when compared to the same period in 2010, when it was 26.8%. Also, the percentage of homes in extreme poverty conditions, as measured by this method, also increased from 7.1% to 7.3% interannually.

Poverty measured according to essential needs decreased to 21.2%. According to the second method used by the INE, called Unmet Essential Needs (this structural poverty indicator evaluates high economic dependence, the number of children between 7 and 12 that don't go to school, access to utilities, critical overcrowding, and type of home), poverty according to essential needs affected 21.2% of the country's homes during the first semester of the year.

...So there are 1,479,248 poor homes that couldn't completely cover their needs during that period. This is a decrease of 2.3 percent points with respect to the same period the year before, when it was 23.5%, that is, for the same period in 2010 there were 1,601,659 homes in structural poverty conditions.



57.8% of the gold to be repatriated. According to Nelson Merentes, president of BCV, 16,908 of the nation's 29,265 gold ingots deposited in banks in Europe will be repatriated. According to Merentes, Venezuela expects to have the gold in "a month and a half" at the latest. He also explained that *"something is left to back the necessary financial operations"*, for which it is necessary to *"keep the accounts open"*.

Again: In the first places... but from the bottom up. According to a new study by Forbes Magazine, Venezuela is one of the worst countries in the world to do business, in place 130 of the 134 countries analyzed. This is two places back compared to the previous study, when Venezuela was at 128. Forbes' study measures variables like trade freedom, monetary freedom, property rights and innovation, among others.

Interest rates. The lending rate for the fourth week in September was at 16.8%, decreasing by 1.2 percentage points compared to the previous week. The time deposit rate remained reach 14.5%, while the passive rate has not experienced any significant variation since January 2010, placing well at 12.6%.

International reserves. International reserves decreased 1.5% going from US\$31,395 million during the fourth week of September to US\$30,920 million during the first week of October. Compared to the same period last year, international reserves have increased by 3.8%.

Monetary liquidity. Monetary liquidity in the fourth week of September increased 2.2% compared to the previous week settling at VEB 369,453 million. The M2 has increased 37.8% year-on-year.

Sitme figures. So far this year, US\$6,427 million have been negotiated through the System for Foreign Currency Transactions (Sitme), averaging US\$34.7 million a day, with an implicit exchange rate of 5.3 VEB/US\$. During the first week of October the amount traded reached US\$200.3 million, US\$9,0 million more than last week when US\$191.3 million were traded.





Oil Tips

Russians looking for partners to enter the Faja. The Russian state owned oil company, Rosneft, will pay US\$1.0 billion to have access to Carabobo Block 2, in the Orinoco Oil Belt. Reuters informed that the company could pair up with a partner to execute the project, according to the Russian financial newspaper Kommersant. Rosneft, with 40% share in the project, could look for a partner. *“ExxonMobil could be our strategic partner. This step seems reasonable”*, said the source.

Production at the Faja already has a date. During the last visit of Russian authorities last week, it was announced that the mixed company Petromiranda, formed by the Russian consortium and Petr leos de Venezuela (Pdvsa), will start an early production of 50,000 barrels per day (kb/d) in May 2012, by beginning drilling operations in December of this year. Petromiranda is expected to produce up to 450 kb/d. An agreement was signed on October 6 to accelerate the creation of this company.

And Petropiar expands. The mixed oil company Petropiar reached a production of 162 kb/d of extra heavy crude oil in September, 3 kb/d more than the established goal of 159 kb/d. Petr leos de Venezuela (Pdvsa) explained in a press note that this increase was possible due to the culmination of a cluster (a platform that groups Wells) of the Tricolor Plan, executed in the Orinoco Oil Belt (FPO) which in record time drilled 14 wells at an average of 8.7 days per well.

Investment necessary for the Faja project to become a reality. Ram rez said that US\$525 million will be invested, provided by all partners, and that could be financed by the Russian-Venezuelan bilateral institutions, or other financial entities.

Ch vez suggests the creation of an oil cartel parallel to OPEC. President Hugo Ch vez said to Igor Sechin, Russian Prime Minister, and to Sergei Shmatko, Russian Minister of Energy, that he has *“a modest proposal, one of those ideas you throw in the air: discuss the creation of a new organization of the oil giants, in this new world that is emerging, which are only four or five, and Russia and Venezuela are two of them. It is a matter to be commented and discussed”*.

OPEC “would not be affected”. The Head of State also said that *“this wouldn’t affect it at all. No, OPEC is an organization with a history, a profile, a trajectory; it has played and will continue a very important role, of internal balance, in historical*



moments like the one we are living: the invasion of Iraq, the invasion of Libya, conflicts between member states”.

Suggesting another oil cartel is contradictory. After a decade of defending the importance of OPEC, last week’s proposal of President Chávez to create a parallel group of producer countries seems to be a signal of what is interpreted as a new era of the oil market and of global energy geopolitics, according to economists Rafael Quiroz and Luis Oliveros. According to Quiroz *“Venezuela’s diplomatic effort must be geared to pressure Russia to be part of OPEC, and do the same with Norway, or Colombia, which already produces more than Ecuador or Angola, which are members. Chávez can come close to Russia and Iran without harming OPEC”.*

And Ramírez also gives his opinion... After President Chávez’s suggestion, Rafael Ramírez, Minister of Energy and Oil also mentioned OPEC, but in his case to talk about production quotas. He said that *“countries that put additional volumes in the market will have to reduce them before we can start talking about anything else. Some people are off track at OPEC, and they have to abide by the production discipline system”.* Regarding Venezuela he said that they estimate that US\$50/bl is a “reasonable” price to calculate the 2012 national budget.

OPEC once again lowers its demand forecast. For the third consecutive month, OPEC lowered last Tuesday, October 11th, its crude oil demand forecasts for 2011 and 2012, given the grim economic perspectives, particularly in Europe and the United States. The cartel is now evaluating crude oil demands for 2011 87.81 million barrels per day (mb/d) vs. 87.99 mb/d a month before. With respect to 2010, this represents an increase of 0.88 mb/d, according to its monthly report. For 2012, they forecast a demand of 89.01 mb/d, vs. the 89.26 mb/d announced in September of this year.

Expensive subsidies. The Government’s policy to subsidize and freeze fuel prices continues to be costly for Pdvsa’s accounts. The IAE calculated subsidies for fossil fuels worldwide, and established that in 2010, Venezuela used US\$19.97 billion to pay for low gasoline, gas and electricity prices, taking up around 75% of the total invoice. This, according to the IAE, is equivalent to 6.9% of Venezuela’s GDP.

Venezuelans do not live by gasoline alone... Also electricity and gas. US\$15.7 was destined to subsidize gasoline, while gas subsidies amounted to US\$1.42 billion and electricity’s US\$2.85 billion. As the domestic fuel market increases, with no change in the rates, the burden that the State will have to carry will be greater.

Low prices = excessive consumption + waste. Alí Rodríguez, Minister for Electric Power recently mentioned that part of the “excessive consumption and waste” of



electricity and gasoline has to do with their low prices. At present, gasoline consumption in the domestic market is around 285,000 kb/d.

Gasoline sale controls extend to Mérida. The regulation of the sale of gasoline at service stations in Táchira and Zulia extended to Mérida. The Ministry of Energy and Oil (Menpet) started last Monday, October 10th, a controlled gasoline sales plan at gas stations in El Vigía, Mérida, through a data base that is in all stations.

And supply problems continue... The Valles del Tuy also has gasoline distribution problems, so Menpet agreed to add 10 trucks to deliver gasoline to gas stations. It also agreed with Corpoelec to install power plants so that the stations are not affected by blackouts. The regional newspaper "El Tiempo" said that In Trujillo there are issues with gasoline supplies, because half the transportation fleet has mechanical problems.

The domestic market has a priority over gas exports. The natural gas extraction and liquefaction projects for export have been stalled, which causes doubts about the participation of partners like Chevron in off-shore projects. Rafael Ramírez confirmed the decision of "reviewing" plans to build natural gas liquefaction plans, for export purposes.

International oil baskets. At closing time on October 7th in the New York Stock Exchange, the price of the WTI was US\$78.9/bl, a 3.2% decrease compared to the US\$81.6 reported the previous week. The Brent decreased by 1.9% to reach US\$102.5/bl, compared to the previous week's US\$104.6/bl.

Local oil basket price. The Venezuelan oil basket price went down last week, closing at US\$96.3/bl on Friday October 7th, a 2.5% decrease compared to the US\$98.8/bl of the previous week. The annual average price of the Venezuelan oil basket is US\$99.13/bl.

Business Sector Tips

Car production remains stagnant. According to the Venezuelan Automotive Chamber (Cavenez), domestic car production fell throughout the first nine months of 2011. Between January and September, only 70,797 cars were assembled, down 2.7% from production for the same period in 2010. Along with production decline, the



Administration began to analyze cost structure of assembly plants so as to determine the dealer sales price.

Domestic production isn't doing well, but sales are worse. According to Cavenez report, between January and September, 2011, 89,321 new cars were sold, down 4.3% from sales during the same period last year. In terms of domestically produced cars, a 7.4% drop was recorded, whereas imported cars show an ironic jump of 22.2%, although this increase is far below the levels experienced over the first nine months of 2008.

Prices of medicines and therapeutic equipment increase. According to the Central Bank of Venezuela statistics, between December and September, prices of medicines and therapeutic equipment has recorded a cumulative increase of 14.8%. Sources state that the increase in medicine prices may be attributed to some adjustments made by the Administration in order to respond to requests presented before last January's adjustment.

The Administration doesn't rule out a price downward adjustment. Carlos Osorio, Minister of Food, stated that adjustments authorized by President Chávez for milk and cooking oil prices respond to the price increase of those products on the international markets. Therefore, Osorio pointed out that once prices on international markets stabilize, downward adjustments in their retail prices could be decided.

Sunflower price increase changes the scenario for derived oil. Juan Carlos Loyo, Minister of Agriculture and Lands, announced that sunflower price will go up from VEB 2.64 to VEB 3.60/Kg., i.e. a 36.3% adjustment, which will enter into force once it's published in the Official Gazette. Given this situation, the industry should base their estimates not only on the product value adjustment, but also on that of the raw material, also considering the low level of the domestic sunflower production and the subsequent increase of the imported component.

Prolonged controls have a greater impact on small and medium-sized businesses. Prolonged price controls have a greater impact on small and medium-sized businesses than on the larger ones, according to Miguel Pérez Abad, Fedeindustria's president.

The Administration's omnipresence. Carlos Osorio, Minister of Food, announced last Monday the launching of two new products by the Administration: Montaña Alta mineral water and Diana mayonnaise.

Indepabis will support checks to guarantee food distribution. Aiming at guarantee supply of products like milk and cooking oil, Indepabis will support



inspection and supervision of processing and distributing plants of these products, Augusto Montiel, Indepabis' president, said.

Fewer shortages but more imports. According to top government officials (including at least two ministers), 70% of food consumed by Venezuelans come from abroad, because the Administration's priority has been to avoid that shortages like those experienced in early-2007 are repeated, even though this may mean an increase in imports.

The banking system is better than ever. Edgar Hernández Behrens, head of the Bank Superintendent's Office (Sudeban), said that the national banking system is currently registering the best economic indicators of the past five years.

Banks are being urged to stop lawsuits against producers. Low profitability and the bad economic situation in the agricultural sector have led producers to default in the payments of their debts to private and public banks. These latter have brought lawsuits to recover the moneys they have lent.

...In this regard, the Finance and Economic Development Commission of the National Assembly, chaired by Representative Ricardo Sanguino, urged banks to suspend legal procedures and lawsuits against agricultural producers that aren't able to pay loans and meet the commitments assumed with the banks.

Venezuela, a 2.0 country. A study carried out by Tendencias Digitales confirms that Venezuela is one of the most active countries on the Internet. Venezuela is placed at the 3rd position in Latin America, only behind Chile and Argentina, in the "Index of usage," which is an indicator that averages six different variables: penetration, intensity, diversity, complexity, transactions and contents.

...Venezuela also stands out in terms of the use of social networks. At least 32% of the population has an account in Facebook. This figure is above the Latin American average (approx. 22.6%) and the global average of 10%.

...and the same happens with Twitter. 8% Venezuelans uses Twitter, far over the Latin American average (2.4%) and global average (3%).

Cadivi has authorized US\$22.9 billion for the year-to-date. Manuel Barroso, head of the Foreign Currency Administration Commission (Cadivi), informed on October 6th that the institution has allocated this amount to different sectors; Barroso specified that more than 80% of the foreign currency authorizations, worth more than US\$18.7 billion, have been earmarked for imports, which register an increase of 4%



with respect to the amount authorized in the same period last year. *"This is proof of the economy's leverage for the benefit of the Venezuelan people,"* Barroso stressed.

Approval of foreign currency for airlines only takes about 30 days. Manuel Barroso added that delays in the authorization of foreign currency for airlines are their own fault, because the process takes about 30 days on average.

Corpoelec is being restructured. Reportedly, top government officials and representatives of the Corporación Eléctrica Nacional (Corpoelec) decided yesterday to remove National Commissioners from their posts as part of a new internal restructuring process of the electric sector.

World Economy Tips

OECD: dismal scenario for global economy. The panorama of the major global economies worsens, according to the last data produced by the Organization for Economic Cooperation and Development (OECD), which was published on October 10th. This data showed steep drops in compound indicators for all countries included, except for Japan. This indicator, which is designed to anticipate the turning points in the economy trends, continues to signal a slowdown in most OECD countries and the major economies of non-OECD countries. In August, the index dropped for the fifth month in a row to 100.8 from 101.4 in July, due to a slowdown in the economy.

US will present a plan for businesses with systemic risk. The Financial Stability Council has plans to present this week a new methodology proposal to determine what non-banking firms are important enough for the financial system for them to be more closely monitored by the Federal Reserve.

French-German plan won't be a "miracle cure" for the euro zone. Germany and France have begun working on a joint package to stem the euro zone debt crisis, but it will not be a "miracle cure" for the bloc's ills, Chancellor Angela Merkel's spokesman, Steffen Seibert, said on Monday: *"The German and French governments are convinced this will be a contribution to the euro zone winning back confidence and its capacity to act -- and I do mean a contribution, not the 'miracle cure' everyone keeps asking for."*





Greece to receive aid tranche in early November. Greece is likely to receive the badly needed aid tranche for €8.0 billion (US\$10.69 billion) in early November to escape bankruptcy, inspectors from the European Union (EU), International Monetary Fund (IMF) and European Central Bank (ECB) said on Tuesday, October 11th, in a joint statement.

Bank of Japan warns of external uncertainty and weak demand. The Bank of Japan reiterated in its monthly report for October that the growth of external economies remains strong, but warned that the situation was fraught with uncertainty and some companies were already complaining about the impact of global weakness in exports. The U.S. fiscal problems, the financial turmoil in Europe by the crisis and monetary tightening in some emerging countries have created a global slowdown.

Latin American stocks closed up in line with Wall Street. Latin American stocks closed up in line with Wall Street positive results and its main indicators: Dow Jones (2.97%), Standard & Poor's (3.41%) and Nasdaq (3.50%), while Chile's and Argentina's. stock exchanges were closed due to holidays in both countries.

Industrial group lowers Brazil's growth estimates. The Brazilian National Industry Confederation (CNI) revised down its forecast for Brazil's economic growth this year to 3.4 percent from 3.8 percent due to the effects of the world economic crisis. According to a statement released on October 11th, *"The CNI lowered its growth forecast along with the global economy slowdown and the subsequent lower investment expansion."*

The Colombian government bets on foreign investment. President Juan Manuel Santos' government expects to reach the foreign investment target of US\$12.0 billion and the Colombian investment abroad of US\$8.0 billion. Juan Carlos Echeverry, Colombia's Minister of Finance, informed that *"This is an absolutely open country in which many specialized Colombian companies, either in the banking, food or infrastructure sectors, have reached a ceiling in Colombia and are investing abroad. However, many foreign companies are looking forward settling in Colombia; therefore that investment flows go in both directions, depending on the sector involved."*

Peru: The Administration will maintain poverty reduction goals. Luis Miguel Castilla, Peruvian Minister of Economy, said that President Ollanta Humala Tasso's Administration will maintain its poverty reduction goals and will continue to implement social programs, despite the difficult international situation. Castilla stated that *"the international situation is clearly limiting, but we have set ambitious goals to eradicate extreme poverty and lower monetary poverty from today's 31% to below 20%."*



Investors worried about tax plan in Costa Rica free trade zone. Costa Rica's plans to start charging taxes in its free trade zones could impact the nation's development, foreign investors have said. This draft reform that is to be discussed by the Congress is intended to expand tax collection to reduce the public finance deficit and calls for charging taxes from businesses operating in the free trade zones.

Political Tips

Chávez will travel to Cuba the weekend. President Hugo Chávez will travel to Havana to determine if he still has cancer cell in his body. President Chávez also informed that he will announce a new mission for the elderly at year-end.

Presidential support exceeds 50%. Luis Vicente León, director of the pollster Datanálisis informed via Twitter that according to the last poll (September 9, support for President Hugo Chávez was at 58%. This result represents an increase of 10% from July (48%).

...According Datanálisis, intention to vote for President Chávez went up from 31% to 40% between July and September.

...At the same time, the Minister of Communication and Information, Andrés Izarra, said on his Twitter account that, according to Datanálisis, the positive evaluation of Chávez' Administration among the Venezuelan population that isn't directly identified with a political trend increased by 14% in September with respect to August, whereas support for the Democratic Unity Panel has fallen 14% between May and September.

...Other data from Datanálisis published by Izarra show that confidence in President Chávez gained 8% in relation to August 2011, from 39.9% to 47.8%. Positive perception of the Venezuelan president as a defender of the people's interests is at 62.7%, whereas 28.3% of the interviewed insist that the Revolution needs more time.

Most young people prefer Hugo Chávez. According to the most recent poll conducted by the Grupo de Investigación Social Siglo XXI (GIS XXI), if presidential election were tomorrow, 58% of Venezuelans would vote for Hugo Chávez. However, this figure goes up to 60.1% among people between 18 and 29 years, whereas only



18.5% of young people would support an opposition candidate. In fact, the majority of those who support an opposition candidate (25.7%) are older than 50 years.

Chávez' performance is appraised positively. While 61% of the interviewed rate Chávez' performance this year as very good or good, this indicator jumps to 66.1% among young people.

According to pollster Keller & Asociados, the panorama looks different. The results of the study conducted by Keller & Asociados for the third quarter show that President Chávez continues to lose ground in terms of intention to vote and that, on the opposition side, Pablo Pérez has improved. *"This is an average of five variables considered as indicators of support for Chávez (popularity, country's positive situation, family economy's positive situation, problem handling by the Administration, and intention to vote for Chávez)."*

...According to Keller & Asociados' poll, the trend shows a marked deterioration with a high statistical projection that will remain in time as indicator of loss of confidence. It shows that the announcement of Chávez' illness has brought about sympathy but not political support.

...In relation to opposition pre-candidates, Keller & Asociados' poll indicates that Henrique Capriles has been losing ground. Those that have improved their standing this quarter are Pablo Pérez, María Corina Machado and Eduardo Fernández.

According to Hinterlaces, López leads the polls. Oscar Schemel, president of the pollster Hinterlaces, said that *"in the 45 municipalities with the highest opposition electoral participation, Leopoldo López has 88%, María Corina Machado, 74% and Antonio Ledezma has 66%."* The poll shows that about 2,000,000 people would vote for the opposition candidate.

Five of every ten voters believe... that the Government has fear to lift the ban to hold public office against Leopoldo López. According to Hinterlaces last poll, the official thesis that sustains that the IACHR ruling is unenforceable because López committed crimes is supported by three of every ten voters, whereas two of every ten don't say anything about this topic. If this evaluation is performed by political self-definition, 75% of those that can be described as "radical chavistas" and 55% of "moderate chavistas" believe that the State shouldn't obey the IACHR decision because López "committed crimes."

Some consensus. The Democratic Unity Panel is working to define who will be its candidates for governor election on December 16, 2012. The regulations to select candidates for 2012 elections provides for that the support of the majority of the



political forces at the Panel should amount at least to 70% of the votes-lists of the National Assembly election in 2010 in the respective state. Some names that have this support for reelection include: Henrique Salas Feo in Carabobo, Liborio Guarulla in Amazonas, Henri Falcón in Lara, Morel Rodríguez in Nueva Esparta and César Pérez Vivas in Táchira. The candidate in the state of Zulia will be that decided by Un Nuevo Tiempo party if Pablo Pérez wins the primary election, because the party has enough votes to do it.

Others are more complicated. The states mentioned above represent six of the seven states ruled by opposition governments. In the other offices held by representatives of the Unity Democratic Panel, the situation is not as clear. In the Governor's office of Miranda State and the Metropolitan Mayor's office, primary election could be postponed 45 days because Henrique Capriles Radonski and Antonio Ledezma are competing for the presidential candidacy, or if most members of the Panel decide, a consensus candidate could be appointed. This decision should be made at least 15 days before the deadline to register as candidates for the primary elections.

Chávez appoints the Political Head of the Miranda Insular Territory. President Hugo Chávez informed that Admiral Armando Laguna Laguna was appointed as political head of the Miranda Insular Territory. This new political division was created by President Chávez in August and includes Los Roques Archipelago (capital), La Orchila Island, Aves Island, La Blanquilla Island and Paraguaná Islet.

Chávez will use lands south Maracaibo Lake to meet his commitments to Russia. President Hugo Chávez announced on October 6th that lands "rescued" in the region south Maracaibo Lake will be used for the production of plantains that will be exported to Russia, as part of the agreement signed between both nations.

Opposition governors are demanding debt payment. Seven governors demanded at the meeting of the Government Federal Council the payment of a debt of VEB 5.46 billion corresponding to the Law on Special Allocation derived from Mines and Hydrocarbons. This demand was made through a document sent to the President of the Council, Elías Jaua, which was signed by governors Liborio Guarulla (Amazonas), Henrique Fernando Salas Feo (Carabobo), Henry Falcón (Lara), Henrique Capriles Radonski (Miranda), Morel Rodríguez (Nueva Esparta), César Pérez Vivas (Táchira) and Pablo Pérez (Zulia).

According to the Vice President, the Administration is allocating the corresponding funds. The Administration authorized the transfer of VEB 2.76 billion to governor's and mayor's offices as constitutional revenue sharing of funds obtained



from tax collection (Seniat) and oil revenues, Vice President Elías Jaua informed at the second regular session of the Federal Government Council.

Interterritorial Compensation Fund (FCI) budget grows. The budget of the Interterritorial Compensation Fund of the Federal Government Council for 2012 grew 49% with respect to the amount set for 2011, from VEB 10.66 billion to VEB 15.89 billion, the Executive Vice President said.

Official mining policy is unfortunate. Representative Américo Da Grazia (La Causa R), who is member of the Energy and Oil Commission of the National Assembly, recently stated that the Administration's mining policy is unfortunate, because in twelve years, the Administration has tried three plans and now a Law on Gold Nationalization, which have rendered an *"unfortunately negative result."*

Arbitration cases continue to rise. On October 7th, Canada's Crystallex announced that the formal arbitration procedure against the Government of Venezuela at the International Centre for Settlement of Investment Disputes (ICSID) has begun. It's only one of the 29 reports Venezuela is facing at that arbitration panel. Recently, the glass container manufacturer Owens-Illinois also informed the beginning of a procedure at ICSID. Oil giant ConocoPhillips and ExxonMobil have also brought compensation claims to the arbitration center.

Venezuela's indulgent stance toward Guyana is criticized. Analyst of the local mining industry claim that Guyana's decision to grant a Canadian company license over the rights for gold mining in a deposit located 70 kilometers from Bolivar State is a proof of an *"indulgent stance of the Venezuelan Administration"* and, at the same time, the *"absence of a suitable legal framework that stimulates this economic activity in the country."*

César Pérez Vivas abandoned the race. Táchira's governor, César Pérez Vivas, abandoned the race for the presidential primary election in 2012. *"I announce to all democratic Venezuelans that I have decided to abandon my intentions to run as a pre-candidate for the primary elections and that I'll contribute to clear up the political spectrum,"* Pérez Vivas stated at a press conference.

Uncertain future. César Pérez Vivas didn't explain if he will run for reelection as governor of Táchira, but assured that he will remain at his post and *"Táchira people want me to continue to be their Governor."*

NGO will express their opinions about Human Rights in Venezuela. Laura Dupuy said that Venezuela *"is evaluating what recommendations will be obeyed, what will*



be considered at the national level and what will keep for later to be discussed at the Plenary Session of the Council on Human Rights to be held in March, 2012.”

Will recommendation be obeyed? Laura Dupuy, Chairwoman of the UN Human Rights Council expects the Venezuela State to accept the highest number possible of recommendations and that “those that are not accepted, are considered.” The High Commissioner explained that at the October 11th meeting, the Venezuelan State will approve the final report on Human Rights prepared by the working group made up of the Venezuelan delegation and the three reporting countries (Guatemala, Burkina Faso and the Czech Republic.

...It also informed that on this occasion, representatives of some NGOs may participate and present their points of view on Human Rights in Venezuela.

Legislative Tips

The discussion goes on. The Draft Law for Regularization and Control of Home Rents is being discussed and, although at the session held on Thursday, October 6th, the AN approved 76 articles of the draft laws. About seven articles have been deferred pending evaluation of State entities. The discussion will be resumed this week.

Home rent contracts will now be in force one year. Upon request of the pro government party, the National Assembly (AN) agreed to change article 46 of the draft law on home rent so that home rent contracts have a minimum effectiveness of one year instead of the minimum 3-year period that had been originally proposed by the Commission on Administration and Services.

Home rent contracts will be reviewed by the Superintendent's office. Upon entering into force of the new home rent law, the National Home Rent Superintendent's Office will be created. This entity will check whether contracts meet the specified conditions, especially in relation to the property conditions and monthly rent.

Tenants must register at the Superintendent's Office. Article 76 approved last week provides for that all people that need a home and that are able to pay a monthly rent must register at the Home Rent Superintendent's Office. Provisions



setting forth the prohibition to charge rents in dollars and that deposits should be placed in a bank account were also approved.

Political crimes occurred between 1958 and 1998 will be punished. The Permanent Commission of Interior Politics of the National Assembly discussed the Draft Law to Punish Crimes, Disappearances, Tortures and other Violations of Human Rights for political Reasons during 1958-1998 (known as law against obscurity). The law, which was proposed by the government party, will be presented for the second discussion at the AN plenary session.

Labor Law will be discussed. According to the chairman of the Social Development Commission of the AN, Oswaldo Vera, the Labor Organic Law (LOT) would be discussed (second discussion) at the plenary session of the National Assembly on November 1st. However, representatives of the Communist Party of Venezuela (PCV) say they don't know that the law is going to be discussed on that date. Pedro Eusse, member of the PCV's political bureau, pointed out that the law cannot be debated at the AN plenary session *"basically due to the fact that unions and workers' organizations haven't been consulted and their proposals haven't been presented to enrich the content of the law."*

The Law on Organ Transplants is being discussed. The AN discussed for the second time on October 11th the Draft Law for the Reform of the Law on Organ Transplants and Anatomic Materials in Human Beings, which was unanimously approved during at its first discussion in June.

Draft Law on Foreign Service is ready. The final text of the Draft Organic Law of Foreign Service was read on Tuesday, October 11th. The legal text determines the 2011 legislative panorama of the Permanent Commission on Foreign Policy, Sovereignty and Integration of the AN.





ECONOMIC OVERVIEW

