



# Weekly Report

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*Trade Relations Between  
Colombia and Venezuela:  
What once was, not will be*

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Venezuela and Colombia have always been important trade partners to each other, despite all past issues these countries have had, regarding boarder issues, military differences, and diplomatic bickering; trade has always flowed back and forth across the border. However, a few years ago, the political differences that existed between Presidents Chávez and Uribe put a serious strain on trade relations between these countries, and the flow of merchandise back and forth across the border reached historic all-time low levels.

Currently, the official word coming from both countries is that improved relations between Venezuela's President Hugo Chávez and Colombia's President Juan Manuel Santos have improved, and will continue to improve, trade relations the two the countries. Having said this, it's important to point out that last month (September 2011), Colombian President Santos warned that though trade relations have improved, the amount of trade flowing between both countries will not reach the same levels as it was in the past, before this latest conflict. This Report will focus



on looking at relations between Venezuela and Colombia, since relations became strained until the present, the consequences this conflict has had on both countries, and how relations are likely to be in the immediate future.

### **Finger pointing**

In 2009, diplomatic relations between Venezuela and Colombia reached their boiling point. They had been heated for a number of years due to Colombia's peace negotiation with the FARC; the freeing of hostages held by this group; President Chávez' request to take this group off the list of Terrorist Organizations; and Colombia's signing a military agreement with the United States. During the period of time that these events took place, diplomatic relations between Venezuela and Colombia turned into a mud-slinging contest with insults and threats flying back and forth across the border, and eventually the border being closed in 2009.

### **The straw that broke the camel's back**

In July 2009, Colombia announced that it had confiscated three AT-4 class rocket launchers made in Sweden that had been sold to the Venezuelan government in 1988 from the Revolutionary Armed Forces of Colombia (FARC). In response to this announcement, Venezuelan President Chávez responded that such accusations made by the Colombian government were irresponsible; he then proceeded to order the Venezuelan ambassador to Colombia, Gustavo Márquez, be recalled and that all trade and diplomatic relations with Colombia be severed.

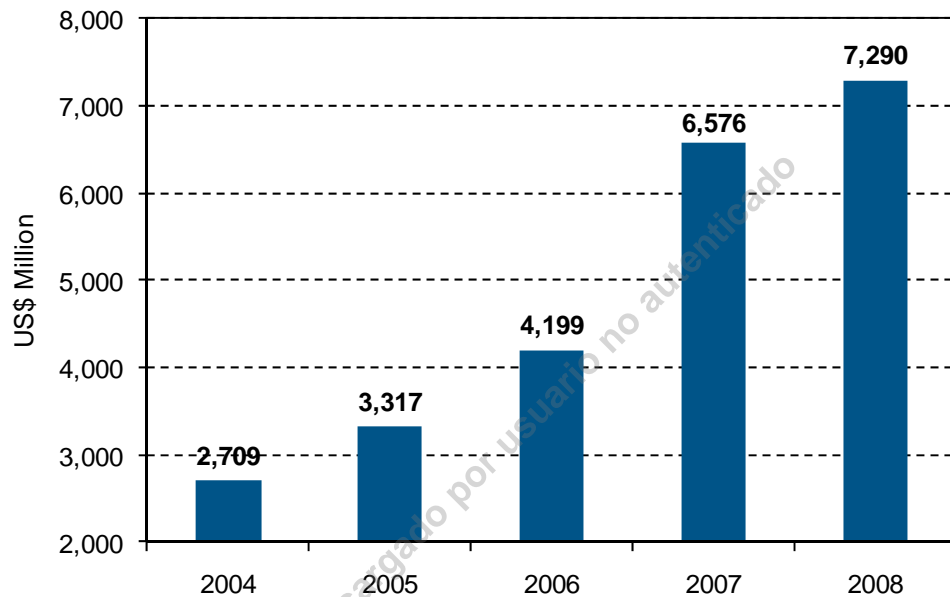
### **Trade relations with Colombia**

Since 2007, diplomatic relations between Venezuela and Colombia had been strained, reduced to a series of statements that criticized policies and procedures implemented by the other, veiled threats, and some periods of silence and relative calm. Trade between both countries continued to flow and was good. Businessmen from both sides of the borders were very concerned with the threats slung back and forth by both leaders, among them the threat of closing the border to all trade, which at the time, 2008, was valued at US\$ 7.3 billion.





## Commercial Exchange between Colombia and Venezuela



Sources: DANE and Ecoanalítica

### Drop in volume of trade

By July 2009, Colombian exports to Venezuela had dropped by 28.8% compared to the same month in 2008, due to President Chávez' order to freeze all trade negotiations with Colombia. Colombian sales to Venezuela were cut by US\$139.8 million, going from US\$ 484.6 million in July 2008 to US\$ 344.8 million in July 2009. Venezuelan exports to Colombia between January 2009 and July 2009 dropped by 4.5% compared to the same period in 2008, going from US\$3.17 billion to US\$3.03 billion.

It's important to point out that during the period 2004-2008, Colombian exports to Venezuela had increased by an average of 60.2%. This was due to Venezuela's economic recovery, having finally bounced back from the crippling economic effect of the General Oil Strike (Dec 2001-Feb 2002) and the fact that the oil prices were beginning to increase significantly. This would lead to what would become an oil boom, filling the government coffers with oil export revenue, and ushering in a period when Venezuela increased its imports substantially, to the benefit of our neighbor, and one of the country's main trading partners, Colombia.





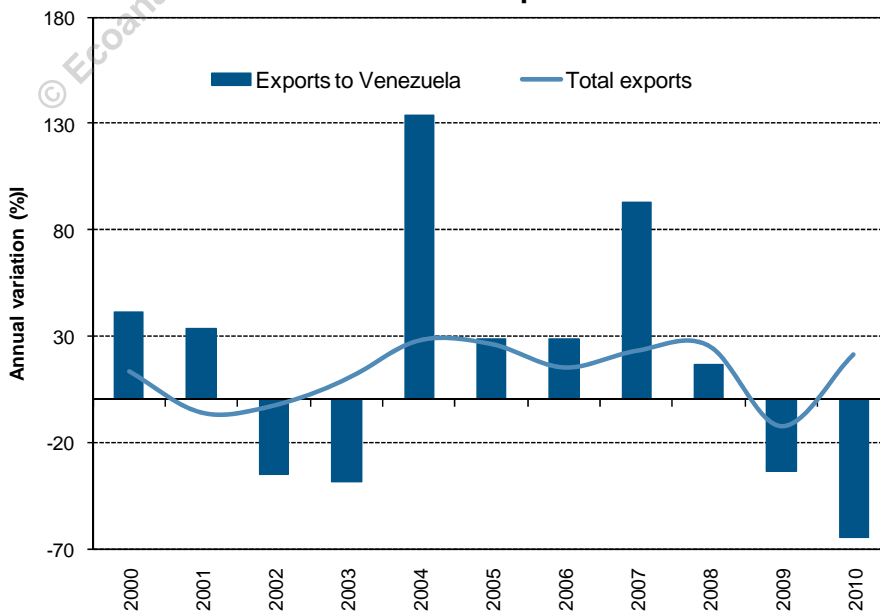
**Venezuela imports by country of origin  
2008**

Country of origin	US\$ Million	%
Estados Unidos	11,847	26
Colombia	6,765	15
Brasil	4,221	9
China	4,072	9
Mexico	2,097	5
Argentina	1,084	2
Alemania	1,360	3
Japon	718	2
Otros	12,966	29
<b>Total</b>	<b>45,128</b>	<b>100</b>

Sources: INE and Ecoanalítica

After trade relations were frozen, the sale of Colombian products in Venezuela in 2009 dropped by 33.5% and in 2010, they dropped even more, 64.9%, this occurred despite the price of the Venezuelan basket was recovered in 2010 and that total Colombian exports also recovered as a reflection of the improving of the world economy.

**Colombian exports**

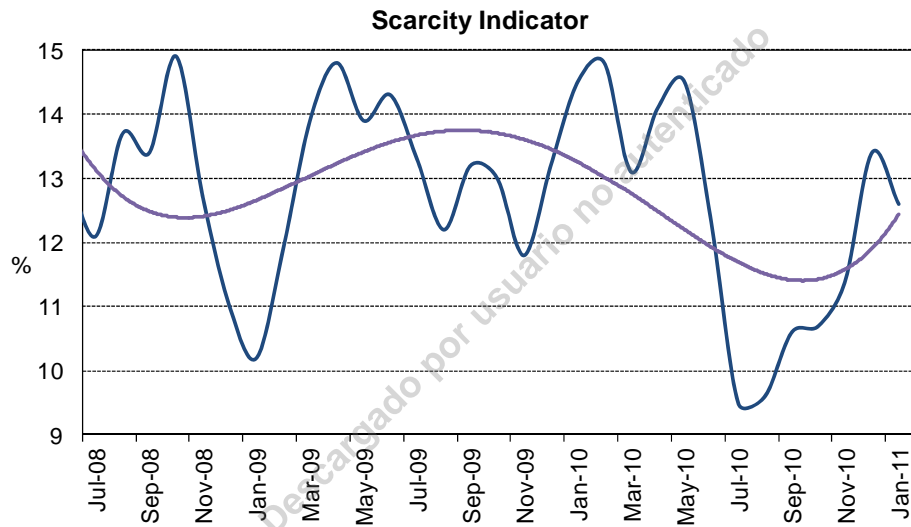


Sources: DANE and Ecoanalítica



**The pain was felt on both sides of the border**

Despite the Venezuelan government's insistence that cutting off trade relations with Colombia would not have any negative effects on the population, one of the most immediate consequences felt was the shortage of a number of basic products.



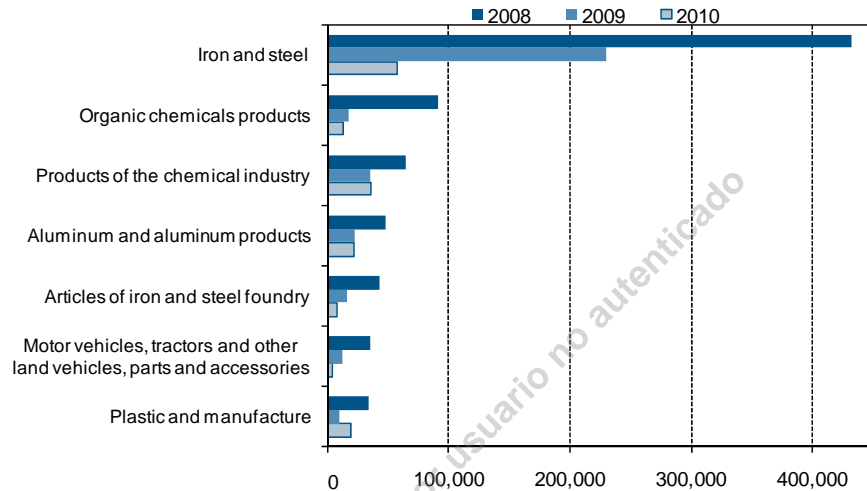
Sources: BCV and Ecoanalítica.

Beef, leather, cars, and textiles are some of Colombia's main export products that it sells to Venezuela (the shortage of these products was felt during the conflict) and that tip the trade balance in its favor. With respect to the products Venezuela sells to Colombia: oil, aluminum, steel, and petrochemical products, and which in 2008 represented US\$930 million in sales, but that by 2009 had dropped by 54,4%.





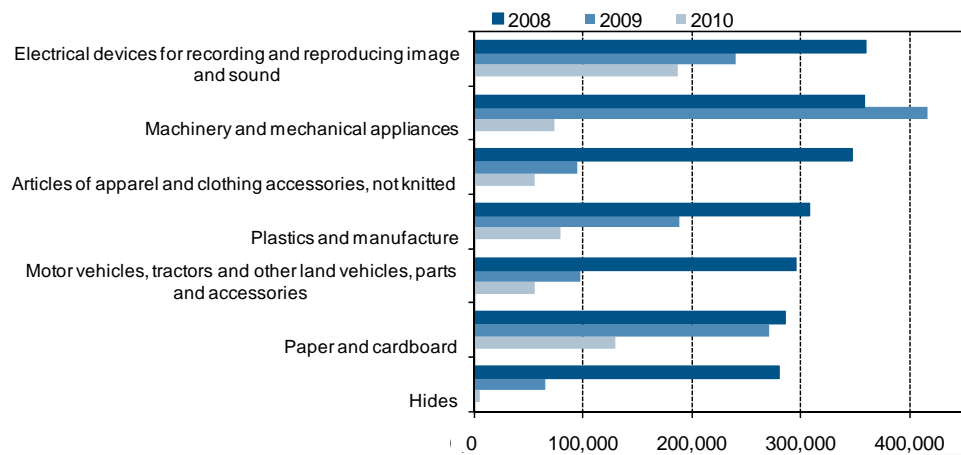
### Venezuelan exports of goods (US\$ Million)



Sources: INE and Ecoanalítica

In Colombia, Chávez' order to cut trade relations with Colombia affected its Foreign Accounts balance, since 16.2% of its exports went to Venezuela. Plus, since Venezuela had just been in the midst of an oil boom, and consequently, Colombian exports to Venezuela had been increasing by a very significant margin for the last four years, this added an extra sting to order to cut trade relations.

### Colombian imports of goods (US\$ Million)



Sources: INE and Ecoanalítica



The Colombian sectors that were most affected were: automotive, clothing, paper and carton, machinery, and part of the coffee sector. According to the Competitive Strategies Center (CEPEC) of the *Universidad del Rosario*, exports from the country's three main exporting regions, Bogotá-Cundinamarca, Antioquia, and Valle del Cauca, dropped by 25%, 39%, and 11% , respectively, during the first months of 2009 compared to the same period the year before. According to official figures released by the Colombian government, the crisis cost 300,000 jobs and dropped the GDP by one percentage point.

There are some who believe that this conflict was all part of a strategy cooked up by both Presidents to distract their respective populations from other more pressing domestic issues, and help them both get reelected. Whatever the case may be, Colombians and Venezuelans both had to live with the consequences of this political crisis, which premeditated or not, still continues to affect the potential for economic and social development between both countries.

**So, now  
what?**

With trade relations cut, both countries looked everywhere else besides to each other in an attempt to solve their respective trade deficits. The Colombian government stated that there was a need to diversify their markets, and began to look to Central America, the Caribbean, the United State, the European Union, and Canada as possible markets for their products. While in Venezuela, the government increased imports from countries which it considers to be friends and share their political views, such as China, Brazil, and Argentina. Though ironically, the country which in fact replaced Colombia, filling the void left by Colombian imports, was the United States. Currently, Colombia is sixth with respect to Venezuelan imports.





**Venezuelan Imports  
From January to July 2011**

Country of origin	US\$ Million	%
Estados Unidos	4,900	29
Colombia	1,826	11
Brasil	1,637	10
China	358	2
Mexico	773	5
Argentina	910	5
Alemania	438	3
Japon	370	2
Otros	5,626	33
<b>Total</b>	<b>16,838</b>	<b>100</b>

Sources: INE and Ecoanalítica

**Reconciliation...  
But then what?**

During the first months of 2011, Presidents Juan Manuel Santos and Hugo Chávez have been trying to reinitiate trade relations between Venezuela and Colombia. The fact is that, Venezuela is still Colombia's number 3 trade partner, after the United States and Ecuador; and from Venezuela's point of view, now that it has completely severed its ties with the Andean Community (CAN), it has to sign new trade agreements with each one of its members if it plans to continue doing business with them.

On August 7, 2001, at a meeting held between both President, they announced that diplomatic relations were reestablished, and commissions were setup to coordinate a number of issues, among them, reactivating bilateral trade. This commission will be in charge of evaluating import and/or export processes and all relevant permits that will be required.

According to statements made by Venezuelan officials, it's expected the trade relations with Colombia will progressively be reinitiated. At **Ecoanalítica**, we believe otherwise, more along the line of the statement issued by Colombian President Santos last month when he said alluded to the differences between the Colombian and the Venezuelan economic systems and the he didn't think trade would reach the same levels that it was at before the diplomatic conflict.

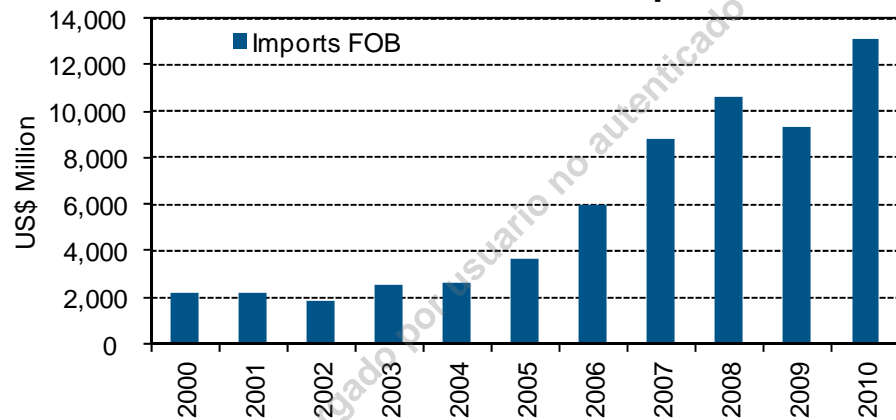
**The Venezuelan  
public sector  
will be key**

At **Ecoanalítica**, we believe that there are in fact very significant differences between the Venezuelan and the Colombian political and economic system, and that these differences will lead to many obstacles in reinitiating trade relations between both countries. As President Santos



stated, in Colombia we believe in free trade. In Venezuela there is 21<sup>st</sup> Century Socialism, which has come to represent the bloating of the public sector, permeating sectors where it has never been before, with the main focus of become more and more involved in trade activities and increasing by leaps and bounds the amount of imports it's managing.

### Public Sector Imports



Sources: BCV and Ecoanalítica

The fact that the public sector has become big and in turn is managing significant volumes of imports could be seen as a positive thing for Colombia, and reinitiating trade between the two countries, being that the Government seems to be interested in beginning to do business with its neighbor again.

### 21<sup>st</sup> Century Socialism will create obstacles

But at *Ecoanalítica*, we believe that the fact that the public sector is responsible for an ever increasing amount of imports will actually complicate matters in terms of reinitiating trade with Colombia. Within the 21<sup>st</sup> Century Socialism, foreign sector policies as well as economic policies are very much tied to the Administration's political agenda and interests. This means that though the public sector is responsible for more and more imports, it looks to countries with similar ideologies to do business with. Furthermore, the increase in the State's bureaucracy, import permits, and exchange controls, will create serious obstacles in any attempt at reinitiating trade with Colombia.

It's easy to understand why businessmen belonging to the Colombian-Venezuelan Chamber of Commerce have shown interest in dealing directly with the Ministries in charge of the sector they do business with. First because it is clear that now, the Venezuelan government is a key



player and client in the Venezuelan economy; and second, in order to circumvent the all obstacles created by the bureaucracy of doing business through normal channels.

And the last reason, that we at **Ecoanalítica** consider an obstacle for reinitiating trade with Colombia, maybe the most obvious one, is that all the countries which have jumped in to control the market shares (China, Brazil, Spain and Mexico), left empty by Colombian businessmen during the break in relations, won't be too keen on just stepping aside and letting Colombian business back into the market. This is why, for all the reasons mentioned, we at **Ecoanalítica** believe that at best, Colombian imports will reach US\$2.0 billion in 2011.

### ¿Things are improving?

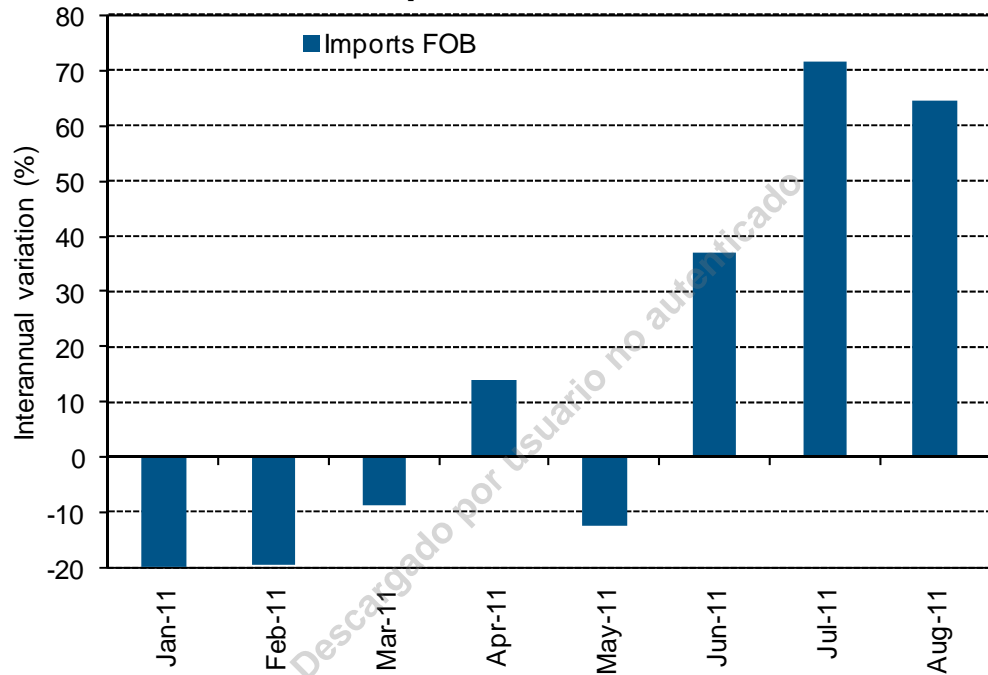
Despite all this, what is certain is that at the present there is very willingness among stakeholders to improve trade between both countries. According to the information managed by the Chamber of Colombian and Venezuelan Business Integration (Cavecol), trade between the two countries has improved this year compared to 2010. According to Cavecol figures, at the close of August 2011, trade between the two countries reached US\$ 1.38 billion; with US\$1.02 billion corresponding to imports Venezuela has made from Colombia. This level of imports, although it is below that reached in the pre-conflict period, represents an increase of 64.4% over the same period of the last year.

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### Imports from Colombia



Sources: DANE and Ecoanalítica

**It is all about political will ...**

On October 21, the extension agreed to upon by both Presidents to sign a Complimentary Economic Agreement between both countries will expire. This agreement, when signed, will take the place of the Cartagena Accord which is no longer valid due to Venezuela having left the CAN last April 22. So it will be up to both Presidents to decide the fate of trade relations between Venezuela and Colombia, countries that are not only neighbors, but brothers.





## Economic Tips

**Nine-month tax collection.** According to official numbers, between January and September of 2011, the National Integrated Tax Administration Service (Seniat) has collected VEB 104.97 billion, equivalent to 95.4% of the global tax collection goal of VEB 110 billion set for 2011 by the Minister of Planning and Finance. Compared to the same period of 2010, this year's tax collection has increased by 42.2% in nominal terms and 12.4% in real terms.

Concepts (VEB Million)	Sep-10	Sep-11	Var (%)	Real Var	Jan-Sep 2010	Jan-Sep 2011	Nominal Var	Real Var
<b>Total Income</b>	8,959	13,060	45.8%	15.3%	73,829	104,971	42.2%	12.4%
<b>Income Tax</b>	2,340	3,120	33.3%	5.4%	21,564	27,969	29.7%	2.6%
<b>VAT (Internal)</b>	5,107	7,726	51.3%	19.6%	39,752	58,974	48.4%	17.3%
<b>Customs revenue*</b>	744	1,432	92.3%	52.1%	6,212	10,723	72.6%	36.5%
<b>Other Internal Revenue</b>	688	683	-0.7%	-21.5%	5,436	6,061	11.5%	-11.8%
Spirits	121	203	67.7%	32.6%	1,059	1,291	21.9%	-3.6%
Cigarettes	523	453	-13.4%	-31.5%	4,008	4,484	11.9%	-11.5%
Inheritance	20	22	9.8%	-13.2%	158	176	11.5%	-11.9%
Random games or bets	21	6	-70.2%	-76.5%	171	111	-35.4%	-48.9%
<b>Others</b>	80	100	25.1%	-1.1%	865	1,244	43.8%	13.7%

Sources: Seniat and Ecoanalítica.

\* Includes VAT on imports.

**INE's normative food basket up 2.0%.** According to official numbers published by the National Institute of Statistics (INE), the average price of the normative food basket reached VEB 1,635.4 in September, a 2.0% (VEB 31.4) increase compared to August, 2011. The cumulative variation up to September is 19.9%, while the annual variation is 24.6%, compared to the same period of last year.

**...the most affected products were:** Pasta (+4.0%), rice (+3.9%) and precooked corn flour (+3.9%). In the meats' group the most affected products were: flank steak (+4.2%) and shank (+3.3%). Among the most significant price decreases we have: onions (-10.56%), red peppers (-10.19%) and tomatoes (-7.85%).

**Cendas' household food basket up 1.2%.** According to the numbers published by the Venezuelan Federation of Teachers' Center for Social Documentation and Analysis (Cendas), the cost of the Household Food Basket (CAF, acronym in Spanish) reached VEB 3,321.98 in September, up by Bs. 38.43, 1.2% more than in August of 2011 and 29.9% more than in the same period of 2010, when it registered VEB 2,616.97.





**...Nine products got more expensive.** According to Cendas' monthly report, 9 of the 11 products studied reported price increases compared to the previous month, one got cheaper and one remained stable. Among the products that got more expensive we have: sauce and mayonnaise (15.6%), cereals and byproducts (5.5%), fish and seafood (3.5%), meats and prepared meat products (3.3%), dairy and eggs (2.1%). The prices of fruit and vegetables decreased by 2.5%, compared to August, and coffee remained stable at VEB 28.4. The gap between controlled prices and market prices reaches 86.8%.

**...Seven products reported shortage.** According to Cendas, 12.3% of the products contained in the household food basket were found in shortage: sugar, powdered milk, canned sardines, regulated beef, margarine, cooking oil and wheat flour.

**Cendas basic household basket up 1.0%.** According to information published by Cendas, the cost of the Basic Household Basket (CBF, acronym in Spanish) reached VEB 7,479.4 in September, to report an absolute increase by VEB 74.2 and a 1.0% variation compared to the previous month. The annual variation was by VEB 1,573.2 or 26.6%.

**...six of the seven products reported price increase.** The Basic Household Basket's monthly variation was determined by the price increase reported in six of the seven food groups that integrate it. Education went up by 1.6%, going from VEB 533.04 to VEB 541.47. Healthcare increased by 0.9%, going from VEB 136.7 to VEB 137.9 and residential rent increased by 1.2%, going from VEB 1,648.0 to VEB 1,667.0.

**People's purchasing power plummeting down.** The total purchasing power of the Venezuelan minimum wage was strongly affected in September, as it is only enough to acquire 94.7% of the INE normative food basket. The situation gets worse, as the minimum wage is only enough to cover 46.6% of the Cendas household food basket, and 20.7% of the Cendas Basic Household Basket, which means 4.2% minimum wages are required to purchase the latter.

**2012 Budget Draft submitted.** Last Friday, October 14, the National Administration submitted the drafts to the Budget Law and the Special Indebtedness Law of 2012 before the National Assembly (NA). The president of the National Assembly's Permanent Finance and Economic Development, Ricardo Sanguino, said they were waiting for the Minister of Finance, Jorge Giordani, to make the formal presentation before the plenary session on Thursday, October 20. *"We expect to have the first discussion on October 27 to then refer it to the Finance commission and start the debate"*, he said.



**Funds for regions to be increased by 49.0%.** The Federal Government Council's (CFG, acronym in Spanish) Inter-territorial Compensation Fund (an instance of the CFG devoted to finance public investment and promote the balanced development of the nation's regions and the execution of essential works and services) will be increased by 49% in 2012, compared to the amount in the 2011 budget. This means the fund would go from VEB 10.66 billion to VEB 15.90 billion, said the Executive Vice President of the Republic, Elias Jaua.

**State government's budget allocations to increase by 67.7%.** According to Jaua, that 49% increase means state government allocations will go from VEB 4 billion in 2011 to VEB 6 billion in 2012. Mayor's allocations will go from VEB 3 billion to VEB 4.5 billion, and the people's power base organizations will receive VEB 4.5 billion instead of VEB 3.1 billion.

**In twelve months, the Venezuelan Government issued US\$13.2 billion worth of public debt.** Although the price of oil is peaking at US\$99.5, both the Ministry of Planning and Finance and Pdvsa have issued debt for nearly US\$13.2 billion over the last twelve months. The purpose of these actions is to finance the Great Mission Agro Venezuela, the Great Labor Mission, the Great Housing Mission and Pdvsa's investment plans. All this despite the fact that the banking sector mandatorily bears 25% of the nation's agriculture loans portfolio, 10% of the residential mortgage portfolio and the fact that the oil price represents increased revenues.

**Foreign currency debt increased by 230% in five years.** According to the Central Bank of Venezuela (BCV), the nation's foreign currency debt increased by 230% in five years, going from US\$25.67 billion to US\$84.72 billion in the first semester of 2011. Despite this outrageous growth, Minister Giordani has said that, at this point, the public debt only represents 18% of the nation's GDP, a pretty comfortable ratio, but the truth is his calculation does not include all obligations, since it doesn't include the loans received from China, which are in Bandes' balance sheet.

**Bond 2026 awarding.** The results of the bond 2026 awarding, as published by the Ministry of Finance on Monday, October 17, were: in category I (which includes companies of the national productive sector), those who requested between US\$3000 and US\$1,470,000, received 100%, those who requested more than US\$1,470,000 received 0%. In category II (natural and legal persons domiciled in Venezuela) those who requested US\$3000 received 50% and those who requested more, received 0%.

**...100% for the Public Banking System.** Category II also includes entities of the public financial sector, who also received 100%. The category also includes public insurance sector entities, who received 81.5%.



**Many were left out.** According to the official announcement, the main target of this bond issuing was legal entities, especially those of the national productive sector. However, this category received less currency than in the previous issuing of Bond 2031, when the top allocation for category I was US\$4,950,000.

**Interest rates.** The lending rate for the first week in October was at 18.3%, increasing by 1.6 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 2.7% going from US\$30,917 million during the first week of October to US\$30,074 million during the second week of October. Compared to the same period last year, international reserves have increased by 3.0%.

**Monetary liquidity.** Monetary liquidity in the first week of October decreased 1.3% compared to the previous week settling at VEB 364,355 million. The M2 has increased 39.8% year-on-year.

**Sitme figures.** So far this year, US\$6,625 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\$136.7 million, US63,6 million less than last week when US\$191.3 million were traded.

## Oil Tips

**China backs 75% of Pdvsa's investment in Brazil refinery.** Pdvsa's participation in the project to build the refinery Abreu e Lima in Pernambuco will be possible thanks to the China Development Bank.

**Originally, Pdvsa's warranties** were backed by the Bank of Brazil for up to 25% and the remaining 75% was backed by the Portuguese Bank Espirito Santo. However, Brazil's National Economic and Social Development Bank (Bndes) thought it was risky for Espirito Santo to be the main warrantor, given the complicated situation in Portugal and the exposure to the Portuguese banking system risks.



**OPEC assures it will remain as a group.** The Organization of Petroleum Exporting Countries (OPEC), after several meetings, is working hard to recompose its unity as the cartel's ordinary assembly scheduled for December gets closer. *"I'm sure OPEC will stay as one group. They are one group now but, yes, we did not have a consensus at the last meeting but I am sure that December's meeting will be positive,"* said the organization's Secretary General, Abdullah al-Badri.

**No rush to adjust supplies...** Abdullah al-Badri also said that current crude oil prices surrounding US\$100/bl were *"reasonable,"* and suggested there was no rush in adjusting supplies.

**2011 demand lowered...** OPEC's October report said the global crude oil demand for 2011 was reduced by 180,000 barrels per day (kb/d), leaving the year's growth at 900 kb/d. The oil cartel said the global economic uncertainty has *"darkened"* the outlook for 2011, particularly for the economies of the Organization for Economic Co-operation and Development (OECD).

**For 2012...** OPEC expects, in light of the forecast about economies' weakness, the growth of the oil demand to be lower. The cartel recently reviewed its estimates down, placing the demand growth at 1.2 million barrels per day (mb/d), 180,000 kb/d lower than the previous estimate.

**Venezuelan oil production up in September.** The report also indicated that Venezuelan crude oil production had increased to 2.44 mb/d during September, approximately 24 kb/d more than the 2.42 mb/d extracted in August.

**US predicts lower growth of crude oil consumption for 2011.** On Thursday, October 13, The US Energy Information Administration (EIA) announced the lowering of its crude oil consumption estimates for 2011 and 2012. According to the source, the uncertainty surrounding the global economy is enough reason to lower the world crude oil demand estimates to 88.4 mb/d in 2011, a 1.3 mb/d increase compared to 2010 (the previous estimate was 1.4 mb/d), and 89.8 mb/d in 2012, a 1.4 mb/d increase compared to the previous year.

**China leading consumer...** Moreover, the EIA predicts that in 2012, China will be the leading crude oil consumer, with a 6% increase which would be enough to boost crude oil prices. The Asian giant would increase its demand by 600 kb/d, according to Reuters.

**ENT underprepared.** A great deal of the fuel supply problem lies on the distribution chain, handled by the National Transportation Company (ENT, acronym in Spanish),



which with a fleet of only 2,000 units has to cater to the 1,851 gas stations throughout the nation and deliver fuel to more than 30 distributed generation plants installed during the electric crisis and other thermoelectric plants.

**Maintenance and update problems.** Besides these commitments, the ENT faces maintenance and updating problems with the fleet which, according to the minister of Energy and Oil, Rafael Ramirez, *“is in an updating process, a transition phase,”* as it has *“a mixture of deteriorated vehicles and more than 700 new Chinese semis”* Pdvsa will use to update the gasoline transportation fleet.

**Also,** the infrastructure is set for 70% of the demand to be for 91-octane gasoline and 30% to be 95-octane gasoline, when the real market demand is 70% for 95-octane gas and 30% for 91-octane gas.

**More and more control...** Besides the gasoline sale control established in the states of Táchira, Zulia and Merida, a new restriction has been imposed on Tachira's tourists. Gladys Parada, Domestic Market Director for Pdvsa Táchira said tourists visiting Táchira would be required to register in gas stations authorized by the Ministry of Energy and Oil.

**Pdvsa needs to invest “a little money” in refining.** According to Pdvsa, the increase in the production of heavy crude oils planned by the state company for the next 8 years will require the expansion of the existing refineries as well as the installation of new processing plants within the Plan Siembra Petrolera. Therefore, the state oil company has come up with an investment plan worth US\$45 billion from which US\$41 billion will be destined to building or expanding six refining complexes by 2019.

**Venezuela favors gathering between Pdvsa and Petroperu.** Venezuela's Minister of Foreign Affairs, Nicolas Maduro, expressed the significance of having the two state-owned companies, Pdvsa and Petroperu, join forces to work on joint cooperation and development projects. *“We know Peru also has experience in the oil industry, we are two important poles in the South American energy equation,”* said Maduro, as he ratified that Venezuela was willing to share all of its accumulated experience in the oil, petrochemical and gas industries.

**International oil baskets.** At closing time on October 14<sup>th</sup> in the New York Stock Exchange, the price of the WTI was US\$84.8/bl, a 6.4% increase compared to the US\$79.0 reported the previous week. The Brent increased by 7.0% to reach US\$109.6/bl, compared to the previous week's US\$102.5/bl.





**Local oil basket price.** The Venezuelan oil basket price increased last week, closing at US\$102.1/bl on Friday October 14<sup>th</sup>, a 6.0% increase compared to the US\$96.3/bl of the previous week. The annual average price of the Venezuelan oil basket is US\$99.2/bl.

## Business Sector Tips

**Stepping on the gas, but steel behind.** Nearly two months into the end of the year, the National Government has sped up the construction of housing units to meet the goal of 153,000 in 2011. According to the Ministry of Housing and Habitat, construction sites report a 78% advance, that is, nearly 120,000 housing units are being built throughout the nation to cater to, mainly, families in refugee status.

**...According to the construction sector's projections, the real numbers are far from the government's optimism.** Up until two months ago, 44,128 housing units had been built, that is 29% of the goal. Out of that number, 14,554 were built by the private sector and 29,574 by the public sector, including rural-house substitution and auto-construction.

**...According to statements issued by Aquiles Martini,** president of the Venezuelan Chamber of Realtors, there is doubt about the alleged doubling of new projects in the last two months, as, if 78% of the units promised were actually ready: *"there would be no refugees, as they are the priority."*

**Construction companies will not set rental units' prices.** Despite the critiques of violation of private property, last month the Parliament authorized that rental properties occupied by tenants for 10 years should be sold to said tenants at the price set by the Superintendence of Tenancy.

**Normative established to pay debt to Housing Savings Fund.** The National Bank of Housing and Habitat will establish periods of three to eighteen months for employers to pay their debts with the Mandatory Housing Savings Fund (FAOV). So was established in Article 6 of Resolution 171 of the Ministry of Housing and Habitat, contained in *Official Gazette No. 39,777*.

**Another extension.** The Governments of Peru and Venezuela agreed to extend the current tax preferences existing between both nations for a period of 90 days, looking



to put into action the Partial Scope trade agreement to be signed within the framework of a meeting between both Presidents: Ollanta Humala and Hugo Chavez within that period.

**And the price increase might not stop.** According to the annual report *“The State of Food Insecurity in the World”* jointly prepared by the UN Food and Agriculture Organization (FAO), the International Fund of Agricultural Development and the World Food Program, the volatility and high prices of food will not only continue but might increase even more, making farmers, consumers and poor countries even more vulnerable to food insecurity and poverty.

**Food prices through the roof.** Food prices in Latin America are 40% higher than four years ago, and will remain high, risking the eradication of hunger in the region, which affects 52.5 million inhabitants. So is stated in FAO’s Latin America Food and nutritional security outlook 2011.

**Mercal’s subsidized products are not safe from adjustment either.** The National Government plans to adjust the price of the 14 subsidized food products sold in the state network Mercal, said Carlos Osorio, ministry of Food. *“We are evaluating it,”* he said, indicating the subject would be discussed today in a meeting of the Productive Economy Vice President’s Office.

**Fears of shutdown due to unadjusted milk prices.** The increase in the price of milk announced last week has not calmed dairy industrials. Edecio Pineda, president of the Association of Milk Producers (Asoprole) warned about a possible *“total shutdown”* of the industry if the distorted existing prices were not corrected.

**Great deal of household expenses destined to agricultural products.** In September, the average price of the Normative Food Basket, according to the National Institute of Statistics (INE), reached VEB 1,635.4, with a 1.9% variation compared to the previous month. According to INE, last month, a household of five people spent VEB 685.1 to purchase agricultural products, nearly 50.1% of the total cost of the food basket.

**Government food subsidy reduced by nearly 9% in 2012.** The 2011-2012 budget allocation for foods distributed by the State-owned networks Mercal and Pdval was reduced by 8.8% compared to the 2010-2011 period.

**Alcasa working at half of its capacity.** The aluminum processor Alcasa currently operates at 42% of its installed capacity, considering only 168 of 396 cells in lines III and IV are active. The financial limitations have increased, affecting the payment of



labor commitments such as severance interests, which should have been paid in July.

**Banking system's 2011 loans portfolio.** The latest report issued by the Superintendence of Banks indicates that, as of September of 2011, the financial system's total loans portfolio had increased by 3.7% to reach VEB 231.82 billion. Meanwhile, bond investments have increased by 0.75% to reach VEB 131.57 billion, a 46.7% increase in the last twelve months.

**Loans to the productive sector keep increasing.** The total loans granted by the national banking system to the productive activity increased by 48.2% between September 2010 and September 2011, says the monthly report issued by the Superintendence of Banking Institutions (Sudeban). As a whole, productive sector loans reached VEB111.78 billion in September, 46.1% of the total gross loans portfolio. This number also reveals a 3.7% increase in the total number of loans granted to the productive sector compared to August.

**Consumption is still predominant.** Meanwhile, commercial and consumption loans reached VEB 130.66 billion, 53.9% of the total gross loans portfolio of VEB 242.44 billion.

**Defaults keep decreasing.** The Superintendence highlights the fact that default loans have continued to decrease, this time by 0.3 percentage points. Therefore, due and in-litigation loans only represent 1.9% of the total, a very low and manageable ratio.

**...and banks' profits have doubled.** Between July and September of 2011, the financial system obtained profits for nearly VEB 3.69 billion, twice as much as they obtained in the same period of 2010.

## World Economy Tips

**Wall Street closes down due to pessimism.** Wall Street closed down by more than 1% on Monday, October 17, after German Minister of Finance discouraged the expectations of an upcoming European Union summit producing advances in the debt crisis that affects the block. German Minister of Finance, Wolfgang Schaeuble



said the EU meeting of October 23 would adopt a platform to approach the region's financial instability, but added *"we won't reach a final solution by next weekend."*

**IMF has enough funds, for now.** The International Monetary Fund (IMF) has enough capital for now, said IMF director, Christine Lagarde, on Monday, October 17. A source from the emerging markets integrating the G-20 said on Friday, October 14 that the IMF might require a capital injection of nearly US\$350 billion to grant it further capacities to face the economic crises.

**BCE says EU treaty should be changed.** The president of the European Central Bank (ECB), Jean-Claude Trichet said last Monday, October 16, that the EU treaty should be changed to prevent member states from destabilizing the rest of the block, and insisted in applying a stricter leadership in the Euro zone. *"In my view, it is necessary to change the treaty to prevent one member state from straying and creating problems for all the others,"* he said.

**G20 summit will not solve all problems in the euro zone.** A spokesman for Germany's Chancellor, Angela Merkel, warned about the unrealistic *"illusions"* of this week's EU summit generating a final solution to the sovereign debt crisis in the euro zone. Her spokesman, Steffen Seibert, said: *"the measures are important for long term work that will come up next year and on which further action should follow."*

**Ban Ki-moon: G20 should commit to solving the crisis.** On Monday, October 17, UN Secretary General, Ban Ki-moon said: *"To restore confidence and trust from the people, from the market, the leaders should look beyond their national borders and should not haggle over domestic, regional interests. They have to come out with a broader perspective."*

**G20 policymakers** said they expected euro zone leaders to *"address the current challenges through a comprehensive plan"* which would be revealed for the European Union summit to take place on October 23. France's Minister of Finance, Francois Baroin, head of the meeting, said Berlin and Paris, the main powers of the euro zone, had moved forward in a plan to reduce the debt in Greece, stop the infection and protect Europe's banks.

**China keeps growing in 3Q2011...** China's GDP reported a 9.1% y/y growth in the third quarter of 2011, falling slightly short of the 9.5% reported in the second quarter and the 9.7% reported in the first quarter, according to an announcement made by China's National Bureau of Statistics (BNE) on Tuesday, October 18. According to preliminary information, during the first nine months of 2011, the Chinese GDP reached 9.4% more than in the same period of last year, said the BNE spokesman, Sheng Laiyun, in a press release celebrated in Beijing. Sheng branded China's economic behavior as "good" and assured that during the first nine months of the



year “the Chinese economy has developed in conformity with the macroeconomic regulation’s perspectives.”

**China: contraction in commodities’ data suppose uncertain future.** Although the Asian giant keeps growing, its contractions in steel and energy production reported in September, along with the poor increase of the implicit oil demand, show that the year-long monetary adjustment campaign and the economic problems of the west are starting to be felt. A confluence of lowering factors in the fourth quarter, such as a seasonal deceleration of the domestic activity plus a deterioration of exports’ growth, will combine to reduce the Chinese demand for commodities, according to Henry Liu, commodity analyst at Mirae Asset Securities, Hong Kong.

**Japanese government lowers economic outlook.** The Japanese government lowered its economic outlook for the first time in six months in its October evaluation, indicating that the global growth deceleration was affecting the nation’s production and exports. The government’s analysis was published after the Bank of Japan maintained its monetary policy unchanged and said the economy would continue with a moderate recovery, although it also mentioned the increasing threats of the European sovereign debt crisis and the economy’s weakness.

**Positive outlook over Latin American population aging.** According to Moody’s Investors, Latin American countries’ pension systems that have been reformed over the last three decades offer valuable outlooks for many nations facing the challenge of population aging, although the rating agency says the reform process is still incomplete. The challenges to overcome include low coverage, few incentives for participation and low contribution density rates.

## Political Tips

**TSJ rejects Leopoldo Lopez’s candidacy.** The Supreme Court of Justice (TSJ) declared the ruling of the Inter American Court of Human Rights ordering the Venezuelan State to allow former Mayor of Chacao, Leopoldo Lopez, to post his candidacy to the 2012 election as “unenforceable.” The decision of the Constitutional Courtroom was published in the higher court’s website. This is the second time the main instance of the Judicial Power adopts a resolution of this kind.



**...But in a press release offered a few minutes later**, the president of the Supreme Court of Justice, Luisa Estella Morales, clarified that Voluntad Popular's candidate, Leopoldo Lopez, was in full use of his political rights and had *"no impediments to enroll himself as candidate in the National Electoral Council."* In response to journalist questions, the chair of the Judicial Power said: *"what we consider to be unenforceable is having Venezuela move back in its advances against corruption (...)*

**The reactions to the TSJ decision were immediate**, and the first round of critiques came from the TSJ itself. In the view of Penal Courtroom Magistrate, Blanca Rosa Marmol de Leon, the court's ruling looks to *"evade the responsibility of meeting its international obligations."* Meanwhile, the MUD will denounce the flagrant contempt against the OAS.

**Chavez left to Cuba again and Jaua was left in charge.** President Chavez traveled to Cuba for a third comprehensive medical evaluation to rule out the growth of cancer cells in his body. *"I have faith that I'll be back with good news for the nation within the week,"* Chavez said on Sunday, October 16, as he informed he'd let Vice president Elias Jaua in charge of his functions.

**Chavez guarantees food subsidy.** President Hugo Chavez said in a telephone contact during an event sponsored by the Ministry of Food in the Andres Bello Square, Caracas, last October 15, that the National Government would maintain the subsidy to the prices of food products sold through the state's distribution networks. *"Through Mercal, we will continue to subsidize the products of the basic food basket, and will continue to expand the network Pdval with high- quality regulated products..."*, he said.

**Funds authorized for education-related missions.** President Hugo Chavez Frias authorized VEB 37 million to continue to expand and strengthen the Sucre Mission. He also authorized VEB 880.3 million to be used for the Alma Mater Mission.

**Chavez signed Executive Law about Federal Dependencies.** On October 15, President Chavez signed the Executive Order-Law of Federal Dependencies and Insular territories. The Law was signed by the President in a Ministers' Council at the Presidential Palace of Miraflores.

**Chavez estimates Venezuelan economy will grow 4%.** President Hugo Chavez Frias ratified that the Venezuelan economy would grow between 3.5% and 4% this year. So he said last Saturday, October 15, during a Ministers' Council celebrated in the Presidential Palace of Miraflores, in which he asked his cabinet to evaluate the recommendations offered by the China Development Bank to the National Government.



**Venezuela to host Celac.** President Hugo Chavez announced last Saturday Venezuela would host the Community of Latin American and Caribbean Nations' Summit (Celac) to be celebrated on December 2 and 3. Chavez reminded the summit was originally scheduled for July 5 in Caracas, when Venezuela celebrated the Bicentennial of its declaration of independence, but a few days before that he was diagnosed with cancer, so the summit was postponed.

**How's the Great Housing Mission Venezuela doing?** As of September 30 of 2011, the Great Housing Mission Venezuela had finished building a total of 58,417 housing solutions, said President Hugo Chavez last October 15. *"This year's goal is 150,000. We have 2.5 months ahead of us."*

**Chavez still strong in the polls.** The director of Datanalisis, Luis Vicente Leon, in light of the latest surveys about Hugo Chavez's popularity, said: *"we need to be cautious when looking at the upcoming electoral process. The fact that Chavez has 57% of popularity does not mean he's unbeatable, but he's obviously a strong candidate."*

**...Leon seized his participation** in the TV show *"Entre Periodistas"* broadcast on Televen last week to make a remark on the results obtained in recent studies showing Chavez's support: *"These surveys are not done to project an electoral result. They are a picture of the past, not of the future."*

**Chavez asks his followers to avoid poll-based triumphalism.** President Hugo Chavez asked his followers to avoid triumphalism about the 2012 presidential election, after surveys revealed growth towards the popular movements that support him for reelection.

**Chavez asked to create Law of defense of air space.** On Thursday, October 13, President Hugo Chavez proposed the National Assembly to discuss a draft to a Law of Control and Integral Defense of the Air Space, to provide a legal framework to the shooting down of drug smuggling aircrafts.

**Capriles out with great energy, but this time formally.** Capriles launched his candidacy: Betting on an *"orienting"* rather than controlling state, private effort and quality jobs. *"I want a better life for all Venezuelans,"* said Henrique Capriles Radonski as he officially launched his candidacy to the opposition's primary election. This way, Capriles Radonski joins the race to become the candidate to run against Hugo Chavez in the 2012 presidential election.





**Opposition backs Capriles Radonski's candidacy.** Despite the absence of pre-candidates to the primary election of February 12, several opposition leaders assisted to Henrique Capriles Radonski's official candidacy announcement on Wednesday, October 12. Several political leaders said: *"His triumph will be the best for the nation."*

**Cecilia Sosa also made her pre-candidacy official.** Former magistrate of the Supreme Court of Justice (CSJ), Cecilia Sosa, also announced her candidacy to the presidential primary election of the Democratic Unity. She said Venezuela needs education, professional training schools and job offices as social actions to fight crime.

**Sumate denounced President Chavez for political proselytism.** On Monday, October 14, Sumate representative, Ricardo Estevez, denounced before the National Electoral Council violations committed by President Chavez this year as he used public media to practice political proselytism. The report talks about 504 TV and radio hours, although the electoral campaign is still far from starting.

## Legislative Tips

**Full steam ahead.** That's the status of the discussion of the Tenancy Law at the National Assembly, which authorized 21 articles on Tuesday and 42 on Thursday, so it is expected to be full approved by October 18. Among the articles authorized was article 78, which says construction companies shall provide construction cost information in order to set the rent of housing units. *"For that purpose, rent payments will be a result of the net cost of construction,"* reads the article.

**Article 80 was also approved,** granting priority status to tenants to continue to occupy properties over any third parties looking to rent them out, *"as long as they are solvent in the payment of rent and they have met all other contractual obligations."*

**The most polemic article.** Within the framework of the discussion of the Tenancy Law, National Assembly members approved article 138, which provides the expropriation of properties to landlords who own more than five units after incurring in three faults. Despite the opposition's rejection, the article was approved by the pro-government majority.



**Still pending.** Transitory provisions and the modification of articles 28, 29, 31, 33 and chapter four, regarding rent amounts, being prepared by the National Assembly's Administration and Services' Commission are pending for Tuesday, October 18.

**Discussion of Penal Law of the Environment moving forward.** The vice president of the National Assembly's Permanent Environment, Natural Resources and Climate Change Commission, Representative Manuel Briceño, said the member of the commission had had significant advances in the discussion of the new Penal Law of the Environment. Briceño added they had already approved more than half the articles. *"It's a very innovating draft. It has a very clear classification and categorization of environmental crimes and establishes responsibilities for both legal and natural persons,"* he said.

**Airlines in the National Assembly's sight.** The airlines that have been presenting malfunctions and service irregularities are expected to be summoned by the National Assembly this week. According to Representative Diosdado Cabello, the airline Venezolana de Aviacion is so far the one presenting most incidents, so it will be first to appear before the Parliament. He also explained that the NA would open an investigation over reports filed against airlines. *"We're going to do all that, and then we're going to prepare the respective report so that the competent authorities can take the necessary measures,"* he said.

**Organic Law of Foreign Service deferred.** Although the final text of the draft to the Organic Law of Foreign Service was read in the ordinary session of October 11, its sanction was deferred for next week, as the document had a few writing discrepancies. The purpose of this law is to regulate, organize and encompass the functions of the Nation's Foreign and Consular Services to guarantee its policy and international action is aligned with the Venezuelan people's sovereignty and interests.

**30 more laws before the end of 2011.** National Assembly member, Juan Carlos Aleman, said the Parliament would add 30 laws before the end of the 2011 legislative period. Aleman said that, among the bills to be passed by the Legislative Power, was an instrument to grant faculties to the Capital District to regulate the exploitation of non-metal minerals (sand, limestone and rocks). He also announced the National Electoral Council had received signatures of the alternative and community media who last month submitted the Popular Communication Law pre-draft.

**Public consultation for Law of rational and efficient use of energy.** On Saturday, October 15, all Bolivar squares of the nation hosted a public consultation process for the draft of the Law of rational and efficient use of energy, in order to gather the opinions of small, mid-size and large electricity consumers.



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**ECONOMIC OVERVIEW**

