Weekly Report

Year 9, Number 39
Week II, October 2013

The chavista oil policy: amid defects and virtues

By:
Asdrúbal Oliveros
Jessica Grisanti
Pilar Navarro

Ecoanalítica's Team*
* Gabriel Villamizar, María Andrea Manuzzato, Daniel Cárdenas and Benjamín Matos.

© Ecoanalítica – Descargado por usuario no autorizado

Reproduction or distribution prohibited

Since Hugo Chávez took power in 1998, Venezuela's oil policy has suffered several changes, characterized by the search for a greater rent through reactivating the battle to increase oil prices within the Organization of Petroleum Exporting Countries (OPEC), the diversification of export markets, and a series of legal reforms that led to an increase in the country's oil income. However, the poor execution of the oil policy in the last years has taken us to the present moment, where the need to increase production is almost desperate, despite the high prices, so Rafael Ramírez Minister of oil, has proposed a series of changes in oil matters which we will present in this report.

Price versus production

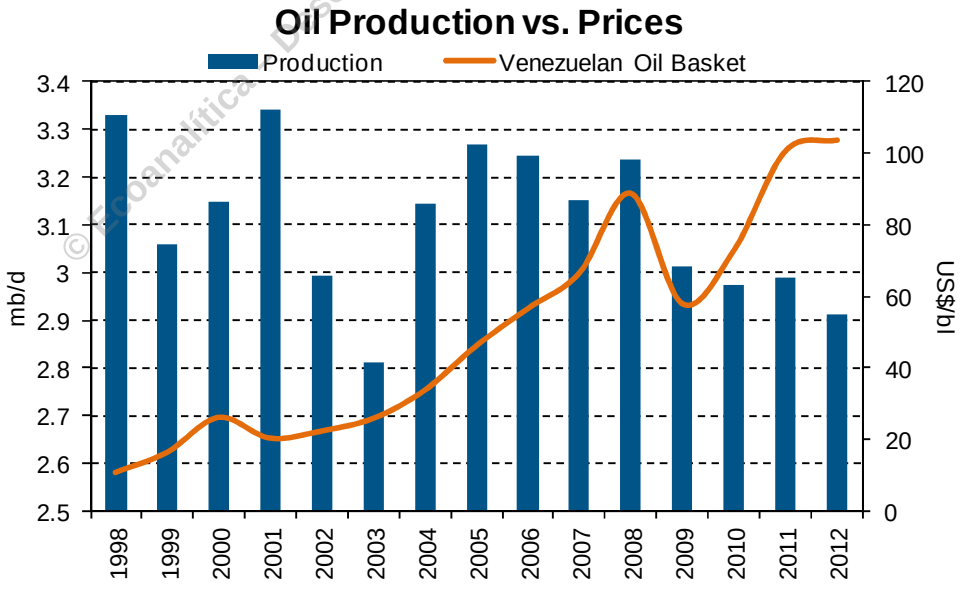
Venezuela today is still one of the main countries in energy matters, since it has the largest oil reserves of the world, significant gas and coal reserves, and is the eleventh oil exporter in the world. However its preponderant position in the production and export of hydrocarbons has fallen in the last decade, while the price of international oil baskets has increased.

When Chávez was elected President in 1998 the price of the Venezuelan oil basket was US$10.6/bl. The main goal of the Chavista oil policy was to strengthen the role of OPEC to defend prices. For example, in 2012 the average price of the Venezuelan basket was US$103.5/bl, almost ten times its value in 1998.

The defense of oil prices through production cuts became the core of the government's oil policy, and putting aside global circumstances, we could say it has been successful; however, the higher rent collection by the State didn't translate into core investments, which has negatively affected production levels. In 1998, Venezuelan oil production reached its highest level of 3.33 million barrels per day (mb/d) while in 2012 it was 2.91 mb/d, a drop of 12.9%.

© Ecoanalítica - Descargado por suario no autorizado

The trap in this production cut policy is that it can undermine the installed capacity and the oil production potential, making us vulnerable before price drops, since there is no maneuvering margin to increase production, which is what happened in 2009.

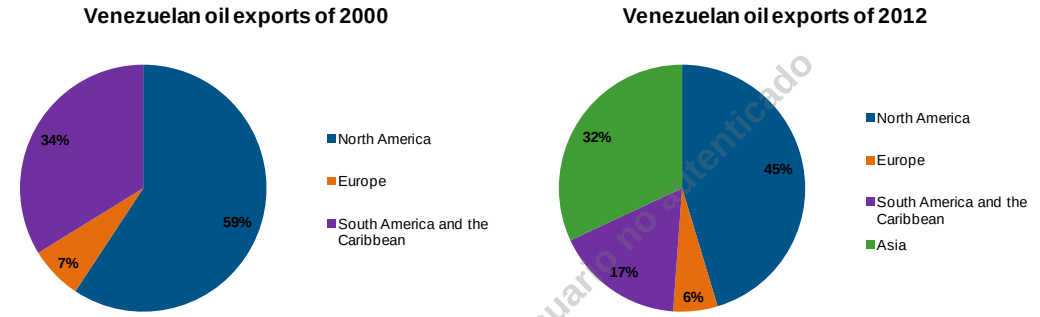


Sources: Pdvsa, Menpet and Ecoanalítica

Diversifying

Another central characteristic of the energy policy of the last years is the search for new oil exports markets. However, this search hasn't been the result of production increases, but rather have had a geopolitical bias, as an instrument to strengthen relations with governments that have similar postures, to the detriment of traditional markets; the fact is that in the

present global environment, with Europe in an economic crisis, and more efficient energetically, and the United States increasing its production through non-conventional energies, ***Ecoanalítica*** believes that increasing exports to Asian markets is a correct move.



Sources: PDVSA and Ecoanalítica

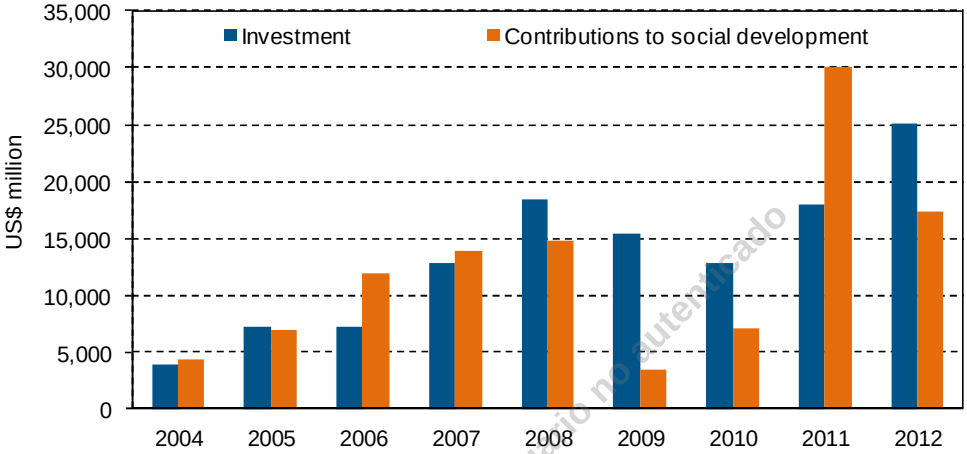
© Ecoanalítica - Descargado por usuario no autenticado

The new Pdvsa: Social investment as the core axis

The restructuring of Petróleos de Venezuela S.A. (PDVSA) after the oil strike in 2002, and the consolidation of the new management and administrative structure of the company, is fundamental to understand the government's oil policy and the present situation of the industry. With the creation of the *"new PDVSA"* a new element was added to the investment policy: contributions to social development, based on two areas: transfers to Fonden, and contributions to the misiones, besides the fiscal contributions.

These contributions have increased in time, and at times have been greater than the core investments of the company, which resulted in a production drop and other secular problems, among them labor conflicts, an increase in debts with providers, non-programmed shutdowns, accidents in the refining circuit, and therefore, an increase in the indebtedness policy.

Investment vs. Contributions to social development



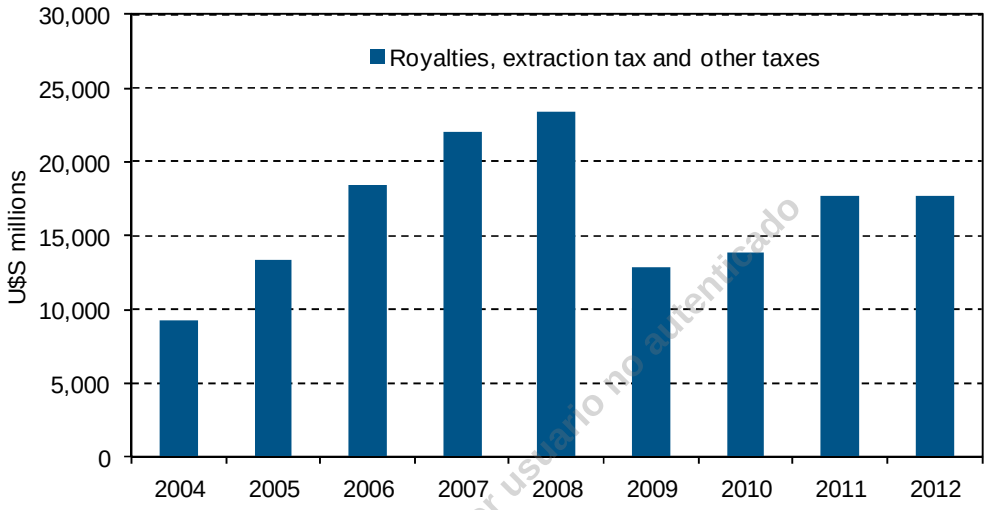
Sources: Pdvsa y Ecoanalítica
Note: Contributions to social development includes Fonden contributions

© Ecoanalítica Descargado por usuario no autenticado

Then came the reforms

Going back in time, in 2000, after 25 years and fostered by the Venezuelan and Iranian governments, OPEC met in Caracas and prices kept increasing in those years. However, the Venezuelan state, due to the legal framework at the time, had little access to the extraordinary income from the price increases, and in 2001 Pdvsa's share in all oil agreements was improved, among them those regarding royalties, which went from 1.0% to 30.0%. Also, in those years the income tax was modified, and mixed companies were legally created, with the State controlling the shares. However, it is in 2007 when the Full Oil Sovereignty plan was implemented, putting an end to the Oil Opening, which started the migration to Mixed Companies from all those that were created during the oil opening policy that started in 1992.

Royalties of Pdvsa



Sources: Pdvsa and Ecoanalítica

© Ecoanalítica - Descargado por usuario no autenticado

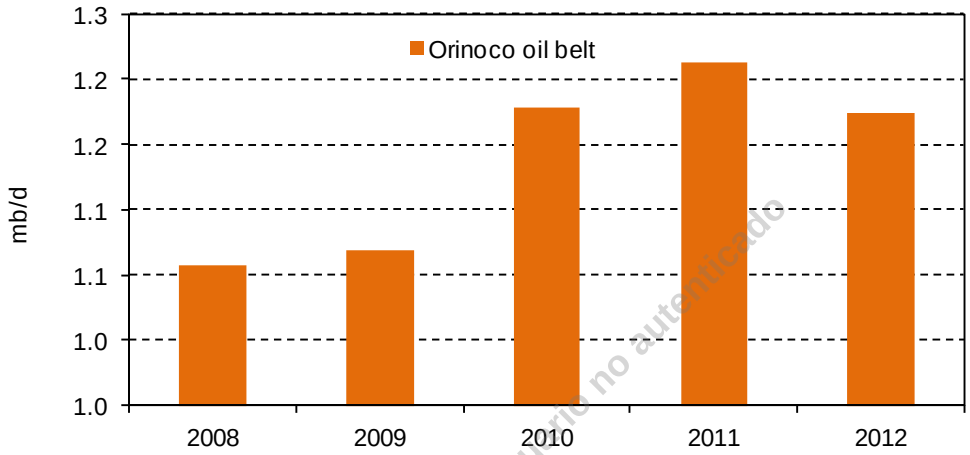
This move led to several suits and litigations against the country in international courts, and was a strong blow against its international credibility. However, what ***Ecoanalítica*** considers the main obstacle of mixed companies is the fact that Pdvsa, as the majority shareholder, must invest accordingly, so given a cash flow that is increasingly committed, and high debt levels, the low levels of investment in the industry can be understood (particularly in exploration and refining) as well as the stagnation of most projects in the Oil Belt.

The Oil Belt: the last hope for production?

As we said, since 1998 the national oil production trend has been falling. This trend is mainly associated to the natural decay of the wells, the lack of new significant well discoveries, and the deviation of oil resources to the Administration for political purposes, which has reduced productive investments in the national oil industry, whose main hope is the development of extra heavy oil in the Oil Belt.

However, although all hopes were placed in the Oil Belt's production, and despite Minister Ramirez's grandiloquent rhetoric, who recently stated that by 2014 the production in the Oil Belt would be 4.00 mb/d, the fact is that between the production drop in the east of the country, required to export the extra-heavy crude of the Oil Belt, since it has to be blended with the light oils extracted from north Monagas, and the heavy oil secondary recovery issue, crude oil production in that zone continues to decline. Last year, according to Pdvsa reports, production in the East fell 4.1%, closing at 1.06 mb/d, and in the Oil belt, it fell 3.2%.

Pdvsa's Production



Sources: Pdvsa and Ecoanalítica

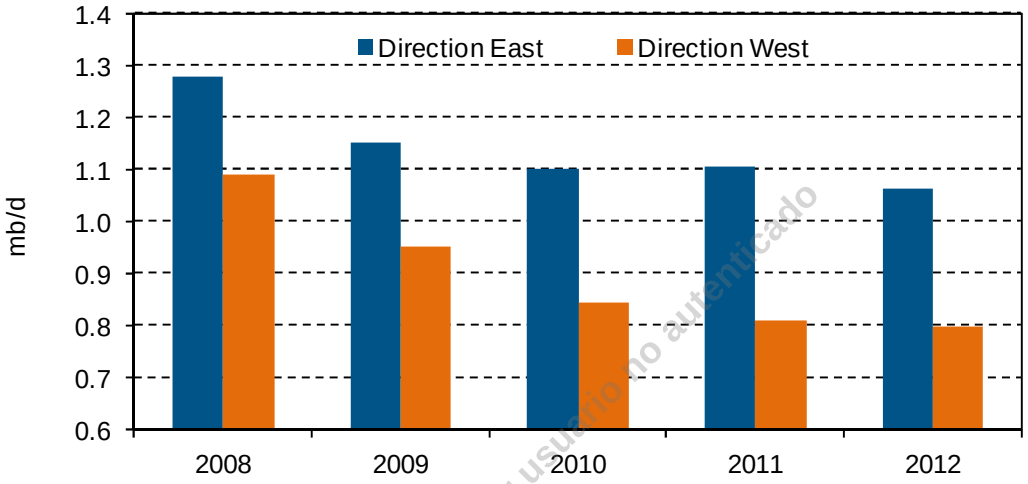
Things don't look any better in 2013. Although Ramírez mentioned the possibility of revoking the contracts of mixed companies that don't increase production, the Oil Belt appears to be stagnant. A production report for the area indicated that the six new projects: Petromacareo, Petrojunín, Petromiranda, Petrourica, Petrocarabobo and Petroindependencia, in the Junín and Carabobo Blocks, extracted only 5.9 kb/d in July. If we add Junín Sur (carried out only by PDVSA), the figure is 19.7 kb/d for the seven businesses in the Oil Belt, when in 2012 they said that by 2013 the new businesses would be pumping 400 kb/d altogether; as we see, the reality is far from those targets.

Eyes are once again on the West

Given the stagnation of production in the east, Rafael Ramírez, Minister of Oil and President of Pdvsa, modified his strategy: he understood that despite the fact that the wells in the western basin are mature, they have a greater installed infrastructure, so increasing their production is more feasible than in the eastern basin, where a greater investment is required, since the reserves, although greater, are of extra-heavy oil.

© Ecoanalítica - descargado por usuario no autenticado

Pdvsa's Production



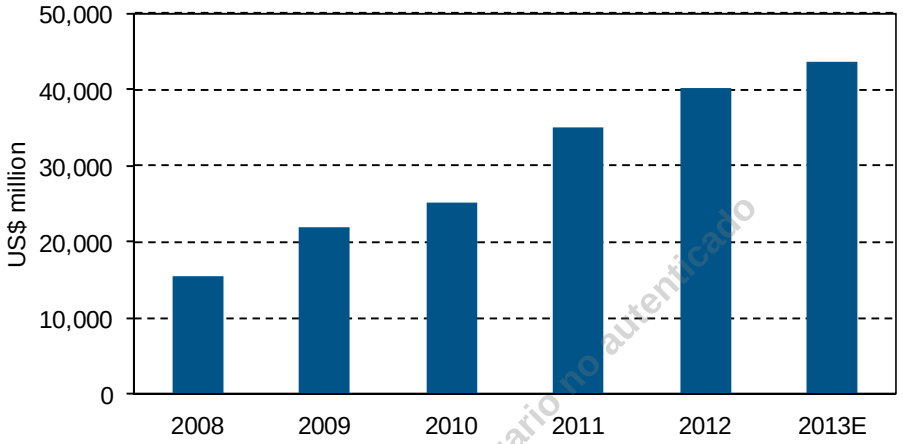
Sources: Pdvsa and Ecoanalítica

Ramírez desperately searching

In 2013, Minister Ramírez started a crusade looking for financing to expand the production capacity of mixed companies, particularly those in the western basin. For the year, Minister Ramírez has obtained a series of credits: US$4.0 billion with China National Petroleum Corporation (CNPC) for Petrosinovensa in Zulia, US$2.0 billion with Chevron for Petroboscán in Carabobo, US$1.50 billion in a credit line with Schlumberger, and US$500 million with the China Development Bank. Likewise, credits were negotiated with the Russian companies Rosneft and Gazprombank, and a similar financing scheme is expected with Reliance from India. With all these loans, and considering the bond issue by Pdvsa in the last two months of the year, (let us remember that Minister Ramírez acquired more power in the economic cabinet when he assumed the vice-presidency for the economic area, and has more support than Merentes to issue foreign debt) ***Ecoanalítica*** estimates that the debt of the State Owned company will close the year at around US$43.65 billion.

© Ecoanalítica - Descargado por usuario no autenticado

Balance of Pdvsa's financial debt*



Sources: Pdvsa and Ecoanalítica

*Excludes accounts payable to suppliers and BCV financing

© Ecoanalítica. Descargado por usuario no autenticado

It is time to change

Given all of the above, we can infer first that due to the stagnation of oil prices, the state owned company has no incentives to reduce its assignments to the production area. On the contrary, in a context where extraction is declining, it is to be expected that every year a greater proportion of investments will be allotted to that activity. Second, the constant reduction of available resources, given the greater social contributions, make us forecast that Ramírez will continue going to capital markets and trade partners like China to look for resources, which will increase the financial pressure on the partners of mixed companies.

In general, in the present economic framework, we could say that supporting the state apparatus has become a very heavy burden for Pdvsa. The stagnation of oil prices has led to an urgent need to increase oil production, given the constant fiscal needs, while the state company is tied to an over-valued exchange rate, high debt levels, and also agreements like Petrocaribe which reduce its income. Thus, a true restructuring of the oil policy is necessary to allow the State Owned Oil Company to recover its position as a company devoted to production.

Economic Tips

Inflation reached 4.4% in September. According to figures published by the BCV, the National Consumer Price Index (Índice Nacional de Precios al Consumidor - INPC) variation for September was 4.4%, and the year on year inflation is 49.4%.

Meanwhile, core inflation registered an increase of 4.7% in September. The year on year inflation registered 51.7%

Housing Services had the highest inflation in September. Among the 13 categories studied by the BCV, in September housing services showed a higher inflation than the national average, with a variation of 9.7%, followed by alcoholic beverages and tobacco with 6.6%, education services with 6.3%, and clothing and footwear with 5.7%.

CPI reached 3.9% in September. According to figures published by the BCV, consumer price index for the Metropolitan Area of Caracas (IPC-AMC) variation for September was 3.9%, or a year on year inflation of 46.2% since September 2011. According to the press release by BCV, these figures represent the best monthly result observed since august 2007.

Higher inflation for the poor. Although the year on year inflation in September of the consumer price index for the Metropolitan Area of Caracas (IPC-AMC) had a variation of 46.2%, inflation for class I of the population, which includes the poorest families, increased 50.2%. Classes II, III and IV registered a variation of 50.9%, 45.7% and 43.7% respectively.

Inflation in controlled products increased 31.4%. In September the inflation of controlled and non-controlled products was 4.0% and 4.6% respectively. But at the same time, non-regulated goods had an inflation of 56.9% and controlled goods of 38.3% since September 2012.

Geographical results. Of the 11 cities surveyed in September, the greatest variations were observed in Maturín with an inflation of 5.5%, followed by Maracay with 4.8%. The areas with the least variation in September were Mérida and Barcelona-Puerto la Cruz with 3.5% y 3.6% respectively.

Scarcity index increases. In September, the scarcity index increased from 20.0% to 21.2%, which means that out of every 100 products that consumers requested in

© Ecoanalítica - Descargado por usuario no autorizado

stores, supermarkets and other establishments throughout the country, 21 were not available.

Elimination of Sicad. The economic cabinet is evaluating the elimination of Sicad, since it hasn't met the main goal of reducing the gap between the official and non-official exchange rate, at 630.5%. Some of the arguments presented are that the currency approved by this mechanism has been insufficient, and there have been many irregularities (fake travelers, and suitcase companies). Presently, there is a proposal to open a secondary market, where the pragmatic wing has tried to emphasize that if concrete measures aren't taken; leading to effective changes for the economy, inflation and scarcity will not be solved.

IMF economic growth outlook improves. The International Monetary Fund (IMF) raised its economic growth outlook for Venezuela from 0.1% to 1.0% by the end of this year; however, it will be the worst result for Latin America. The country with the highest growth is Paraguay, with a surprising 12.0% this year, followed by Peru, with 5.4% for 2013. The report also explains that among the main risks that Latin America and the Caribbean face is a significant drop in the price of raw materials, since most of those countries depend on them for good economic performance.

New minimum wage adjustment. Nicolás Maduro, President of the Republic, announced that in November there will be a 10.0% minimum wage increase, and it will be VEB 2,972.97. For 2013, the increase has been approximately 45.0%, which barely compensates for inflation which has been 32.9%, and where foods have increased 62.5% in the last 12 months. ***Ecoanalítica*** considers that this year, inflation will be around 45.5%, and for 2014, the projected inflation is 29.8%.

Greater salary adjustment. The high inflation accumulated in eight months of 32.9%, was the reason to have the highest salary adjustment in 16 years, the last section of which will enter into force in November. The last time there was such an increase was in 1997, when the adjustment was 275.0%, after several years of salary lags, due to the effects of the baking crisis of 1994. The salary, calculated at the official exchange rate (VEB 6.3/US$), is US$ 471.9 while in September, 2012 the basic salary was US$476.17.

Decisions are coming. According to statements by the President of BCV to the newspaper "El País" of Montevideo, *"we are working on the matter and soon there will be some announcements regarding the work we are doing. We are defining the measures, and decisions will be made regarding exchange rate controls".* Likewise, the domestic market is waiting for these announcements, given the lack of dollars, since the government has not called for auctions through Sicad since August 20.

© Ecoanalítica - Descargado por usuario no autorizado

Excess Bolivars. In September, banks held on average VEB 80.40 billion over the mandatory amount they must have deposited as reserve in the Central Bank, 125.0% more than in the same period last year. This amount of bolivars means that the Ministry of Finance will not pose any issues when placing securities and treasury bonds in the last quarter of the year, to obtain resources to increase spending during the months prior to the elections.

Securities fall. The price of Pdvsa bonds and bonds of the Republic in dollars continue to fall, meaning that investment funds aren't optimistic about the Venezuelan economy. The Republic's bonds dropped 1.1 points on average last week, and PDVSA bonds dropped 0.6 points. Also, during the week, most bonds accumulated significant drops, including a bond of the Republic with maturity in 2027 (the one that is negotiated the most), with a 5 point decline.

Gold rises. After the shutdown of the US Government, and the lack of political signs to negotiate the budget and the debt limit, gold prices have increased almost 1.0%. Cash gold in the US increased 0.8%, to US$1,321.01 the ounce, gold futures for December delivery closed with a US$15.2 increase, to US$1,325.10 the ounce.

Use of credit revised. Edgar Hernández, banking superintendent, informed that a review of the directed portfolio started, and there are some deviations: *"that is the purpose of the evaluations because if resources have not been invested in productive units, corrections are made and if necessary the institution or the producer is sanctioned".* The spokesman of the banking supervising entity said that the process started with the Ministry of Tourism, and the visits to the industrial and agricultural manufacturing sector will start in the next weeks.

BCV authorizes interest rates. On Monday, BCV through Official Gazette Nº 40.265 authorized the minimum annual interest rate of 15.0% for active operations with the *"Cédula del Vivir Bien"* credit card. Also, the minimum active interest rate on active operations for the *"Somos"* credit card is 14.0%.

Interest rates. The lending rate for the fourth week of September was at 15.8%, down by 0.7 pp compared to the previous week. The time deposit rate was at 14.5%, without variations compared to the previous week, while the passive rate has not experienced any significant variation since November 2011, placing well at 12.5%.

International reserves. International reserves decreased by 0.9%, going from US$22.74 billion during the fourth week of September to US$22.54 billion during the first week of October. Compared to the same period last year, international reserves have decreased by 11.7%.

© Ecoanalítica - Descargado por usuario no autorizado

Central government expenditure. On Friday August 16th according to figures from the ONT primary spending was VEB 18.59 billion, which means an increase of 253.1% when compared to the previous week when it was VEB 5.27 billion; when compared to the same period last year we observe an increase of 251.8%. So far this year the cumulative primary expenditure in real terms (measured in 2007 prices) is VEB 71.17 billion, with a variation (y/y) of -14.1%.

Monetary liquidity. Monetary liquidity (M2) increased 1.8% in the fourth week of September compared to the previous week, settling at VEB 947.54 billion. The M2 has increased 63.2% in relation with the same period last year.

© Ecoanalítica descargado por usuario no autorizado

Oil Tips

China becomes the world's leading importer of oil. China in September became the first importer of oil, ahead of the U.S., according to the U.S. Agency for Energy (EIA). Chinese net imports (difference between consumption and domestic production) totaled 6.3 million barrels per day (mb/d) compared to 6.24 mb/d from the U.S., according to the EIA. The EIA expects this trend to continue in 2014.

India with more presence in the Orinoco Belt. The largest oil companies of India visited Caracas to talk with Rafael Ramírez, Minister of Oil and President of Pdvsa, to increase their share in the Orinoco Belt, in line with the objectives of the Venezuelan State Oil Company.

PDVSA doesn't want to leave Brazil. Pdvsa is still in conversations to continue participating in the Abreu e Lima refinery, a joint project with Brazilian Oil Company Petrobras in north east Brazil. Petrobras is not against Pdvsa staying in the project, and has said so publicly, but only if the Venezuelan State Oil Company contributes with 40.0% of the U$S17.0 billion invested in the work.

PDVSA incorporates two oil tankers to its fleet. Pdvsa added two Chinese technology tankers in its fleet, with the capacity to transport three million barrels of oil in total. *"We are strengthening our fleet in all its routes and for all our needs (…) we are creating a way to diversify our oil market"*, said Minister Rafael Ramírez. The Suezmax ship *'Río Arauca"* is the smaller of the two, while the super Vlcc tanker *"Ayacucho"* not only has a greater capacity, but is also the largest in the world.

Gazprom Neft isn't leaving Venezuela. Alexander Dyukov, head of Gazprom Neft, said that the company will maintain its plans in Venezuela, and that Lukoil, its partner in the Junin-6 consortium, in the Orinoco Belt, offered to sell its share in the company, after saying it would leave the country. The main reason why Gazprom Neft made the decision is the tax increase on crude oil extraction in Russia, making it more profitable for the Russian oil company to extract oil in Venezuela.

A crisis proof Revolution? Minister Rafael Ramírez, during the welcome act for 126 new workers, ratified the strength of the state owned company and said that *"this revolution is made to fight against everything: it is bullet proof, crisis proof, and oligarchy blunder proof*". Ramírez also explained that the 126 workers for the Orinoco Oil Belt are part of the 1,200 workers of the so-called *"batallón Faja"*.

Venezuela expands agreements with China. Venezuela reached agreements with China, expanding the participation of CNPC in one of the Orinoco Belt fields. *"We agreed on a scheme with CNPC for their participation in Junín 10, which we have been developing with our own efforts"*, said Minister Rafael Ramírez, adding that the Junín fields have many possibilities; the agreement with CNPC is to expand the existing upgrader and thus jointly produce from those field.

50 serious accidents in 2013. The Paraguaná Refining Center, formed by Amuay and Cardón, so far has had 50 serious accidents with dozens of injuries in 2013, according to the Secretary General of the Oil trade union of Falcón, Iván Freites. He explained that Pdvsa forbids the workers from making claims regarding the risks to which they are subject in their work, and if they do, they are criminalized.

Gas from the east to supply the west. Minister Rafael Ramírez said that the gas that Venezuela imports from Colombia, and the gas needs of the west will be met by the off shore production of the East, the Orinoco Belt, and north Monagas. By July, 2014 the goal of the company is to revert the gas flow of around 190 billion cubic feet per day that are being purchased from Chevron and Ecopetrol in Colombia, through the Trans Caribbean Antonio Ricaurte Gas Pipeline.

PDVSA aspires to 4 million. Minister Rafael Ramírez said that Pdvsa's production estimates for December of next year is 4 md/d. This would be a 33.0% increase compared to the present production, which is three billion barrels per day. PDVSA estimated that by 2013 production would be 3.5 md/d, but in April they had to revise the estimates to 3.32 billion barrels.

400,000 barrels per day to India. Minister Rafael Ramírez informed during the opening of work groups with investors from India, that shipments to that nation

© Ecoanalítica – Descargado por usuario no autorizado

increased gradually, and for the year, the average has been 400 kb/d. *"Venezuela is supplying close to one third of India's oil requirements"*, said Ramírez.

Petrobras debt rating drops. Moody´s reduce the long term debt rating of the Brazilian oil company Petrobras from A3 to Baa1, due to the higher leverage of the company, and the expectations of a continued negative cash flow in the next years, due to its investment program. The agency also stressed that the outlook for the oil company is negative, which could mean that in the future, its rating could go down again.

International oil baskets. At closing time on October 04th in the New York Stock Exchange, the price of the WTI was US$102.9/bl, down by 0.5% when compared to the reported the previous week. The Brent decreased by 0.1% to reach US$108.6/bl, compared to the previous week's US$108.7/bl.

Local oil basket price. The Venezuelan oil basket price closed last week at US$98.9/bl on Friday October 04th, a 0.4% decrease compared to the US$99.4/bl of the previous week. The annual average price of the Venezuelan oil basket is US$102.8/bl.

© Ecoanalítica – Descargado por usuario no autenticado

Business Sector Tips

Coffee price increases for producers made official. In a joint resolution between the Ministries of Food, Agriculture and Land, Trade, Finances and Industry, the increase in the price of coffee at the producer level was approved. *Official Gazette Nº* 40.264 states that the quintal of superior quality washed coffee will cost VEB 2,657, a 66.0% increased compared to its previous price. Washed coffee will cost VEB 2,150 per quintal and, the regular natural, VEB 1,700 according to the resolution. These prices are in force since September 1.

Waiting for Sicad foreign currency. The destination of US$860 million that the Government of Venezuela assigned through auctions in the last six months, in an attempt to appease the currency need of the private sector is a question mark for many industrialists, who say that they have a noose around their necks because they cannot import raw materials. BCV isn't releasing the names of the companies that received currency through this system, or the price at which it sold the dollars.

Indepabis won't sanction the people. The government won't sanction street vendors selling food at an overprice; in exchange Eduardo Samán, President of Indepabis, said that they will use persuasion to convince them to not sell regulated price products at a higher price and also not to by from wholesalers. "*I won't go against street vendors; it is as simple as that. The revolutionary government doesn't go against the people; we will talk to them, solve the issue through conversations, but we won't repress them*", said Samán.

Already four credits for Agropatria. The government had to inject resources to Agropatria 4 times since its creation 3 years ago, after the expropriation of Agroisleña. The quick, domestic and foreign financing granted, allowed the company to stay afloat, and pay for labor and operational liabilities due to the losses caused by the drastic reduction in the price of materials, the shutdown of the processing plants in 2010 and 2011, and the closing of exports in the first year of government management. In total, the company received US$660.8 million in credits granted by national public funds; state Banks, and even the Chinese Fund.

Sidor workers threaten to go to the streets. The executive committee of the Single Trade Union of Steel Workers qualified Carlos Osorio, President of Corporación Venezolana de Guayana as *"traitor"*, during a worker's assembly of the Siderúrgica del Orinoco (Sidor). Retarding the 15 day strike, trade union President José Luis Hernández demanded the government to send another intermediary to solve the conflict. *"This board must be formed by leader technicians who care for the plant"*, said the trade union President, and threatened to go to the streets if in 24 hours the Administration doesn't appoint a valid interlocutor to solve the problem.

© El contenido de este documento está protegido por derechos de autor. Prohibida su reproducción sin autorización.

Sidor workers demand an advance of their benefits. On October 5, Carlos Osorio, President of CVG, met with workers to present a proposal. The proposal was the same presented at the negotiation round on Friday, which wasn't signed because it doesn't contain the amount of the compensation benefits, or a schedule to pay for the liabilities, two of the demands of laborers. On Sunday, October 6, the Steel Industry Worker's Trade Union (Sindicato de Trabajadores de la Industria Siderúrgica and sus Similares - Suttis) presented a corrected proposal, and added the amount of VEB 40,000 for the compensation benefits, which they demand before November 15. In the final part, they added a table to define the payment schedule.

"***Snail's pace operation***". On October 5, the special operations at the main ports and customs of the country were activated, to timely meet the supply demands of the national domestic market. The National Customs and Tax Superintendent, José David Cabello Rondón, said that "*We must be alert to fight against the snail's pace operation orchestrated by the port mafias, and the whole media war against the*

Revolutionary Government, to prevent basic products from getting to the people", he said at the Main Customs of Puerto Cabello.

The aluminum monopoly. Glencore, one of the global raw material giants, purchases Venezuelan aluminum in dollars, but also in bolivars at the official exchange rate, through its representatives in Venezuela, and while reserving most of the shipments leaving from Guayana to the foreign market, they also take part of the quotas that by law, the Government must dispatch, at regulated dollar prices, to companies registered in the country.

Vehicles and materials for the GMVV. The national government, through Construpatria, "*called to defend the economy*", and for this, it called upon those who have pickup trucks, model 350, 600 and 750 trucks, 30 ton trucks, dump trucks, and dumpers to support the *Gran Misión Vivienda Venezuela (*GMVV). Construpatria states that they need those vehicles immediately and "*in good condition*" to transport materials, equipment, and tools. The also extended the call to the manufacturers of bricks, metal and wood doors, bay Windows, metal frames for doors and Windows, as well as concrete wash basins.

Self-intervention of Corpoelec extended. President Nicolás Maduro partially reformed the decree to intervene Corpoelec, extending for six months the validity of the measure. Article 16, decree 21, was modified in Official Gazette Nº. 40.265, published in Official Gazette Nº. 40.168, regarding the members of the intervention board for the corporation. Although the new decree, Nº. 452 of the Presidency doesn't use the term extension, it establishes its validity starting on October 4 2013.

© Ecoanalítica - Descargado por suscriptor no autenticado

World Economy Tips

Republicans are ready for the U.S. to default. Republicans failed in their attempt to stop or postpone the entering into force of the health reform. Now, a society upset because of the chaos provoked by the U.S. government shutdown is against them and the last proposal to approve progressive payments in different government sectors didn't get the support by two thirds of the votes of the legislators at the U.S. Congress. However, they appear to be willing to allow the country to default.

U.S. cuts back trade exchange with Venezuela due to tensions. Political tensions between the U.S. and Venezuela have impacted bilateral relations. While the U.S. is

still Venezuela's main trade partner, imports and exports drop month after month, internationalist María Teresa Romero stated. Figures of the Venezuelan-American Trade and Industry Chamber reveal that in January-July, exports went from US$21.0 billion to US$19.0 billion, down 13.9% from the same months last year.

Maduro rules out cordial relations with Washington. "*As long as the U.S. administration doesn't understand that they have to respect Venezuela, which is a sovereign country, there won't be cordial relations or communication"*, President Nicolás Maduro warned and ratified the expulsion of the U.S. Chargé d'Affaires in Venezuela, Kelly Keiderling, and diplomats David Mott and Elizabeth Hoffman, who were accused by President Maduro of alleged economic and electric sabotage and gave them past Monday 48 hours for them to leave Venezuelan territory.

Phil Laidlaw new Chargé d'Affaires of the U.S. The U.S. Embassy in Caracas informed that Philip G. Laidlaw will replace former Chargé d'Affaires to Venezuela Kelly Keiderling. Phil Laidlaw joined the Department of State as a Foreign Service Officer in 1992. His overseas assignments include Tirana, Sarajevo, Madrid, La Paz, and San Salvador. According to the U.S. Embassy webpage, Laidlaw most recently served as the Deputy Director of the Office of Andean Affairs in the Bureau of Western Hemisphere Affairs at the Department of State.

Angela Merkel promises to reduce German public debt. Reducing Germany's public debt and investing in education and research are two of the priorities set by German Chancellor Angela Merkel for the coming four years. "*Assuring economic growth is a permanent duty*," Merkel said in her weekly video message. "*This can be only assured through innovation. Germany has to be part of the future trends of global economy*," she stated.

Unemployment in Spain is up in September. The number of jobless people in Spain grew again in September, after six months falling, as per data published by the Spanish Ministry of Employment. In September, there were 25,572 people more than the prior month registered in the employment offices, or 0.5% over August. The total number of jobless people was at 4.7 million. In spite of the change of trend after six month dropping, September's unemployment growth is the lowest registered for that month since 2007.

Unemployment drops for the first time in 30 months in the euro zone. Unemployment in the euro zone shrank during the summer for the first time in two years and a half, which is a new encouraging sign for the block which in the second quarter came out from 18 consecutive months in recession. In July, the euro zone reported 12.0% unemployment among active population, slightly down from the prior month (12.1%), as per data released yesterday by Eurostat. This is the first

© Ecoanalítica – Documento de uso exclusivo

unemployment drop in the euro zone since early-2011. In August, unemployment remained unchanged at 12.0%, according to Eurostat.

Cabello and Russian Foreign Minister reviewed bilateral relations. President of the National Assembly Diosdado Cabello and Russian Foreign Minister Serguéi Lavrov reviewed bilateral relations between both countries and described them as *"outstanding"* during Cabello's visit in Russia. Cabello said that President Nicolás Maduro has instructed him about the necessity of strengthening relations with Russia. Cabello, at his meeting with Lavrov held "*an exchange of opinions on international affairs, with special emphasis on the situation in Syria, as well as integration processes in Latin America*," the Russian Foreign Ministry informed.

Presidential health shakes Argentina. The unexpected disease of Argentina's President Cristina Kirchner, who has been recommended by her doctors to take one-month rest due to a cerebral-vascular condition, has shaken the local political scenario amidst the campaign for the legislative election scheduled for October 27th. This took President Fernández de Kirchner by surprise in the middle of an election campaign in which, even though she's not a candidate, she had assumed a leading role.

Parties join forces against Rousseff before presidential election. Two of the most popular opposition leaders in Brazil will join forces, a partisan source informed, in an unexpected alliance that could pose a big challenge for President Dilma Rousseff in the next year's election. Marina Silva, an environmental extremist who is in the second place in the pools for the next year's election will announce that she will join the Governor of the state of Pernambuco, Eduardo Campos from PSB party.

© EcoAnalítica - Descargado por usuario no autorizado

Political Tips

Less dollars for the private sector. The speech on Tuesday October 9th at the AN by the President of the Republic, Nicolas Maduro, made clear that the Government is going to deliver less dollars to the private sector, which he considers parasitic. The consequences of this reduction in private sector has been the significant increase in the shortage of basic goods which is at 21.2% and accelerating inflation, which so far this year, a leap accumulates 38.4% because the parallel exchange rate soared and started to serve as a guide to calculate replacement costs.

The three R. Maduro in his remarks on Tuesday October 9 said the performance of Cadivi, the agency responsible for distributing foreign exchange at the official rate, "*leaves much to be desired and is why we must apply the three R (revision, rectification and relaunching) with the speed and depth due ".* He also said, *"The 96.0% of exports come from oil and the private sector contributes only 1.2% but requires between 35 billion and 40 billion dollars a year."*

The Great Escape. Nicolas Maduro acknowledged that despite the shift control, which blocks the purchase of dollars, Venezuela has undergone a massive currency outflows. *"Reports of the ECLAC reported that from 2004 to 2012 have left Venezuela capital of US$215,000 million, an average of US$ 23,000 million per year,"* said the President.

The crisis. Nicolas Maduro admitted that the country is experiencing a crisis that, in his opinion, is rare. *"The crisis being experienced by the Venezuelan economy is very peculiar crisis; there is a significant drop in income but a geometric increase in consumption" .*The figures show that while there has been a decline in government revenue has a cost that cannot be covered by the contribution from oil and tax revenues, in fact, including the entire public sector the gap between expenditure and income stands at 15.0% of GDP.

© Ecoanalítica – Descargado por usuario no autorizado

No to this mess. Governor of Miranda Henrique Capriles Radonski called Venezuelans to transform December 8 election in an opportunity for the people to voice their opinion. "*On D/8, we have to say whether we like or not the "pretender" that is at Miraflores (presidential palace) (…) we want Venezuelans to say no to this mess on D/8*," Capriles claimed adding that "*many people have to open their eyes. We have to reach all those people who are still afraid*."

No more cheating. Governor Henrique Capriles Radonski assured that Nicolás Maduro has lost the popular support enjoyed by the late President Hugo Chávez, because "*if he lacks the confidence of his own fellow party members, much less he's going to have the confidence of the country he's trying to preside over*." Therefore, Capriles assured that in the coming election "*we're going to defeat the trap with votes at each municipality, because there cannot be any corner in the country where there is a valid reason for people to continue to believe in their lies*."

Waiting. A group of opposition political leaders demanded again the Supreme Tribunal of Justice (TSJ) to ask Nicolás Maduro to show his birth certificate. Unlike previous opportunities, the opposition has tried to put more pressure on the government to attain its goal and has sent Deputy Walter Márquez to Colombia, where he's waiting for the Colombian Foreign Ministry to deliver a document certifying that Maduro was born in that country.

Happy for having been born in Caracas. President Nicolás Maduro said that the opposition is waging a psychological war against the government and the people by alleging that he's Colombian and not Venezuelan. "*You see that they are fighting a war against me (…). They claim that I wasn't born in Venezuela. They say I was born in Mars. I would have been happy if I were have been born in Buenos Aires or Guayaquil or Lima or Cúcuta or Bogota. I would have been happy for being South American, but I'm very happy for having been born in Caracas*," Maduro added.

Maduro opts for a military strategy. President Nicolás Maduro announced that the government will be restructured from the general staff, which is a classic military strategy already applied by the late President Hugo Chávez in 2010, when the country was mired in serious electricity problems. "*In a short time, we will restructure the entire government for ministers to have true and well defined staffs. I say staffs taking the concept of top-level military organization*," Maduro said.

Not the entire PSUV party wants the Enabling Law. Ramón Muchacho, candidate for mayor of Chacao Municipality, claimed that the request made by President Maduro for an Enabling Law does not have the expected support, because "*neither the opposition nor some sectors of the PSUV party are willing to grant Maduro the law (…) The true aim of the legal instrument is to prosecute the opposition members*," who, notwithstanding will remain "*firm against government attacks*."

Workers flouted. Governor Henrique Capriles Radonski talked about the 10.0% increase in minimum wage at a meeting with university students and said that with the increase, the Government has just flouted workers, because it only accounts for VEB9 per day. "*Workers earning the minimum wage cannot buy the basic basket; their wage is not enough and if they get sick they have to choose between buying the medicine or eating*," Capriles added.

Maduro is trying to buy legitimacy with the Enabling Law. Deputy Abelardo Días (Copei) said that the request for special powers to legislate through an Enabling Law, made by President Maduro to the National Assembly, is nothing but a "*hypocrite and desperate attempt to find legitimacy and constitutionality that today he lacks in the exercise of his post as President. Most of the country perceives that with this move, Maduro is disregarding the independence of the public branches of power*."

5,545 polling centers with a single table for D/8. The election infrastructure to be used in December 8 mayoral election keeps the use of 5,545 polling centers with a single polling table. The centers with this characteristic were the ones where the largest number of complaints by the opposition was accumulated after October 7, 2012 and April 14, 2013 presidential election. The complaints are based in the fact that the smaller the center, the more the results benefit the government.

© Ecoanalítica – Prohibida su distribución por usuario no autorizado

No economic war, just inefficiency. Voluntad Popular national coordinator, Leopoldo López, claimed that the shortages the country is experiencing aren't caused by an economic war, but by an inefficient administration and a rogue State that destroyed the national economy. *"The crisis in Venezuela will not be overcome unless we change the government. This is why we need not just a mayor, but a leader that may open the road toward progress of the country"*, Leopoldo López stated.

Legislatives Tips

© Ecoanalítica_Descargado por usuario no autenticado

Enabling Law against corruption and economic war. President Nicolás Maduro widened his goals with the Enabling Law. Now, he not only expects to fight corruption, but to use the special powers to face what he has described as economic war. Maduro announced that he will appear before the AN next Tuesday to materialize that goal. At the Yard of Honor of the Military Academy, in Fuerte Tiuna, Maduro assured that he will uproot the evil of the perverse sabotage against the country's economic life.

Calixto is ready for Europe. President Nicolás Maduro said that *"I have decided to appoint Calixto Ortega Vice-Minister of Foreign Relations for Europe, for him to assume the lead and continue fighting for our homeland."* Ortega, who was a Deputy of the AN, worked until last week as Venezuela's Chargé d'Affaires in the U.S. Maduro welcomed the diplomat, who came back after being expelled by the U.S. government in reciprocity to the expulsion from Venezuela of three U.S. officers.

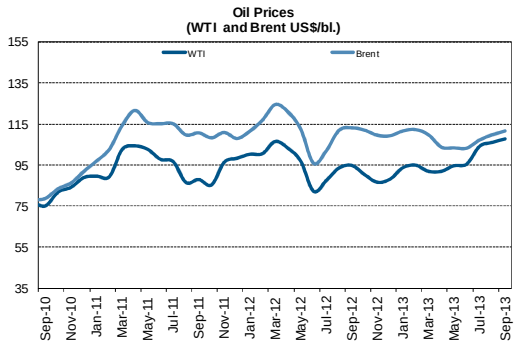
The government suspends mobilization for corn and rice transportation. The Ministry of Agriculture and Lands issued a resolution temporarily suspending the requirement of mobilization guides issued by the National Institute for Comprehensive Agricultural Health (Insai) for the transportation of yellow and white corn and rice from storage silos. The resolution was published in the Official Gazette Nº. 40,266 and shall enter into force right away. The suspension shall extinguish on March 31, 2014, according to article 1 of the Resolution.

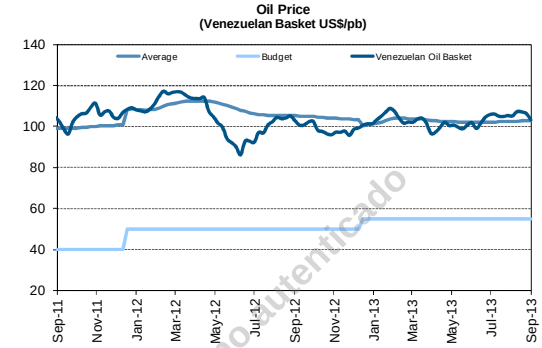
Strategic Center for Homeland Security and Protection. Official Gazette No. 40,266 established the creation of the Strategic Center for Homeland Security and Protection as an autonomous entity of the People's Minister for the President's Office The resolution was made official through Presidential Decree Nº. 458, Furthermore,

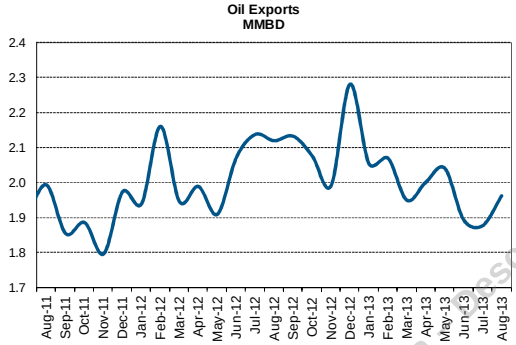
vice-presidents of the Council of Revolutionary Ministers were also appointed under resolution Nº. 457.

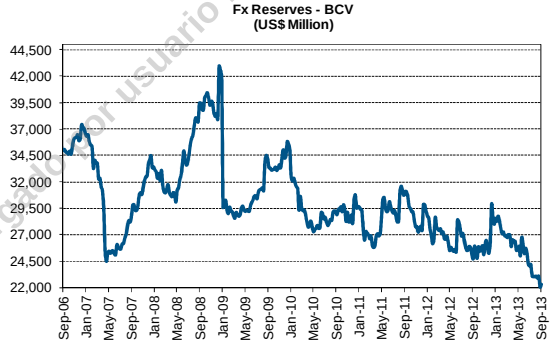
© Ecoanalítica – Descargado por usuario no autenticado

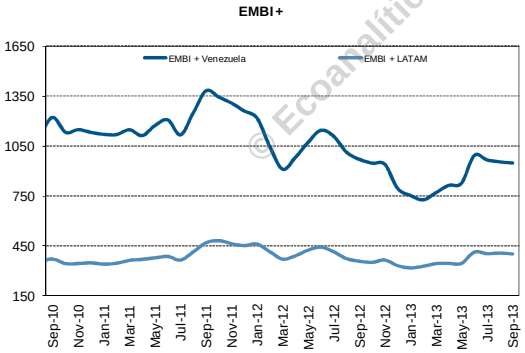
ECONOMIC OVERVIEW

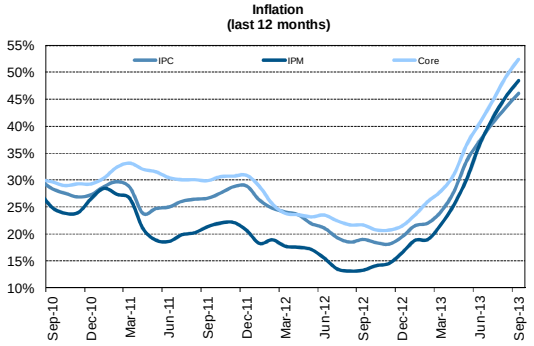


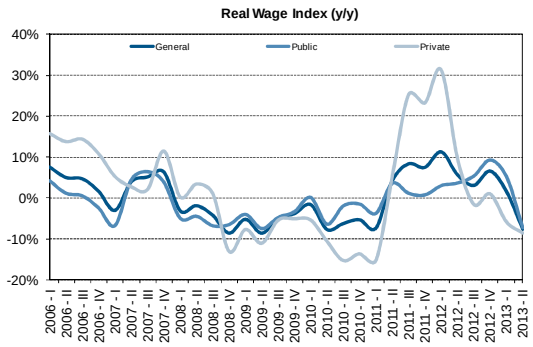


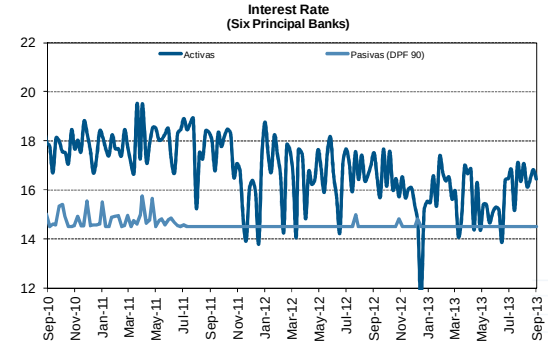






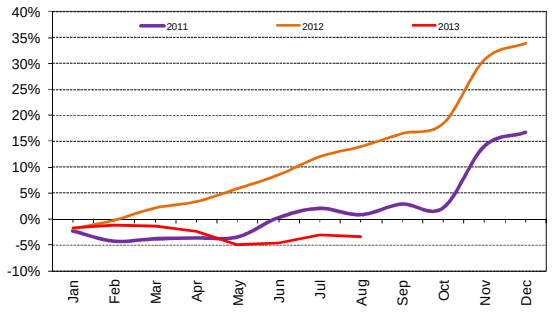




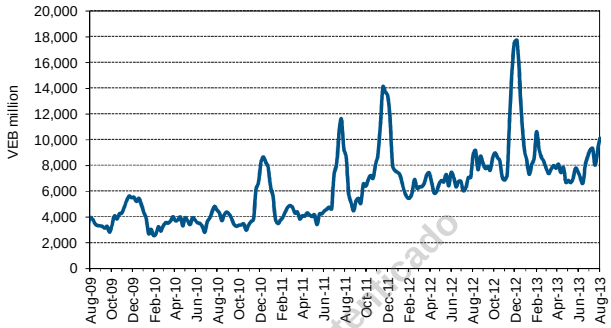


© EcoAnalítica Descargado por usuario no autenticado

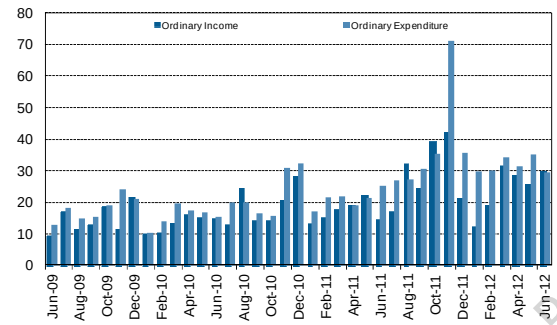
Real Expansion (M2)



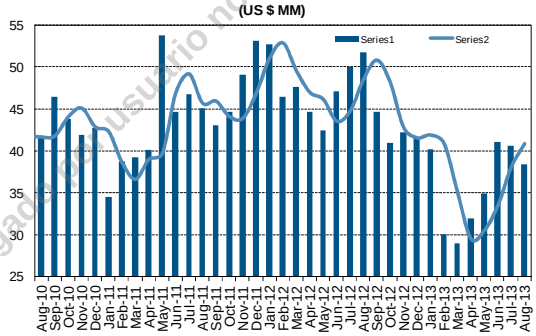
Primary Spending NOT (Four-week moving average))



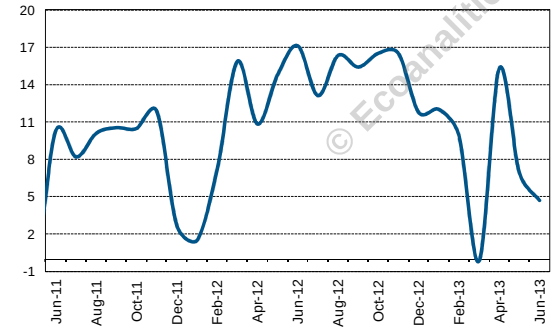
Central Government (VEB Billion)



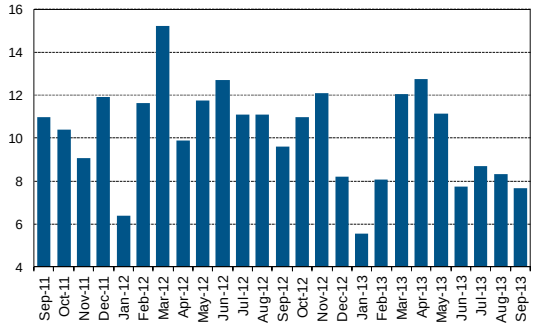
Resources of the State (US $ MM)



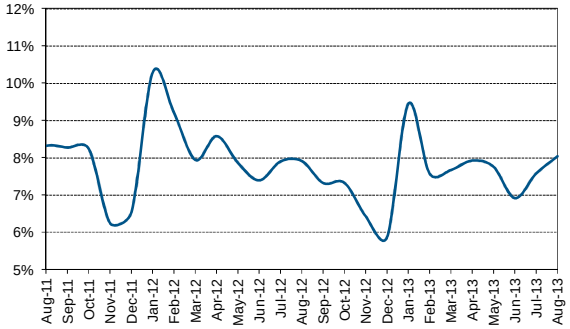
Volume of Sales (% Variation)



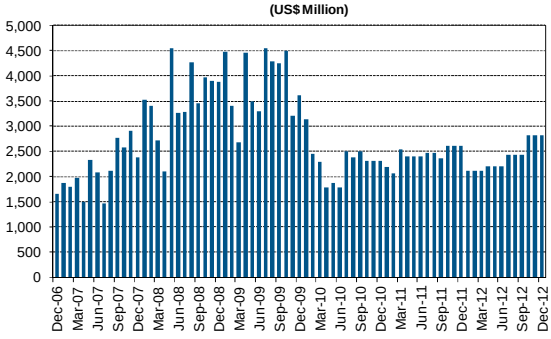
Automobile Sales (Thousands of Sold Units)



Rate of unemployment



Cadivi Disbursement (US$ Million)



© Ecoanalítica – Descargado por usuario no autorizado