



Weekly Report

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***Ramirez's Memorandum:
The China Fund, a financial
burden too heavy for PDVSA
to bear***

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Since the end of 2007, the Administration began to implement in Venezuela a new foreign financial mechanism, especially with the People's Republic of China, aimed at obtaining financing for strategic projects to develop the nation (though in practice, these resources were used for other things), and thereby constituted the so-called Bi-National Funds.

A memorandum presented by the Minister of Energy and Petroleum, and president of PDVSA, Rafael Ramírez, to the President of the Republic in April 2011 regarding the management of the China Fund has found its way to the public. The document confirms crude oil sales to China at market prices. It also shows how the institutional separation which should exist between government organizations is non-existent and how the Administration compromises the oil industry, forcing it to maintain parallel fiscal structures to provide resources for discretionary and necessary spending, as well as having to back inefficient public companies, all at a



very high cost, and making it ever more dependent on the international price of crude oil.

It's worth mentioning that a lot of the information in this document has already been outlined by **Ecoanalítica** in our Report number 15 from last year titled: The New China Fund: Nothing Clear Yet. Due to PDVSA's heavy fiscal burden, the Minister of Energy requested that the President allow the oil company to at least take from the Fund enough to cover the costs associated with making the crude oil deliveries to China.

How do these mechanisms work?

The memorandum begins by describing how the mechanisms of the Funds created with China work. This is a very important point given what little the public knows regarding anything to do with the Fund, the resources it has, and where they are allocated.

With respect to the Heavy Fund I (negotiated during the latter part of 2007) the conditions established were as follows: an agreement was signed between the China Development Bank (CDB) and the Social and Economic Development Bank of Venezuela (BANDES) for a loan for the amount of US\$4.0 billion, to be paid in three years, through a schedule of crude oil deliveries (100,000 barrels a day), at an estimated price of US\$50/bl, underscoring that said volume of crude oil should be considered as a type of royalty being paid, so that the resulting surplus in BANDES' accounts, once the capital and interest had been paid for each shipment, should be returned to the National Treasury Office (ONT) since this amount had already been written off by PDVSA.

The Heavy Fund II (established at the end of 2008) was very similar to the first agreement. An agreement was signed between the same two payers, CDB and BANDES, the loan amount was for US\$4.0 billion again, and the schedule of crude oil deliveries (this time 130,000 barrels a day), at an estimated price of US\$40/bl, underscoring that payment mechanism and interest reimbursement would be the same as with Fund I.

The third Bi-National Fund (established in October 2010), called great volume and long term financing, is nothing more than another loan granted by the CDB to BANDES for an amount of US\$20.0 billion to be paid with crude oil shipments made by PDVSA during a period of ten years, with a supply of no less than 200,000 barrels a day to be delivered in 2010, and a supply of no less than 250,000 barrels a day in 2011, and a supply of no less than 300,000 barrels a day in 2012 and until all the conditions in the



agreement have been fully met. However, the memorandum points out that, crude oil deliveries have remained at 200.000 barrels a day.

More and more barrels of oil being compromised

The total number of barrels of crude oil that PDVSA is obligated to send to China in payment for these three loans is at 430,000 barrels a day, which according to PDVSA equals 16% of domestic crude oil production. This is an important point, since this figure puts the oil company's total crude oil production at 2.69 million barrels a day (mb/d). So, if we subtract this year's estimated amount of domestic crude oil consumption which is at 690 kb/d from the 2.69 mb/d total crude oil production, this leaves 2.0 mb/d for Venezuelan crude oil exports. This means that in fact, PDVSA has compromised 21.5% of its crude oil exports in order to pay these loans.

As we said: PDVSA sells at market price

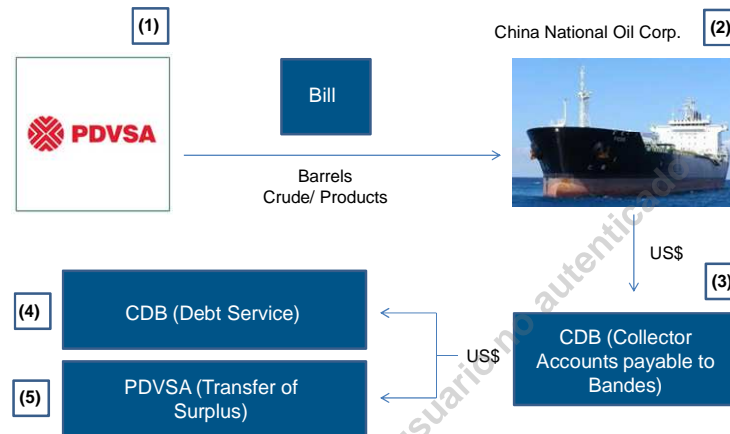
According to the memorandum, the Funds' mechanism works as follows:

1. PDVSA, acting in name and representing the Republic, sell the barrels of crude oil to the China National Oil Corporation (CNOC).
2. The client, CNOC, pays through a collection account (a BANDES account in the CDB)
3. The CDB receives the payment in the collection account written out to BANDES. Currently, there are three collection accounts, in US-dollars (\$) and Yuan (¥).
4. The CDB collects the debt service charge (based on estimated sales price of between US\$40-50/bl, this would be the debt payment price/cost), plus quarterly interest.
5. Once the debt service payment is collected, there is a surplus in the collection accounts that in principle should be transferred to the ONT, since PDVSA has already written this amount off as a type of royalty payment. But in fact, PDVSA, through BANDES, is receiving this surplus to help pay for royalties, extraction taxes, and to help cover production and refining costs.





Diagram of Sales and Collection



Sources: Menpet and Ecoanalítica

2010: Things change

During 2008 and 2009, according to what was established in the agreement signed by both countries, the volumes of crude oil shipments used to make Fund loan payments were considered to be a type of royalty payment being made by PDVSA. And during those same years, surplus revenue was being generated in these collection accounts due to favorably high oil prices on the international oil market. This surplus was transferred to the ONT since PDVSA has already written off the funds in question as payment for a type of royalty.

Towards the end of 2009, the Administration ordered PDVSA to directly assume the loan payments to Fund I and Fund II, and to stop considered said payments as a type of royalty payment. This order was to go into effect on January 1, 2010. This meant that the surplus revenue generated in the collection accounts would revert back to PDVSA to be used to pay royalties, extraction taxes, and to help cover production and refining costs for the crude oil used to pay the loans. Oil prices continued to remain high in 2010 and the surplus generated in the collection accounts were transferred to PDVSA to help cover the aforementioned expenses.

2011: PDVSA doesn't get anything

Up until April 15, 2011, PDVSA has been receiving the surplus revenue to help cover royalty payments or production and refining costs associated with the crude oil shipments used for loan payments. In other words, and as pointed out by the memorandum, "PDVSA as assumed the total financial burden for the Bolivarian Republic of Venezuela's payment of the debt to the People's Republic of China," in a context where crude oil



deliveries owed are at 430,000 barrels a day (kb/d) (of which during the first quarter 2011 had reached an average of 419 kb/d), which, as pointed out in the memorandum, “represents too heavy of a financial burden for PDVSA and requires a structural solution.”

Meanwhile, China has guaranteed it has a significant supply of the oil it consumes (especially diesel) at a very cheap price and with a positive impact to its companies, given the nature of the agreement; and all this without taking into account that the Chinese government will always be able to collect its debt service payment, without any problem, unlike other creditors, such as those who hold bonds for example.

At **Ecoanalítica**, we have calculated, based on the information included in the memorandum, that the financial cost or opportunity cost, taking into account real oil prices so far this year is at US\$15.73 billion (figure that equals the GDP of Jamaica in 2011). Plus, not only does PDVSA not get any sales revenue at international crude oil market prices for the oil it has to deliver in loan payments, a market that is short on crude oil supply at the moment, the company also has to cover for royalty payments, extraction tax, and production and refining costs, which according to the volumes in question and oil prices so far this year equal US\$6.92 billion.

Costs associated to the Chinese loans

	Real January-March			Projection 2011		
	mb/d	US\$/bl	US\$ MM	mb/d	US\$/bl	US\$ MM
Regalia (30%)	419	91	1,029	430	100	4,709
Extraction tax (3.33%)	419	91	114	430	100	523
Production cost	419	8	288	430	8	1,198
Refining cost*	197	7	118	202	7	492
Total Cost			1,550			6,920

Sources: Menpet and Ecoanalítica

*47% of the shipments correspond to refined products

Consequently, the total financial impact of those crude oil deliveries for loan payments for 2011 to PDVSA's cash flow is at around US\$22.65 billion, if you take into account production and refining costs, royalty payments, extraction tax, and crude oil sales at market prices that were lost.





What happened to the surplus revenue?

According to the memorandum, between the months of March 2011 and April 2011 three withdrawals were made from the collection account for a total of US\$1.4 billion:

- The first, for US\$790 million, authorized by President of the Republic, to cancel the debt the company CVG Ferrominera had with the Chinese company China Wisco.
- The second, for US\$123.5 million, made by BANDES, and which must be reintegrated to PDVSA.
- And, US\$500 million approved by the President of the Republic, for investments in the electric power sector.

So, the net amount of surplus resources available, after covering the debt service payment for the month of February and the one scheduled for May is US\$1.38 billion. This amount has been requested by PDVSA, according to the memorandum, *“to mitigate the negative impact in cash flow, allowing, as was done in 2010, PDVSA to withdraw the surplus resources to at least cover the royalty payments, extraction tax, and part of the Income Tax owed generated from the volumes of crude oil sold to China, which would be returned to the State’s coffers via fiscal contributions to the ONT.”*

Availability of Funds and Long Term Financing

Until March 31st of 2011:	MM US\$
Balance at 12/31/2010	2,219.6
Charged between 01-01 and 03/31/2011	3,202.1
Debt Service Payment at 23/02/2011	-1,050.5
Debt Service Payment at 05/06/2011	-1,212.2
Radio coverage of debt 1,30%	-363.7
Retirement of the collector account (CVG debt)	-913.5
Availability of the account fund	1,881.8
Memorandum N° 013-2011, Date 12-04-2011	-500.0
Net availability	1,381.8

Sources: Menpet and Ecoanalítica





Everything changes so that everything stays the same

With the approval of this proposal, PDVSA would continue to pay for the debt service payments for the China Fund, despite the fact that these figures will appear on BANDES' balance sheets and won't be reflected on PDVSA's or the Central Government's accounts. Furthermore, keeping in mind that deliveries of approximately 430 kb/d will be being made to China at an annual average price of US\$100/bl, the Administration, through PDVSA, will be generating surplus revenue in the collection account to the tune of around US\$9.0 billion, which will give it the freedom to transfer substantial amounts to any entity of the public sector whenever it so chooses.

At *Ecoanalítica*, we find that this way of managing the surplus revenue generated in the collection account as being very inefficient. Besides the negative impact that diverting these resources to other companies will have on the oil company, using these resources to pay off the debt of a state run company such CVG Ferrominera that is so inefficient it can't manage its obligations, not to mention its investments, is a waste; or using these resources to invest in the electric power grid, when investments in the power grid should have been done a long time ago in a systematic and planned manner and not now, at the last minute, when the amount required to invest is so large. These resources could have been used for a greater purpose; they could have had a significant impact on social wellbeing; they could have been used to improve schools and hospital, for example.

What's all this borrowing for?

Since these loan agreements were made back in 2007 until the present, the Administration has borrowed a total of US\$20.8 billion, as the following table shows:

Chinese Funds' amounts

Funds	Date	US\$ MM
Fund I	February 2007	4,000
Fund II	August 2009	4,000
Large Volumen	Año 2010	8,800
Sub-Total		16,800
Renewal of Fund I	April 2011	4,000
Total		20,800

Sources: Menpet and Ecoanalítica





In the memorandum, Minister Ramírez points out that *“the China Fund has become an excellent financial mechanism that has allowed for the carrying out of large scale infrastructure projects of social interest,”* due to the fact that the State receives resources in an anticipated manner, it has total discretion, managed completely outside of the National Treasury, it’s quicker to make payments and carry out other administrative process, so resources can arrive on time where their earmarked for.

The market is always better...

At **Ecoanalítica**, we believe that it would always be better for PDVSA to sell those barrels used to pay the loans on the international market simply because it wouldn’t compromise its financial situation sacrificing productive investments. Plus, the resources from the loans used for those infrastructure projects of social interest produce less and less social wellbeing among the population, mainly because the resources are being used to oxygenate a State apparatus that is becoming more and more bloated.

Poor PDVSA...

A year ago we wrote: *“if this Fund were to become a reality, and if it were mostly PDVSA projects to benefit from its resources, and despite the fact that this may slightly affect PDVSA’s investments, it will lower the probability of PDVSA issuing debt.”* Now, we can see that these Funds didn’t benefit PDVSA at all, rather, they have become a burden.

But, we had already anticipated the issue of fiscal pressures: *“indirectly, creating this Fund has improved PDVSA’s cash flow, and thereby increasing the company’s fiscal pressure. This is the point that is most worrying. It’s imperative that PDVSA improve its efficiency and recover production levels, given the significant increase in the company’s liabilities.”* The Fund continues to compromise barrels and barrels of crude oil and PDVSA’s oil production doesn’t increase.



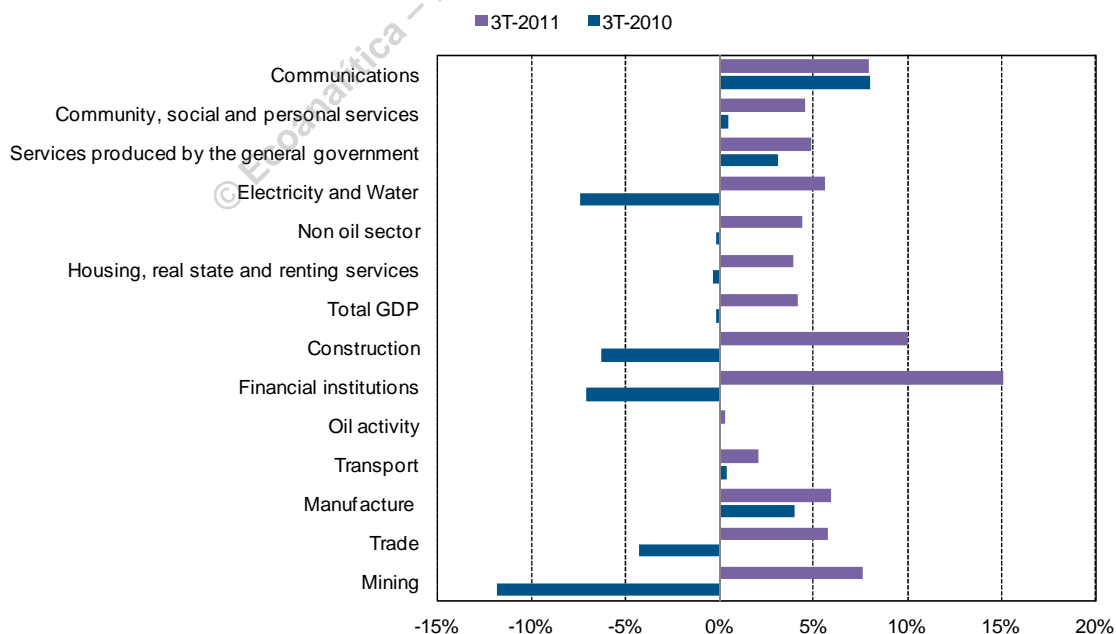


Economic Tips

GDP grew 4.5% IIT2011. This Thursday the Central Bank of Venezuela reported that the economy registered growth of 4.2% to contrast the third quarter this year with the same period 2010. When evaluating the performance by sector shows that the area grows 0.3% oil and non-oil 4.4% oil.

GDP for non-oil sectors. The sectors that grew the most were: financial and insurance institutions, up 15.1%, construction, up 10.0%; communication, up 7.9%; mining, up 7.9%; transportation and storage, up 6.6%; commerce, up 5.8%; electric power and water, up 5.6% and public sector services, up 4.9. During this period there were no contractions, however, this is due to the poor economic performance in the same period last year.

Growth by economic activity



Sources: BCV and Ecoanalítica





Results IIIT2011 BP. According to figures released by the Central Bank of Venezuela, the balance of payments recorded a deficit IIIT2011 of US\$658 million. The results of the balance of payments IIIT2011 show a surplus of US\$7,464 million in the current account, deficit of US\$7,446 million in capital account and financial and the negative balance of US\$676 million on account of errors and omissions, which resulted in a level of country's net international reserves of US\$30,880 million.

Bond issuance announced. On Monday, November 14, Petróleos de Venezuela S.A. (PDVSA) announced that it was issuing bonds in the stock market for US\$2.39 billion, maturing in 2021. Pdvsa will privately exchange US\$1.26 billion at nominal value of bonds maturing in 2013 for the new bonds. The coupon will be fixed at 9.0% and paid in equal and consecutive installments on November 17 in 2019 and 2020, and 2021.

10 months tax collection figures. According to figures released by the SENIAT, the State tax collection entity has collected VEB 117.30 billion in the first ten months of this year. Of this figure, VEB 30.79 billion (26.3%) correspond to Income Tax collection, and VEB 66.27 billion (56.5%) correspond to the VAT. In real terms, tax collection during the first ten months of the year is up by 11.8% compared to the same period last year. This shows how domestic demand has recovered. Income Tax and VAT collection compared to the same period last year were also up in real terms, 2.7% and 16.3%, respectively.

Concepts (VEB Million)	Jan-Oct 2010	Jan-Oct 2011	Nominal Var	Real Var
Total Income	82,689	117,303	41.9%	11.8%
Income Tax	23,635	30,799	30.3%	2.7%
VAT (Internal)	44,937	66,273	47.5%	16.3%
Customs revenue*	7,003	11,955	70.7%	34.6%
Other Internal Revenue	6,169	6,808	10.3%	-13.0%
Spirits	1,234	1,501	21.6%	-4.1%
Cigarettes	4,251	4,986	17.3%	-7.5%
Inheritance	180	204	13.2%	-10.8%
Random games or bets	190	117	-38.7%	-51.7%
Others	945	1,469	55.5%	22.6%

Sources: Seniat and Ecoanalítica.

Natural persons to be able to use the SITME. On November 11, *Gaceta Oficial N° 39.798* new measures regarding the SITME were published, superseding past regulations implemented on July 14, 2010. Among the new measures implemented, as of January 1, 2012, natural persons will be able to request up to US\$5,000 to use for travelling expenses abroad, without having to have exhausted their yearly CADIVI quota.



We have a “prudent credit policy,” according to the head of the National Office for Public Credit, Beatriz Bolívar, in a statement made in reference to the Central Government’s borrowing plan. She continued to say that *“we are far from defaulting in the medium and long term.”* She explained in a presentation before the National Assembly regarding next year’s Borrowing Law that the domestic and foreign debt service surpass by 118.0% what was programmed for 2011 and said that *“the old debt is at 12.0% and the new debt is at around 18.0%”* and added that the bonds of the emergent markets are affected by the international crisis.

BCV Budget for 2012 will be at VEB 5.90 billion. The BCV presented its 2012 budget before the National Assembly. First vice-president of the BCV, Eudomar Tovar, informed that for 2012 the BCV will have a budget of VEB 5.90 billion, up by 27.0% compared to this year’s budget which was at VEB 4.60 billion.

Don’t know what to do. The BCV vice president also said that the bank, working jointly with the Administration are implementing measures to control prices and are looking at options to control inflation. According to BCV figures, during the first ten months of the year inflation has increased by 22.7% and the goal for the end of the year is at between 23% and 25%.

Government owes former employees VEB 24.50 billion. According to a report issued by the Government to the U.S. SEC regarding the balance of 2010, in 2009 labor stocks were at VEB 19.10 billion, but in two years they have gone up to VEB24.50 billion at the close of May 2011, according to official figures. This represents an increase of 31.0%.

Value of the Cenda food basket reaches VEB 3,213.8. According to the Center for Documentation and Analysis for Workers (Cenda), in October its food basket cost VEB 3,213.8, up by 3.0% compared to the previous month. The categories which increased the most were: milk, cheese, and eggs, up by 7.6%, while fruits and vegetables were up by 4.8%. So far this year, according to Cenda, food prices have increased by 29.0%.

Twice as expensive. While the Cenda food basket was at VEB 3,213.8 in October, the National Institute for Statistics (INE) states that its normative food basket was at VEB 1,668, in other words, 92.6% cheaper. The INE food basket cost increased by 2.0% compared to the previous month and according to the INE it has increased in price by 21.7% so far this year. The categories that increased the most were: rice, precooked flour, beef, and milk which was up 7.7%.

Less purchasing power. The association’s report also points out that a with a single minimum wage salary is only able to cover 48.2% of what a family of five needs



during a month, while a minimum wage salary only covers 92.8% of the INE normative food basket.

Interest rates. The lending rate for the first week in November was at 18.3%, increasing by 0.2 percentage points compared to the previous week. The time deposit rate remained reach 14.5%, while the passive rate has not experienced any significant variation since January 2010, placing well at 12.6%.

International reserves. International reserves decreased 0.2% going from US\$29,302 million during the fourth week of October to US\$29,234 million during the first week of November. Compared to the same period last year, international reserves have decreased by 0.4%.

Monetary liquidity. Monetary liquidity in first week in November increased 0.2 % compared to the previous week settling at VEB 375,390 million. The M2 has increased 31.8% year-on-year.

Sitme figures. So far this year, US\$7,356 million have been negotiated through the System for Foreign Currency Transactions (Sitme), averaging US\$35.2 million a day, with an implicit exchange rate of 5.3 VEB/US\$. During the second week of November the amount traded reached US\$198.6 million, US2.0 million less than last week when US\$200.6 million were traded.

Oil Tips

Pdvsa will receive cash from BCV for the equivalent of US\$564 million. Petróleos de Venezuela continues receiving financial support from the BCV, not only by exchanging securities from the oil company, but also providing cash for its operations. Pdvsa announced yesterday the issue of bonds for US\$2.4 billion, with maturity in 2021, in a private operation with the BCV.

Petróleos de Venezuela paid the CVG debt. The Oil Industry not only takes care of the plans of the Administration, it also covers the requirements of State Owned companies. In the 1Q-2011, part of the debt of the Corporación Venezolana de Guayana was assumed by Petróleos de Venezuela (Pdvsa). A report in which Rafael Ramírez, Ministry of Energy and Oil, requests President Hugo Chávez Frías to



authorize the use of resources that are in collection accounts of the Funds with China, mentions the loan granted to one of the basic companies.

25,400 barrels of crude oil are added to total production. Pdvsa Ayacucho division added 25,400 barrels per day (b/d) of extra-heavy crude oil to the production quota of the Orinoco Oil Belt (FPO), which represents 80.0% of the established goal of 36,500 b/d, by the end of 2011.

PDVSA starts drilling cluster 10 of the Orinoco Oil Belt. As part of the Tricolor Plan that is under way in the Orinoco Oil Belt (FPO), south of the States of Monagas and Anzoátegui, Petróleos de Venezuela (Pdvsa) Petromonagas started drilling in cluster 10, which contemplates the operation of 30 horizontal wells. This program plans the extraction of 40,000 barrels per day (kb/d) of extra heavy crude oil, so that 120 kb/d should be produced by 2011 and 140 (kb/d) for 2012, according to a note from the State owned oil company.

...To this end, 4 last generation rigs were installed, which will be used to drill simultaneously 30 horizontal wells; pipelines for oil and diluents are being built to transport the heavy crude oil from the Faja, to optimize the work in the Centro Operativo Petromonagas (Copem), Carabobo Division. Also, the state owned company implemented an emergency response plan to guarantee the safety of the workers in the clusters.

Pdvsa will pay the debt with public employees. Petróleos de Venezuela (Pdvsa) will assume the fiscal burden of paying the debt accumulated with former public administration employees. Last Thursday, when President Hugo Chávez made labor related announcements, he appointed Rafael Ramírez, Minister of Energy and Oil, to work on the scheme to finance these liabilities.

Government puts pressure on Pdvsa to cover the “misiones” and payments. On January 11, President Hugo Chávez received a request for resources from one of his ministers, and said immediately: *"I will get it for you; call Rafael Ramírez (President of Pdvsa) and through that I can get a lot"*. This has remained true throughout the year, since the Head of State has pressured the oil company to increase the amounts assigned to Fonden, to finance more “misiones”, and now pay for labor liabilities.

China's crude oil demands and low production reduce shipments to the US. The increasing crude oil supply commitments made by the administration of President Hugo Chávez with China are reducing the amounts that are traditionally sent to the United States.



Pdvsa didn't make payments to the treasury due to pressures from the Chinese Fund. The fiscal and financial policy for the productive investments of the Administration, based on the strong dependence on resources that Pdvsa can provide, has increased pressures on the oil company, to the point that it already has difficulties financing its own oil production activity, and to meet its fiscal obligations with the Treasury.

BCV provided assistance to Pdvsa for VEB 58.4 billion. Even though the average price of oil is US\$ 99 for the year, the flow of income is not enough for the oil company, which had to look for financial assistance in official entities. The monetary base figures of the Central Bank of Venezuela reveal that on October 21st the institute financed the oil company with VEB 58.4 billion (US\$13.5 billion).

Petrorinoco will activate the Public Stock Market, besides other options. A new instrument created by President Chávez, Petrorinoco will be *"a document certified by the Republic, and its real value will be backed by the largest oil reserves of the world, located in the Orinoco Oil Belt"*. Chávez explained that *"those who get these papers will have several investment options; they can be changed for cash when they are sold in the stock exchange, and for that we already have the Public Stock Exchange."*

IEA cuts back crude oil demand provisions for 2011 and 2012. Global oil demands for 2011 and 2012 will be lower than expected since the economic slowdown and high prices limit consumption, as stated yesterday by the International Energy Agency (IEA).

International oil baskets. At closing time on November 11th in the New York Stock Exchange, the price of the WTI was US\$96.0/bl, a 3.2% increase compared to the US\$93.1 reported the previous week. The Brent increased by 3.3% to reach US\$113.5 /bl, compared to the previous week's US\$109.8/bl.

Local oil basket price. The Venezuelan oil basket price increased last week, closing at US\$109.4/bl on Friday November 11th, a 2.7% increase compared to the US\$106.5/bl of the previous week. The annual average price of the Venezuelan oil basket is US\$100.2/bl.





Business Sector Tips

Mortgage titles return. The system of titles from the mortgage portfolio, that is, the issue of long term financial papers guaranteed by the mortgage portfolio of the institutions, which like mortgage titles are important savings products, to obtain financing for real estate developments, returns given the ambitious housing plans of the Government. The authorities of the National Bank for Housing and Habitat reactivated the meetings with representatives of the public and private banks, to start issuing mortgage titles in the financial market, in order to capture fresh resources.

In 12 months, the price of construction products increased 16%. Data from the Central Bank of Venezuela (BCV) regarding the price index of construction products reveal that their costs increased 16.3% in the last 12 months. The items with the highest increases were plumbing materials, steel products (rods, netting, and others), asphalt products and paints.

Sugar price will increase, but not that of corn. Juan Carlos Loyo, Minister of Agriculture, informed that the next item that will have a price increase will be sugar, but they are evaluating the impact this will have on consumers. He said that no other increases are expected for corn producers. He said that the Law of Fair Costs and Prices will even regulate the price of the coffee that is sold in stores.

Agreement to buy shares from minority shareholders of EDC. The Extraordinary Shareholders Assembly of the Electricidad de Caracas (EDC) approved on November 8 the acquisition of the shares of its minority shareholders. Pedro Arnaldo Poleo, representative of small shareholders, informed that the directors of the National Electric Corporation (Corporación Eléctrica Nacional - Corpoelec) who led the meeting, proposed a payment of VEB 52 per share.

60% of the coffee crop was placed at the old price. The 60.6% adjustment in the price of coffee is the highest ever authorized by the Government for that item, but according to the sector it is extemporaneous, doesn't cover production costs, and doesn't benefit producers.

Banking association appoints a new President. Arístides Maza Tirado, President of Banco Caroní, was elected as the new President of the Venezuelan Banking Association (ABV), after Juan Carlos Escotet presented his resignation to that post on Tuesday. He will finish the period that ends in March 2012.



Venezuela has worsened in its capacity to do business. According to the 2012 Doing Business Report of the World Bank, Venezuela has had a drop in its facilities to do business. Out of 183 economies studied in the world, Venezuela is in place 177, based on data obtained until June of this year, that is, only five steps away from becoming the nation with the greatest difficulties to do business in the planet.

Cadivi authorized 9% more than in 2010 for the shoe and arts sector. The Foreign Currency Administration Commission (Comisión de Administración de Divisas - Cadivi) authorized US\$566.9 million for imports in the shoe, paper, and graphic arts sector. The information was provided after a meeting between Cadivi officials and representatives of the companies affiliated to the chambers that represent the shoe, paper and graphic arts sectors.

The number of internet subscribers continues to rise. During 3Q-2011 there was an increase of 20.3% in the number of subscribers, compared to the same period in 2010, according to figures released by the National Telecommunications Commission (Comisión Nacional de Telecomunicaciones - Conatel). It is estimated that by the end of 3Q-2011 there were 10,830,000 internet users nationwide, or 37 users per 100 inhabitants.

...Conatel also informs that in the last year, 231,000 subscribers have been added to the fixed telephony service, for a total of 7.28 million subscribers, a variation of 3.3%, mainly driven by wireless technology.

...Regarding mobile telephony subscribers using the system, there is a reduction of 3.2% with respect to the 3rd quarter of 2010 for a total of 26.98 million subscribers. Official figures estimate that there are 93 mobile telephone lines using the system per 100 inhabitants.

...And investments in this sector continue to rise. Conatel states that during 3Q-2011 there were investments for VEB 946.66 billion, an increase of 21.7% with respect to the same period in 2010.

Food sales recovered in October. The monthly survey of the Venezuelan Chamber of the Food Industry (Cámara Venezolana de la Industria de Alimentos - Cavidea) "Tendencias", reported an increase of 1.5 percent points in the sales of regulated products in October 2011 compared to the previous month. The study, which measures the tons sold of 19 basic products revealed that between October 2011 and the same month in 2010, the behavior of supply was favorable in 10 products: pre-cooked corn flour, wheat flour, oatmeal, chicken, eggs, tuna, mayonnaise, sugar and, ketchup. There was a 4.4% increase in the sale of powdered milk, compared to September, when it fell 6.6%.



...According to the study by Cavidea, in the last month there was a drop of 34.2% in the sale of cooking oil, a product that has not been found regularly in stores in the last few months. Also the sale of pasteurized milk fell 9.2%; sardines 9.0%; pasta 7.8%; margarine 5.6%; rice 4.8% and a slight drop of 0.7% in the sale of cold cuts.

Venezuela maintains a favorable balance in its trade with the US. Trade exchanges between Venezuela and the United States closed in September with a positive balance for Venezuela of US\$24.649 billion, compared to the same period in 2010. This amount is an increase of 42.4% with respect to the previous year, according to a press note of the Venezuelan-American Chamber of Commerce and Industry (Cámara Venezolana Americana de Comercio e Industria -Venamcham).

World Economy Tips

“Super Commission” of the U.S. on the path to agree on the debt. The so-called Congressional “*super commission*” to reduce the US deficit is at a difficult point of negotiation, but some legislators said on Sunday November 13, that they don’t rule out reaching an agreement before the due date of November 23.

The task of the commission is to find at least US\$1.2 billion in budget savings for 10 years, although given the imminent due date of November 23, republicans and democrats have not yet reached an agreement. *“Time is running out, but it isn’t over yet. We still have time, but not to waste”*, said Republican Senator Patrick Toomey.

U.S. and China argue about the economy at the APEC Summit. Barack Obama, President of the United States, and his Chinese counterpart, Hu Jintao, presented diverging trade agendas during the Summit of Asia Pacific Countries (APEC), highlighting the increasing tensions between the two largest economies of the world. Hu and Obama presented opposing approaches during their speeches on Saturday, in Hawaii, place of the Summit, where the Democrat President warned his Chinese counterpart in private, that the Americans are becoming increasingly frustrated with what they consider unfair practices by Beijing, with respect to trade and exchange rates.

U.S. threatens China! Obama used his speech before Executive Presidents at the APEC forum to threaten China with economic sanctions, if they don’t start *“playing*



according to the rules”, in an attempt to reaffirm the influence of the country in a region that is vital for Washington’s interests.

Asian stock markets rise after shows of stability in European policy. Stock markets in Asia increased on Monday November 14, and the Euro was strengthened with hopes that the new leaders of Italy and Greece will adopt firm actions to save their nations from bankruptcy and avoid the greatest financial collapse in the Euro Zone.

As a result... Raw materials strengthened, which suggests an increase in the appetite for risk. *“It is good that Italy and Greece avoided a political vacuum, But we have to see whether the national unity governments will work”*, said Katsunori Kitakura, head operator of Chuo Mitsui Trust Bank in Tokyo.

Europe is facing the strongest crisis since the post war period. The sovereign debt crisis of the Euro Zone has placed the region in its most difficult situation since the end of the Second World War, said Angela Merkel, German Foreign Affairs Minister, on November 14, and said in a speech before her conservative Christian Democratic Party that she fears that if the Euro fails, Europe will fail, and promised to do everything possible to prevent this from happening.

Andean countries facilitate trans-border trade. The countries from the Andean Community of Nations (Comunidad Andina de Naciones - CAN), Peru, Ecuador, Colombia and Bolivia, will have ready on November 24 of this year, a work plan to facilitate trade through ground transportation across borders, said the minister of Foreign Trade and Tourism of Peru (Mincetur). *“On November 24 the work group will meet to present their first results with a plan, and the sectors or areas where will be facilitated in customs and transportation”* said the Andean agency.

Brazil: inflation drops at the end of 2011. Economists reduced slightly their forecasts for Brazil’s reference inflation index for this year, from 6.5%, to 6.48% according to a weekly survey by the Central Bank of that country published on November 14. Experts expect an economic growth of 3.16% for this year, slightly lower than the 3.20% of the prior week’s survey.

Argentina relaxes the availability of dollars. The Central Bank of Argentina agreed last November 11 to relax the minimum requirements for banks regarding deposits in dollars, a sign that there will be a greater availability of foreign currency for the entities that are losing their foreign currency provisions. A source from the entity said that the rule approved by the Board of Directors presumes that banks *“will be able to use the dollars that are over the 20% of the mandatory legal reserve, and that are not on loan”*. The rule implies that once the mandatory 20% reserve has been



discounted, everything that is given to exporters as credits may be kept by the banks to face the possible requirements of their clients.

Peru is a strong and reliable destination for investments. The Minister of Foreign Affairs of Peru, Rafael Roncagliolo, said on Monday, November 14 that the members of the APEC forum perceive Peru as a firm and safe destination for investments. *“The image of Peru, both among APEC statesmen and businessmen, is that of a firm and solid country”*, said Roncagliolo. He said that the interest in Peru as a safe place to invest and as a good trade partner is growing, with its ratification as the *“gateway”* for Asia towards all of South America.

Political Tips

Five visions of country were presented at the Catholic University (UCAB). It wasn't strictly speaking a debate or a confrontation. It was a sequence of questions made to five presidential aspirants who represent new alternatives for a highly politicized population that is eager for hopes. An hour and a half of a forward-looking vision of country, just after two hours and a half of a national TV and radio broadcast that maintained in suspense an audience of hundreds of thousands who believed that they were going to miss the opportunity offered by the initiative of the university students.

Runners for the primary election, Diego Arria (Independent), Henrique Capriles Radonski (PJ), Pablo Pérez (UNT), María Corina Machado (Independent) and Leopoldo López, presented on TV their views on issues such as personal security, employment and education. The format of the debate allowed a couple of minutes for the initial presentation and the final statement of each participant. All of them had brilliant moments. Capriles and Pérez appeared as the most consistent speakers throughout the program, followed by López.

As to the proposals, they were presented as follows: Diego Arria, the first one to take the floor, said that he wanted to become President because he knows the consequences of fear for a country and how to reinstate peace in three years.

Henrique Capriles, in turn, said that he was a *“Venezuelan public servant,”* that he has gained all the posts he has occupied thanks to the people's vote. *“I expect that I*



will be the best President for everybody” and offered “access to education, health and decent jobs.”

Pablo Pérez said he was “a Venezuelan that worries and has things done.” “I want to give Venezuela more than what it has given me” and he expects to create 1,136,000 new jobs.

María Corina Machado, in turn, said she wishes to “unify a country that is profoundly divided into those who have and those who don’t have money.” She spoke about her determination to defeat Hugo Chávez.

And finally, Leopoldo López stated that he as a Venezuelan was convinced that “the country is about to change.”

Penalty against López must be compulsory. The president of the Supreme Tribunal of Justice (TSJ), judge Luisa Estella Morales, reiterated in an interview on Venezolana de Televisión (VTVI) on Monday that the Judicial Branch of Power cannot lift the administrative sanction against Leopoldo López, former mayor of the Chacao municipality and aspirant to become presidential candidate.

The CNE is only charging 25% of the costs of an election. Vicente Díaz, member of the board of the National Electoral Council, remembered that the Council has to charge the political candidates, regardless of the party they represent, 25% (or 22 tax units per voting table) of the operational cost of an election in order to pay services that have to be outsourced. However, Díaz clarified that this money never gets the CNE, but it goes directly to the national treasury as mandated by the Constitution, because it isn’t part of the budget allocated every year to the CNE.

Chávez enacted the Rent Law. President Hugo Chávez enacted the decree-law for the Regularization and Control of Home Rents, better known as the Rent Law, which was passed by the National Assembly this week. Chávez assured that “this law isn’t based on hatred and revenge” and that it’s intended to protect tenants and small lessors.

Chávez announces the creation of the National Socialist Real Estate Firm. Last Saturday, President Chávez signed the decree for the creation of the National Real Estate Company that will depend on the National Housing High Entity. The main object of the company will be the real estate activity, purchase, alienation, renting, and allocation of homes.

President Hugo Chávez announced on November 10th that he will reform the Organic Labor Law (LOT) so as to reinstate “retroactivity” of social benefit payment;



he also pointed out that he is analyzing the creation of a bond backed by PDVSA developments on the Orinoco Oil Belt, which will be known as PetroOrinoco bond. This bond is intended to pay debts to former workers of the public sector, which correspond to the current regime.

For this purpose, a presidential commission will be appointed. President Hugo Chávez announced the creation of a new commission that will join the discussions to speed up the preparation of a new Labor Organic Law. *“Last night I spoke to Nicolás (Maduro, Foreign Minister), to Elías (Jaua, Vice President) and labor leaders, to create this week through a decree a presidential commission for the discussion and preparation of the new Labor Law,”* the President stated.

Chávez is sure that he will be reelected with 70% of the votes. *“I’m not counting my chickens before they hatch; but we are going to win,”* President Chávez assured last Saturday, after saying that he was reelected in October 2012 with 70% of the votes. From the National Theater, Chávez claimed that his political adversaries won’t recognize the victory of the Chavismo, even though he gets 90% of the votes, because *“they’re already saying that there will be fraud.”*

They’re killing each other. According to Hugo Chávez, the first debate among opposition candidates, which took place last November 14th, was an attempt to hide divisions. *“They’re killing each other; they’re trying to hide behind a mask of unity; they say that they are united; but they are nothing but a guarantee of disaster.”*

Chávez expresses his sympathy for death of Mexico’s Minister. President Hugo Chávez expressed his *“deepest sadness”* for the helicopter accident in which Mexico’s Government Secretary, Francisco Blake, and other seven people, died, according to a statement by the Ministry of Foreign Relations.

Hinterlaces reports that at least 6 out of every 10 Venezuelans disapproves of the Administration’s management. Oscar Schemel, Hinterlaces president, reported that Hugo Chávez’ Administration is perceived as more positive. Schemel pointed out that *“when people are asked about the problems in the country, they answer rationally; however, when they are asked about President Chávez, they answer emotionally.”* *“Despite discontent, President Chávez today represents hope for broad sectors of the population,”* Schemel added. According to the same poll, the opposition is channeling discontent.

“Between 6 and 7 out of every 10 Venezuelans disapproves of the Administration performance in terms of personal security, employment, high cost of living and corruption. Schemel stated that *“49% believes that the country needs to take a new route.”*



“97% of Venezuelans are proud of being Venezuelans”. In an interview with Noticias24 Radio, Jesse Chacón, president of Fundación GIS XXI, talked about the results of the study Sociology of Taste and explained the details on this topic. With respect to early pregnancy and gay couples, Chacón claimed that these topics are still “taboo” and that “*the Venezuelan society is still too conservative, although not as much as others in Latin America.*” If these topics are taken to public and private media, we would approach Venezuelans to topics that are related to civil rights, he pointed out. “*This 71% is added to 26% (...); that is, 97% of interviewed are proud of being Venezuelan,*” Chacón pointed out.

“We ratify the desire of the population”. “*We want to erase the roots of speculation and unhealthy schemes for the national economy; therefore, the revolutionary government ratifies a desire of the population to have fair prices. Hence the entering into force of the Law of Fair Costs and Prices on November 22nd,*” Vice President for the productive economic Area, Ricardo Menéndez, said.

Unasur Summit is closer than ever before. Venezuela will host the special summit of the Union of South American Nations (Unasur) to be held on December 3rd, María Emma Mejía, Unasur Secretary General, announced last Friday. “*The Special Summit of Unasur has been convened by president Hugo Chávez and it will be held in Caracas on December 3rd within the framework of the summit of the Community of Latin American and Caribbean States (Celac),*” Mejía stated according to a news report by AFP.

Relations between China and Venezuela promote development of both countries. Relations between the People’s Republic of China and Venezuela make it possible to promote the economic and social development of both nations in the areas of technology, agriculture and home construction, the Ambassador of China to Venezuela, Zhao Rongxian, expressed recently.

Rousseff will come in December. According to Antonio Patriota, Brazil’s Minister of Foreign Relations, who recently paid an official visit to Caracas, the series of trips will begin on November 28th and 29th, when Rousseff will speak at the summit of the Union of South American Nations (Unasur) in Asunción, Paraguay. Then, the Brazilian president will take part at the Summit of Latin American and Caribbean Nations (CELAC) to be held in Margarita on December 3rd and 4th.





Legislative Tips

The Rent Law is ready! At the plenary session held on November 10th, after reading the final report which explains all changes introduced to the indicial draft law during the two-month long discussions, the National Assembly passed the new Law on Regularization and Control of Home Rents. The Law was enacted on November 12th by President Hugo Chávez.

The British government and the AN are working on environment issues. Members of the Permanent Commission on Environment Issues, Natural Resources and Climate Change of the AN held a meeting with the British Ambassador, Catherine Nettleton, to prepare a common agenda on environment issues with Venezuela. The Ambassador said that the legal work that has been developed by the AN is very interesting for the United Kingdom and stressed that she wants to know the legislative advances made and how they have been achieved.

The draft Communication Law was approved. The NA approved the Draft Law on Communication for the People's Power at its first discussion on November 10th. The draft law proposes to regulate the operation of community and alternative media, define factors such as the participation of these media in the distribution of the radio spectrum, allocate media plans by government entities and create a financing fund, among other things. According to the law creation process, the draft law will now be submitted to public consultation with the interested sectors, through the Commission on Media and People's Power of the AN.

The financing fund, provided for in the draft law and intended to finance community and alternative media, will be fed with contributions and special donations from individuals or legal persons, special contributions from profits obtained by the public banking system and state-owned companies, and a percentage of profits obtained by legal persons engaged in advertising, and telecommunications service providers. However, the initial postulates of the law may be modified during the discussions at the AN.

Biagio Pillieri: "This law renders community media weaker." Representative (PSUV) Darío Vivas, in turn, stated that *"this draft law doesn't exclude anybody, not even the Right."* Opposition representative, Biagio Pillieri (Convergencia-Yaracuy), questioned the document and stated that *"this law renders community media weaker;*



it doesn't allow them to be independent and transforms them into government's appendices."

Law of Socialist Workers' Councils was proposed. The Draft Special Law of Socialist Workers' Councils was presented for discussion to the members of the Permanent Commission on Comprehensive Social Development in Wednesday, November 9th. Representative Oscar Figuera stated that this law will help advance the process to create workers' councils and workers' control at work centers.

AN rejects William Brownfield's statement. At its November 10th meeting, the AN rejected statements made by William Brownfield, US Assistant Secretary of State for the Bureau of International Narcotics and Law Enforcement Affairs, who stated that drug trafficking through Venezuela has explosively grown over recent years and "*collaboration in fight against drug trafficking has been very scarce.*" The AN considers that this statement is a new attempt against sovereignty and the principle of people's self-determination.

LOCTI (Law on Science, Technology and Innovation) Regulations if finally published. After a long wait, the Regulations were published in the *Official Gazette* N° 39,795. These regulations deal with contributions, financing, and ethics in research, technology and innovation. According to the legal text, which supplements December 2010 LOCTI, the National Fund for Science, Technology and Innovation (Fonacit) will grant financing for plans and projects oriented toward strengthening activities associated with science, technology and innovation within the legal framework and the National Plan for Social and Economic Development.

Article 26 provides for that "*in every case of financing for projects, plans, programs, or activities, the national authority with competence concerning science, technology, innovation and the applications thereof, through Fonacit, will participate in the benefits derived from the commercialization of the results of said projects, plans, programs or activities, regardless of the fact that they are or not protected by intellectual property rights.*"





ECONOMIC OVERVIEW

