



Weekly Report

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***Venezuela's "China fever":
What are we learning from the Asian
giant regarding telecommunications?***

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Since diplomatic relations were established in 1974 and until 1998, international relations between Venezuela and the People's Republic of China were minimal in all areas. Trade exchanges between both countries reached US\$ 26 million in 1998. It seemed as if in the geopolitical context of that time, the Asian giant wasn't thinking about including Venezuela in its global growth plans, nor was Venezuela, as one of the largest net oil exporters of the world seeing China as a potential market.

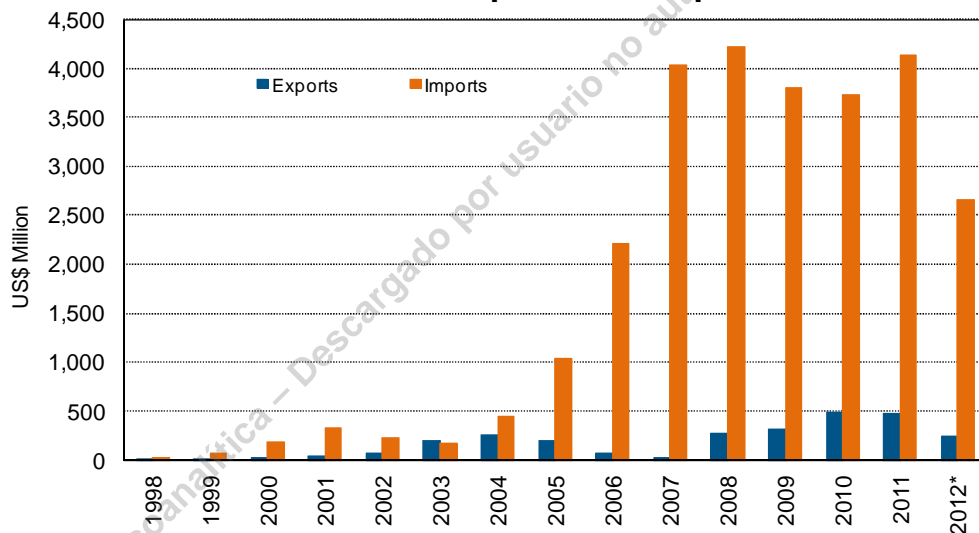
Fourteen years later, things are different, given the wide range of sectors in which Chinese-Venezuelan cooperation has been established, and the great variety of opportunities that exist in this dynamic bi-national relation. This report will evaluate the impact of the China-Venezuela relations in the communications sector, the GDP activity that has grown the most in the last years, and where the presence of Chinese technology has been significant. Later, we will deal with other sectors like hydrocarbons and construction.



The fever starts

The Relations with China have increased to unprecedented levels since the arrival of President Chávez. In 2011, Venezuelan non-oil exports to China reached US\$ 475.93 million, while Chinese imports to the country amounted to US\$ 4.13 billion. The present government, trying to separate from the so-called “western powers”, has signed more than 300 bilateral agreements with China, from the production of cell phones and the construction of housing units, to oil refining and bilateral financing, with the famous China-Venezuela funds.

Non-oil related exports and imports to China



*Available figures up to Jun-12
Sources: INE and Ecoanalítica

What does Venezuela represent for China?

Venezuela is China’s fifth largest supplier of hydrocarbons and its by-products, receiving around 640,000 barrels of oil and its derivatives per day thanks to the bilateral agreements signed between both countries. The Asian giant has seen in Venezuela the possibility of securing an oil supply, and with the influence that Venezuela has amassed in Latin America and the Caribbean, it has the opportunity of establishing itself as an undisputed trade power, which would explain the dynamism of the relations between both countries since the latter entered into power. However, China’s interests apparently don’t go beyond trade, in contrast with Venezuela’s interests, which openly supports regimes such as the one in Cuba and has tried to drag China into its conflicts against Washington.

In its aim to guarantee long-term oil supplies, China is acting as Venezuela’s lender in the cooperation and financing agreements known as



the “Chinese Funds” that we have analyzed in previous reports. Commercially, Venezuela is positioned as China’s 5th most important trade partner in Latin America with sales for US\$ 4.13 billion at the end of 2011.

The Chinese are worried about our economic performance...

Likewise, around 70% of China’s total investments in Latin America and the Caribbean are in Venezuela, mainly in the oil, construction, and telecommunications sectors. Thus, Venezuela has become an important partner for China’s economy, and that is why relations have gone beyond the barrier of cooperation and the reason for Venezuela to improve its economic situation, a topic that has been discussed at the latest bi-national meetings, where fiscal and exchange matters have been the main concern.

Ecoanalítica believes that as Chinese investments increase in the country, the Chinese will be more reserved regarding the ideological whims of Chávez’s government in the economic arena, particularly if they compromise the effectiveness and performance of the Chinese *capital* invested in the country.

What does China represent for Venezuela?

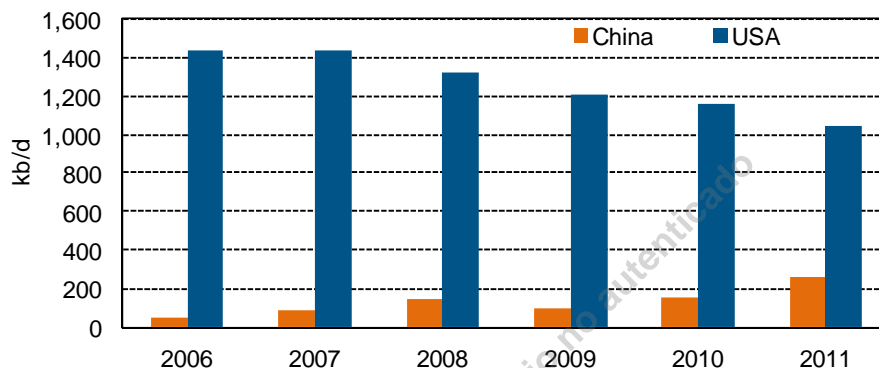
According to the National Institute of Statistics (Instituto Nacional de Estadísticas -INE), by June 2012, Venezuela had imported US\$2.65 billion from the Asian country (latest figures available), an increase of 43.6% compared to the US\$1.85 billion recorded during the same period in 2011. At the end of 2011, Chinese imports represented 11.8% of the country’s total imports. It isn’t surprising that Venezuela is part of the global “Chinese Fever” phenomenon.

The government of President Chávez sees in China the possibility of separating from its traditional oil market, the United States. According to Minister Rafael Ramírez, Venezuela presently exports 640,000 barrels of oil to China, while exports to the United States have been on average 866,000 barrels during the first five months of the year.





Crude oil shipments to China Vs. Oil shipments to the USA



Sources: Pdvsa and Ecoanalítica

The government is taking it one step forward...

Two years ago, we published in one of our Weekly Reports that these cooperation and financing agreements have positive effects for both countries, but China is still the winning part. At **Ecoanalítica**, we keep our position on the following aspects:

1. China would assure long-term oil shipments from the country with the world' second largest oil reserves.
2. Through the cooperation projects in the different areas, Chinese companies would assure a durable link with Venezuela, like US firms did during the first half of last century. This is a plus, considering China's predominance in the current global economic context.
3. The fact that this is a long-term agreement entails bonds between governments and States that go beyond Chávez' staying in power.
4. Venezuela is assuring an outstanding oil buyer in the long term. It's worth remembering that China has been the engine behind crude oil demand growth over the past two years.
5. The Administration, in difficult times like the one the economy is going through, is assuring discretionary resources for at least US\$6.0 billion. This without including US\$14.0 billion that could be earmarked for strategic projects.



6. For Pdvsa, good relations with China would also guarantee this country's presence in the Orinoco Oil Belt, which is vital for expanding oil production and, therefore, the flow of foreign currency entering the economy.

The Chinese communications Boom

There are two large mobile telephone companies in China: Huawei Technologies and ZTE Corporation.

Huawei, with private Chinese capital, is the largest telecommunications company in de China, and the second telecommunications infrastructure supplier in the world. This company entered the Venezuelan market in 2007 as a contractor for the Venezuelan State, and supplier of low cost mobile and fixed telephones for CANTV and Movilnet.

ZTE is a Chinese state-owned company. It is Huawei's main competitor in the Chinese market, and the fifth largest supplier of telecommunications infrastructure in the world. It is also the supplier of telecommunications public companies. It must be noted that both companies are contractors of the government of President Chávez.

Orinoquia and Vtelca: The State experience

In 2009, the Vtelca factory was inaugurated in Falcón with a 15% share ownership for ZTE, and 85% for the Venezuelan State, to produce the infamous ZTE 366 "Vergatario I". According to unconfirmed official figures, between 2009 and 2011 more than 1.2 million of these cellphones have been produced, which according to President Chávez, represent "*a technological success of the revolution, since from its inauguration, we have not received any returns due to poor quality*". However, it is evident that the lack of returns doesn't necessarily imply that the quality is excellent, because the fact is that their low cost makes them easily replaceable. On the other hand, the Report and Accounts of the Ministry of Science, Technology and Intermediate Industries, stated that only 24% of Vtelca's estimated production goal for 2010 was met (2,506,300 units).

On the other hand, Huawei inaugurated the "Orinoquia Electronic Industry" provisionally at La Carlota Air Base in May 2010, with a 35% share of the US\$25 million investment. The purpose of Orinoquia is to supply the national cell phone market, and has export plans to ALBA member states and the rest of Latin America and the Caribbean in the future.

Much ado about nothing...

This national cell phone production seems to be a move forward for the industry with the greatest growth in the country. By January 2011, the government stated that the production in that plant had increased



significantly, going from 150,000 phones in 2010 to 796,000 in 2011, with an estimated production of 1,500,000 cell phones by the end of this year. However, Ricardo Menéndez, Vice-President for the Productive Economic Area, said in May, three months later, that the production in 2010 had been 125,000 devices, in 2011 800,000 and the estimate for 2012 was 1,200,000 cell phones, so that the goals appear to have been lowered.

Vtelca's balance, established in the Reports and Accounts of the Ministry of Science, Technology and Intermediate Industries, wasn't encouraging either. The company only received VEB 125 million for the sale of 618,000 "Vergatarios", and 98% of it was allotted to personnel expenses, supplies and "non-personal services".

The model must be re-designed...

The lack of official figures to evaluate the performance of cell phone production companies in the country is concerning, since they have been operating for almost three years. This is even more concerning when the Administration states that the government is investing between 2% and 3% of the domestic GDP in science and technology. On the other hand, the fact that none of the production is exported eliminates any possible foreign currency returns for the State from this production.

Considering the resources placed on Vtelca and Orinoquia as an investment to reduce the dependence of this sector from imports, **Ecoanalítica** believes that allowing private companies access to an efficient and sustainable national production, could in the long term lead to an effective reduction of foreign currency demands of this sector, and reduce the weight of this sector with a significant growth in the future, on the exchange apparatus.

"Developed in China"

During the last 40 years, the Chinese economy has been the "factory of the world". The development policies implemented by China in the 70's captured the investment of countless foreign companies, which established a significant part of their productive chain in the Asian country, benefitting from relatively low costs, and exporting their products throughout the world, while the Chinese State reserved some "strategic" sectors to produce in an inefficient and non-competitive manner.

Having conquered the peak of mass production worldwide, China now wants to see that what leaves China is not only "Made in China" but also created and developed there. This concept, known as Research and Development is becoming increasingly important for China. In 2011, it became the second country with the largest investment in Research and



Development, with US\$186.5 billion, only behind the United States. Although most of these funds come from the Central Government, the weight of the Chinese private sector in this area has increased at a rapid pace, opening up important opportunities for foreign companies, particularly from developing countries.

A Silicon Valley in China

This is not the only action of the Chinese government to guarantee its future in this area for the long term. The Chinese government's five-year Plan 2011-2015 includes the creation of 22 latest generation urban centers for Research and Development, in areas where China already has significant comparative advantages, like textiles and telecommunications. This is in line with the so-called "clusters"¹ present in international economic theory. In other words, China will try to reproduce 22 versions of the famous Silicon Valley in California, USA, but for 10 or more different sectors. For example, in the city of Shenzhen, a production and technological innovation cluster in telephony within its Special Economic Zone, and in Shaoxing, a production and distribution cluster for the Chinese textile industry.

Neither producing nor innovating, but importing

Venezuela, like most of Latin America and the Caribbean, is insignificant in R&D. However, there are some sectors in which some countries in the region are leaders in R&D, like Brazil and Argentina in genetics and microbiology. It is important to note that in 2011, the Brazilian government signed an agreement with Huawei to open the first R&D center of the region, and another with ZTE to build a cell phone factory, both in São Paulo, the country's economic center.

Ecoanalítica considers that the Venezuelan government could take advantage of the quality of its relations with China and its telecommunication companies, to move away from the paradigm of producing cell phones with foreign materials, technology and infrastructure (generating little added value in the process), and enter the Research and Development business in the telecommunications sector, taking into account private initiatives, one of the sectors with more drive worldwide.

¹ According to Michael Porter, Harvard Business School professor and father of the present entrepreneurial strategy, a "cluster" is a group of companies related to the same sector, located in the same geographical area or region. For example, the Silicon Valley technological cluster, in California



What should we take into account?

Ecoanalítica has identified some of the key elements to consider in the China-Venezuela relations in the telecommunications sector for the future:

- The growing foreign economies of scale that China has in the telecommunications sector are not being used to produce innovation and added value in Venezuela.
 - o There is a significant growth potential, beyond the production of low range devices to meet the national demand.
- There are no signs that the possibility of exporting telephones assembled in the country is being evaluated.
- The purchase of parts and freights may require greater amounts of foreign currency, compared to just importing the devices, causing more pressure on the present exchange rate scheme.
- The government is limited to implementing projects with more symbolic than economic value in telecommunications.

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Economic Tips

Wanting to do something doesn't mean you are able to do it. Economist Pedro Palma said that one thing is to "want to do something," and another is to "be able to" maintain the exchange rate at VEB 4.3/US\$. In this sense, Palma said that the exchange rate adjustment cannot be postponed, given the high pressures on the Bolivar, which has been "exaggeratedly" overvalued.

Oil will rule our destiny. The exchange rate could be adjusted between VEB 6.3/US\$ and VEB 7.5/US\$, depending on the price of the barrel of oil, said economist Pedro Palma. If the price of oil remains over US\$100/bl the adjustment will be lower (to VEB 6.3/US\$), but if it drops to US\$80/bl, the exchange rate could reach VEB 7.50/US\$.

Changes in demand. Palma said that an exchange rate adjustment will have an effect on demand, "the rise in the price of the foreign currency could lead to a drop in imports". The increase in the price of imports would have a cascade effect, and if the exchange rate adjustment occurs, a drop in the demand of products is also expected.

The economy is still private. Economist José Luis Saboin said that despite the adversities entrepreneurs face, the private sector still generates 65% of the added value of the country's economy, while the public sector generates only 34%, according to BCV figures. "The government has lagged behind in finding ways to drive its production model forward (...) it has devoted itself to make its products and services grow, and to have a private sector that is still there, and has grown in areas like trade, banks, and communications", said Saboin.

The chosen. Despite the expected slowdown of the economy, which could grow only 2% in 2013, the possibility of greater restrictions, and a greater impulse to communal economy, some sectors are expected to have a good 2013, said economist José Luis Saboin. The "chosen" sectors would be hydrocarbons, construction, trade, and banking, which are expected to imprint some dynamism to the ailing economy during 2013.

Use all the advantages available. According to economist José Luis Saboin, the government's delay in installing its production model is a factor that the private sector must use to work and keep its command of the domestic economy. Saboin considers that 2013 will present greater challenges for the Administration, not for



entrepreneurs, as long as the latter take their workers into account, and create alliances with the National Superintendence of Costs, to reconcile cost structures.

It is worse not to devalue the Bolívar. Given the delays and reductions in the liquidation of foreign currency, the scarcity of currency at the BCV, and of bonds from Sitme, economist Asdrúbal Oliveros says that the devaluation of the bolivar cannot be delayed. According to Oliveros *“the devaluation has a cost for the people, but not doing it means that goods and services will be unavailable”*. The economist also states that if the currency is not devaluated, the government’s spending would lose its multiplying effect.

How will the adjustment occur? The base scenario is that the government takes the Cadivi exchange rate to VEB 6.30/US\$, and Sitme to VEB 7.5/US\$ says Oliveros. If Cadivi is not adjusted, it wouldn’t be farfetched to have an exchange via Sitme, whose exchange rate would go from VEB 5.3/US\$ to even VEB 9/US\$. Both scenarios imply a weighted devaluation of 46% and a net effect of VEB 84.60 billion bolivars of additional income for the Administration.

From Cadivi to Sitme. If an adjustment occurs only at Sitme, between 65% and 95% of the requests made by sectors like computers, electronics, textiles, telecommunications, services and trade are expected to be transferred to Sitme, representing 15% of the total requests supplied through Cadivi.

Private property + Communes = ? Economist Claudia Curiel added that the preservation of private property under the communal system will depend on the links of the companies with the government and the communal power, so the advice is for them to establish links with the communities where they carry out their activities.

A difficult year for Venezuelans. According to economist Asdrúbal Oliveros, 2013 will be a difficult year for Venezuelans, whether because of the devaluation, or because of public spending cuts. If spending drops, job generation in the private sector would be limited, and there would be a reduction in salary increases. On the other hand, an exchange rate adjustment would push inflation to 26% in 2013, significantly over the official projections of 14% and 16%.

Assignment of foreign currency increased 4.5%. Through a press note, Cadivi informed that in the first ten months of the year, a total of US\$26.98 billion have been assigned for different concepts. The figure reflects an increase of 4.5% compared to the amount assigned during the same period in 2011, in which 25.83 billion dollars were authorized.





Assignments for imports. Between January 1st and October 31st of this year, Cadivi has authorized US\$21.33 billion for imports, of which US\$15.21 have been destined to ordinary imports, US\$4.19 billion to those made through the ALADI agreement, and US\$1.92 billion to trade through the “Sistema Unitario de Compensación Regional” (Sucre).

Elementary my dear Merentes. Nelson Merentes, President of the Central Bank of Venezuela (BCV), admitted that despite the slowdown in prices, measures have yet to be taken to control inflation; he said that *“inflation is lowered by producing more and distributing better”*. Merentes acknowledged that Venezuelans are experiencing inflation, *“a 10% inflation is still high; the positive effect will be achieved when it is at 4%”*, he said.

New financial structure. Jorge Giordani, Minister of Finance, said that for the next six years, a new financial and budgetary structure will be designed. Although the Minister didn't mention the changes prepared, he said that the new financial structure will guarantee resources for ongoing projects that the Government will carry out in the next years.

A Golden business. Nelson Merentes, President of BCV, defended the sale of gold made by the BCV this year, saying that they have generated earnings, since the institute purchases gold in bolivars, at a price of US\$900/Oz and sells it at US\$1.700/Oz. Merentes said that given the sustained increase of gold prices, the *“two things are convenient for the country: sell gold and accumulate it in the international reserves”*.

Correct Sitme. Asked about the assignments made through Sitme during the budget review at the National Assembly (AN), Nelson Merentes, President of BCV, said that this mechanism *“is not a complement for Cadivi”*. Merentes said that there are some imperfections in Sitme that must be corrected, but didn't specify which.

Christmas bonus in two parts. According to a presidential decree published in the *Official Gazette* of November 7, the government will pay the Christmas bonus in two parts, for workers and pensioners of the public sector. The first part, or two thirds of the Christmas bonus, will be given to workers before November 15, while the remaining third will be paid on December 1.

The list of pensioners increases. 43,839 persons were added to the beneficiaries of the “Gran Misión En Amor Mayor”, according to information provided by the Venezuelan Social Security Institute (Instituto Venezolano de los Seguros Sociales - IVSS). With the new additions, the list of pensioners is 462,042 elderly people, so the State must assign around VEB 882 million monthly to pension payments.



More money, to print money. BCV authorities went to the Finance Commission of the NA to present the budget of the BCV for 2013. Next year, the BCV is expected to have a budget of VEB 7.90 billion, 26.9 % higher than in 2012. The budget proposal states that VEB 1.0 billion (12.6%) will be destined to investments in the Mint, and to modernize the manufacture of bills.

VEB 18.86 billion in additional credits. The National Assembly (NA) approved an additional credit for Public Administration Organizations, Payment Organizers, and its Ascribed Entities, for VEB 18.46 billion, to pay for salaries, wages, benefits, labor liabilities, and outstanding debts. The credit approved will cover the budget requirements for labor liability expenses of the second Vice-presidency of the Social Area.

Indebtedness keeps rising. According to figures by the Ministry for Planning and Finance, the public debt balance of the Central Government reached US\$120.00 billion in October, an increase of 28.6% compared to the debt balance of December 2011. On the other side, the balance of the external debt remained at US\$ 43.50 billion, the same level as in December 2011 while domestic debt reached US\$58.70 billion, a growth of 63.9% in the last 10 months.

Interest rates. The lending rate for the fifth week of October was at 16.0%, down by 1.5 percentage points compared to the previous week. The time deposit rate remained unchanged since July 2011 in 14.5%, while the passive rate has not experienced any significant variation since November 2011, placing well at 12.5%.

International reserves. International reserves decreased 0.2%, going from US\$25.5 billion during the fourth week of October to US\$25.6 billion during the fifth week of October. Compared to the same period last year, international reserves have decreased by 12.4%.

Monetary liquidity. Monetary liquidity (M2) up by 1.2% in the fifth week of October compared to the previous week, settling at VEB 599.9 billion. The M2 has increased 59.8% in relation with the same period last year.

Sitme figures. So far this year, US\$8.8 billion have been negotiated through the System for Foreign Currency Transactions (Sitme), averaging US\$42.0 million a day, with an implicit exchange rate of 5.3 VEB/US\$; this represents an increase of US\$1.5 billion (20.5%) over the same period of 2011, when US\$7.3 billion were negotiated. Lastly, during the second week of November the amount traded reached US\$108 million, US\$52.8 million less than the previous week when US\$160 million were traded, with a daily average of US\$32.7 million.



Oil Tips

Calculating... According to the Minister of Oil and Mining, the value of sales to China since 2007 is US\$41.50 billion, of which US\$17.90 billion went to pay the US\$38.0 billion of the loan that is part of the Bilateral China-Venezuela fund, so the pending balance of the debt is US\$20.10 billion. Ramírez also said that Venezuela sends 270 kb/d to China, part of it to pay for the debt service.

Renewed concerns. In the last three weeks, there has been a sustained drop in the Venezuelan oil basket, losing US\$6.1/bl and closing last week at US\$96.4/bl. The Ministry of Oil and Mining explained that *"this week, oil prices were affected by the persistent uncertainties regarding the global economy and its effects on crude oil demand, as well as by the increase in US crude oil trade inventories and the strengthening of the Dollar before the Euro"*.

Bad forecast. OPEC's monthly report says that a greater growth in demand, and concerns about the performance of the world economy have led to a constant drop in oil prices since mid-September. For 2013, the downward pressure could remain, given the increasing concerns about a global economic slowdown, lower crude oil demands, and the increase of US inventories, elements that are greater concerns than the issue of supplies due to geopolitical factors.

Forecast reductions. In its most recent monthly report, the International Energy Agency (IEA) reduced to 290,000 barrels per day (kb/d) their growth expectations of crude oil demands for 4Q2012, placing it at 90.1 million barrels per day (mb/d), alleging the persistent weakness of the European economy and the impact of hurricane Sandy in the US. For 2012, the agency also reduced its growth forecast by 60 kb/d compared to last month's estimates, placing annual average demand at 89.10 mb/d for 2012.

Chinese fund with a surplus. JP Morgan explained in a report based on statements by the Minister of Oil and Mining, Rafael Ramírez, that the sale of Venezuelan oil to China as part of the bilateral agreement (Fondo Pesado) has generated an accumulated surplus, after debt service payment, of US\$23.6 billion (at an average of US\$4.70 billion per year). *"We assume that the amount mentioned by Ramírez represents the total funds accumulated since the fourth quarter of 2007, when the first loan was granted"*.



Where is the money going to? JP Morgan indicated in its report that these funds have not been transferred to the National Development Fund (Fondo de Desarrollo Nacional - Fonden), but to separate accounts, for the discretionary use of the Administration. *"According to what the agreement states, this money in cash must remain available for discretionary use, outside the formal budget and separate from Fonden"* said the company.

Amuy ready in December. The government expects the Amuay refinery, the largest in the country, and fourth world-wide, to resume normal operations in December, once a distillation unit is repaired. Rafael Ramírez, Minister of Oil, explained to Reuters that negotiations to import the parts that must be replaced in the unit have already been made, and *"three weeks later we expect to have the unit serviceable, to reach the capacity that the refinery had before the incident, of around 500 kb/d"*, he added.

"Revolutionary distribution of the rent". Rafael Ramírez, Minister of Oil and Mining, explained during the discussion of the national budget, that thanks to the implementation of the full oil sovereignty, between 1999 and 2012, the hydrocarbon sector has given the nation more than US\$415.0 billion; *"of this, US\$278.46 billion would have been taken away by multinationals, if the oil opening scheme had continued"*.

Pdvsas will provide VEB 83.10 billion to the budget. Minister Ramírez said that oil fiscal contributions for the 2013 budget amount to VEB 83.10 billion, of which VEB 51.80 billion come from royalties, VEB 4.20 billion from extraction taxes, VEB 20.70 billion from income tax, and VEB 6.0 billion from dividends.

Estimated production. Ramírez said that that income is calculated with a production of 3.1 mb/d, of which 2.5 mb/d will be exported. Ramírez added that by 2014, 4 mb/d are expected to be dispatched, based on the development of the Orinoco Belt projects, which will contribute 1.2 mb/d to the daily production.

Paying the "rent"... This year, Pdvsas's total contributions to the treasury and several social programs will be around US\$60.30 billion, according to Rafael Ramírez, Minister of Oil and Mining, and President of Pdvsas. Of these disbursements, Pdvsas will end up giving Fonden around US\$15.50 billion (25.7%) due to the implementation of the contribution to extraordinary crude oil prices, an increase of 9.2% compared to the US\$14.20 billion in 2011.

...and asking for help. High oil prices have not prevented Pdvsas to resort to financing from the BCV. Up to October 26, the BCV had financed VEB 124.70 billion to the oil company, 79% over the VEB 69.70 registered during the same period last



year. In our opinion, Pdvsa has a cycle of paying and requesting funds, carrying out private issues for BCV which help cover Sitme's demand.

The Russians get off the boat. The Russian oil company, Surgutneftegaz, the fourth largest producer in Russia, decided to abandon a consortium of Russian companies operating in the Venezuelan Orinoco Oil Belt. The Russian consortium owns 40% of the shares of the mixed company Petromiranda, which started early production at the end of September. The Russian-British company, TNK-BP, which participates in the project, also decided to abandon it, and rumor has it that they are thinking of selling their share to the giant Rosneft, also a partner in Petromiranda.

International baskets. Last Friday, November 9th in New York, WTI closed at US\$85.8/bl, which shows a decrease of 0.5% compared to US\$85.8/bl recorded the previous week. Meanwhile, Brent decreased by 1.2% to reach US\$ 107.7/bl compared to the previous week when it reached US\$109.0/bl.

Local basket price. On Friday, November 2nd the Venezuelan oil basket price closed at US\$96.4/bl resulting in a decrease of 1.2% compared to the US\$97.6/bl recorded the previous week. Meanwhile, the average of the Venezuelan oil basket stands at US\$ 104.3/bl.

Business Sector Tips

Car production grows 3.2%. Sources from the automotive industry have warned throughout this year about difficulties they are facing to obtain hard currency timely. For this reason, several of the seven car assembly plants member of Cavenez (Venezuelan Automotive Chamber) are implementing cuts in their assembly lines to "dose" stocks in an attempt not to run out of materials. However, recent figures reveal that in September-October 2012, production only grew 3.2%, from 8,038 to 8,244 units.

New car sales gained 14.3%. According to data from Cavenez, in October new car sales grew 5.4% vs. the same period in 2011. In January-October, 110,273 new units were sold, up 10,558 units from the same period in 2011. Of these, 91,533 were domestically manufactured and 18,740 were imported, for an increase of 5.6% and 44.1%, respectively, in January-October.



Free fall. The backlog in foreign currency allocation throughout 2012 for the automotive sector has resulted in a drop in production of 21.5% over the past five months of the year, which has traditionally been the most important production period for this industry. This has made many assembly plants limit the flow of auto part stocks, thus bringing about delays in production lines and preventing assembly plants from meeting their production targets for 2012.

Everything will remain the same. General Motors de Venezuela's Commercial Director, Juan Manuel Hoyos, informed that the company isn't expecting substantial changes in the Venezuelan automotive market for 2013. "*We believe that the market will continue to be stable. We're still betting to local production,*" Hoyos assured at the launching of the model Chevrolet Orlando in Venezuela.

More outages may occur. High temperatures recorded in Venezuela in recent days and the lack of maintenance of the national power grid has resulted in multiple disruptions of power supply throughout the country. According to José Aguilar, international consultant in the area of power systems, obsolescence of Corpoelec's equipment reaches 20 years on average, which, along with high temperatures and the increase in power demand typical of year-end, could result in a higher number of outages.

Loma de Níquel mine now in the hands the State. Carlos Dini, director of the Venezuelan affiliate of Anglo American, which operated Lomas de Níquel mine, informed that the multinational corporation transferred the control of the mine to the Venezuelan State, because the concession expired and it wasn't renewed. With this decision, Anglo American leaves the country after 20 years operating in Venezuela.

Half the aircraft fleet isn't operative. A report by the Venezuelan Airlines Association states that most frequent delays in flights operated by domestic airlines are the result of how old aircraft are, which have been an average of 27 years in service. The Association informs that of the 108 commercial aircrafts, only between 40 and 60 are operative. The director of the Venezuelan Chamber of Air Transportation Companies, Francisco Ramírez, claims that the situation is due to the delays in the allocation of hard currency for spare parts.

Shortages are drawing near. Mauricio Tancredi, first vice-president of Consecomericio, stated that the reduced access to foreign currency and delays in the country's ports could result in shortages of different products during the final months of the year. According to Consecomericio, sales grew between 5% and 6% in the third quarter of 2012, and the Chamber is expecting higher increases for the last quarter of the year.



Preventing electronic fraud. Sudeban (bank overseeing authority) announced in a press statement that permanent working tables will be established with public and private banks to prevent electronic fraud. Sudeban informed that the most common modus operandi in this type of crime will be analyzed to evaluate the implementation of mechanism to prevent frauds in electronic operations through banks.

Potato base price will be set. Juan Carlos Loyo, Minister of Agriculture and Lands, informed that base price for potato harvest will be set in response to complaints expressed by producers because of price drops. The Minister added that this measure “*will not affect end consumers,*” and that thanks to the administration’s policies, sowed lands grew from 21,000 to 34,000 hectares and that 559,000 tons of potato are currently being produced.

Sidor’s losses reach US\$580 million. Figures regarding performance of Siderúrgica del Orinoco show losses for US\$580 million and a depressed production of 1.8 million tons of liquid steel, which is in contrast with more than 4.3 million tons of installed capacity of the company, Pedro Acuña Grahan, director of the plant, stated. Grahan assured that the administration hasn’t presented any report on the accounting, financial, commercial, environmental or labor performance of the company since it was nationalized in 2008.

Trade balance with the US drops. Based on figures released by Census Bureau, the Venezuelan-American Chamber of Commerce and Industry (Venamcham) said that cumulative trade balance from January to September between the US and Venezuela closed at US\$16.05 billion, down 34.9% from the same period in 2011 (US\$24.65 billion).

Sidetur won’t pay. Siderúrgica del Turbio (Sidetur) board announced that it won’t pay its bond Sidetur 2016 due to the “*company illegal takeover (by the Venezuelan administration), which has violated its assets,*” including deposits in bank accounts. The company informed Deutsche Bank, which is administering the Sidetur 2016 bond issue, of the illegal seizure of its funds by the government. The debt to the holders of this bond will be responsibility of the Venezuelan State.





World Economy Tips

Obama's victory is good for trade. According to Karel de Gucht, European Commissioner for Trade, President Barack Obama's reelection paves the way for the US and Europe to initiate trade talks in early 2013. The weak growth prospects are putting pressure on Brussels and Washington for them to consider an agreement to reduce barriers for companies, which could lead to an increase in economic production by EUR 122.0 billion per year in Europe alone.

Wealthier to pay the bill. Barack Obama offered to negotiate a pact with Republicans with a view to avoiding the threat of a fiscal disaster, but insisted that a tax increase for the richer has to be a part of the pact. After reelection, the so-called "fiscal cliff," a combination of strong cuts in spending and tax increases due to start in early 2013, is the biggest challenge facing Obama administration.

The US should move swiftly. The International Monetary Fund urged the United States to quickly reach an agreement on a permanent fix to avoid automatic tax hikes and spending cuts due to start in 2013. In a report prepared for the G-20 summit, the IMF has pointed out that "*US authorities should act quickly to avoid the fiscal cliff and raise the debt ceiling,*" because, given an eventual adjustment, the US economy could slip back into recession.

Inflation slows down in China. The consumer price index (CPI) in China registered an increase of 1.7% in October with respect to the previous year, down from the 1.9% reported in September, according to data released by China's National Statistics Office. On the other hand, food prices, which represent a third part of the basket of goods of Chinese consumers, grew 1.8% (y/y).

Greece on the edge of the abyss. Greek economy is running out of cash, Christos Staikouras, Minister of Finance of Greece, announced. Staikouras estimates that cash reserves could last until middle-November. This statement was made at a time when the European Union was welcoming the new austerity package, which comprises cuts for more than EUR130.0 billion, approved by the Greek Parliament. Meanwhile, people were protesting against the measure before the Parliament seat.

No good news or new measures until 2013. The euro zone economy still has to go a long and hard way to recovery before year-end, despite the improved conditions on



financial markets, Mario Draghi, president of the European Central Bank (ECB) said. Considering the relative easiness with which some countries have placed debt, the ECB decided not to cut its interest rate and maintain it at 0.75%, waiting for signs to implement a bond purchase program.

The EU needs a reform. German Chancellor Angela Merkel urged European leaders to agree on a concrete plan toward a higher fiscal and economic integration, which can be implemented within two or three years. Merkel considers that economic reforms and deeper unity are necessary to regain confidence by investors in the beaten monetary union.

Nobody abandons the ship. Merkel opposes to a hypothetical output the euro of any of its members with financial problems, and pointed out that *“everything has to be done so that investors from outside Europe are not scared.”* Merkel insisted that *“a stable euro zone is needed”* and advocated that Europe addressed production *“on a competitive basis, at the international level”* to create jobs.

New balance of power. According to a report by the Organization for Economic Cooperation and Development (OECD), China will surpass the United States as the global first economy by 2016, and along with India, will have a higher weight than the rest of the “developing” economies for 2060. OCDE also expects contribution by emerging countries to global production to be higher and that per-capita income in poorest countries to increase four-fold in less than 50 years.

India is already a “big boy”. The British government announced the suspension of further financial assistance to India, with said assistance to the Asian nation decreasing by US\$319 million between 2013 and 2015, when ongoing projects will be completed. As India grows and develops, assistance is seen as unnecessary. The British Secretary for International Development, Justine Greening, said that India was developing successfully and that it’s time for it to recognize that its place in the world has changed

Political Tips

Venezuela: defender of the Human Rights? Venezuela’s entry in the UN Human Right Council was approved by the General Assembly. This decision, which will be official starting January 1’ 2013, has already been criticized by organization like



Human Rights Foundation and UN Watch, which consider that Venezuela doesn't meet the requirements to belong to an organization that protects universal rights.

National debate. Vice-president Nicolás Maduro officially opened the discussion period of the constituent process to develop 2013-2019 Second Socialist Plan, which, with the people's involvement, is intended to prepare a socialist plan for the new government period. Maduro stressed that *"all Venezuelans and candidates that for any reason didn't vote for Chávez"* are also invited to participate.

The constituent process now belongs to all. Ernesto Villegas, Minister of Communication and Information, assured that the purpose of the constituent process called upon by the government is *"to nurture with the people's specific aspirations"* the program presented by President Chávez and turn it into the 2013-2019 National Plan. Even though the plan is called "socialist," Villegas assured that citizens opposed to Chávez' government are invited to participate, because criticism, corrections and proposals are welcomed.

Fewer changes and more solutions. Governor of Miranda and candidate for reelection, Henrique Capriles, said that the constituent process convened by the national government to prepare the National Socialist Plan doesn't meet the provisions set forth in the Constitution. *"I believe that the majority of the people don't want to continue going through political changes, but to find the solution to everyday problems,"* Capriles pointed out.

Year-end pilgrimage. President Hugo Chávez' agenda is very busy for the rest of the year. His agenda includes the Ibero-American Summit, Mercosur Summit, in addition to a couple of bilateral meetings with presidents of Uruguay and Colombia. Chávez' absence in December's gubernatorial election, albeit not a determining factor, could leave several revolutionary candidates without support.

Justice for equality. Máximo Sánchez, Metropolitan city councilor, demanded the AN Control Committee to investigate PSUV governors and PSUV candidates for Miranda, Elías Jaua, Aragua, Tareck El Aissami, and Guárico, Ramón Rodríguez Chacín. *"We are concerned that the AN is politically persecuting candidates from the Democratic Unity Panel (MUD), whereas investigations of those cases related to figures related to the government party are put on ice,"* Sánchez questioned.

Capriles' campaign under investigation. The especial committee investigating Representative Juan Carlos Caldera is about to present a report which would request, among other things, to revoke Caldera's immunity. Furthermore, it's also possible that the committee would ask to investigate financing sources of former



opposition candidate's election campaign. This investigation began after a video was released that presented Caldera receiving cash from a alleged businessman.

One step less in the voting procedure. Given the mountain of reports concerning delays in voting centers due to the use of the "Voter Information Station," CNE vice-president, Sandra Oblitas, has ratified that this step is optional. *"Those citizens that know their exact location in the voting lists (...) may vote without being searched in the voter information system,"* Oblitas explained.

Smoke screen. Pablo Pérez, Zulia governor and candidate for reelection, believes that launching a constituent plan by the government is nothing but a smoke screen to deviate the public attention from more important issues. Pérez also pointed out that if said plan is expected to have citizens' involvement and people to play a leading role, it has to be discussed by all Venezuelans and not only at the headquarters of a political party.

One leader, one program. PSUV candidate for Miranda governor, Elías Jaua, pointed out that when the Venezuelan people voted for President Hugo Chávez in October *"they also voted for the Second National Socialist Plan for 2013-2019."* Jaua underscore that the right is trying to transform campaigns into a contest and not a debate of ideas, whereas the revolutionary project is calling to *"elect a leader and a government program that promotes deepening the socialist model."*

Legislative Tips

No more gouging by funeral parlors. At a regular session, the National Assembly (AN) unanimously approved in its first discussion the Draft Law to Regulate and Control Funeral and Cemetery Services. Representative Elio Serrano pointed out that the law is aimed at *"putting an end to gouging and regulating funeral services so that deceased people can have a decent burial."*

AN will inspect flooding of Lake Valencia. A committee of the AN will visit Carabobo State to execute the second evaluation phase of the situation in the areas affected by the flooding of Lake Tacarigua, due to rains fallen in recent days. The coordinator of the committee, Manual Briceño, informed that the inspection will provide them with a view that allows them to give a comprehensive response to the affected citizens.



White flag. Representative Edgar Zambrano, on behalf of the Democratic Unity Panel fraction, presented the AN Secretariat with the Draft Law on Political Amnesty and Reconciliation. The proposal comprises nine articles and its approval would grant overall amnesty in favor of those citizens accused or submitted to administrative procedures concerning political events that have happened in Venezuela since 1999.

The Law withholds property owners' funds. The court at which rents in litigation are deposited has been closed since April, because the Renting Law ordered the National Housing Superintendent's Office (Sunavi) to regulate rent contracts for their further evaluation. This has prevented owners to withdraw the moneys that are deposited with the court. According to the Law, if one year after it having entered into force, the funds have not been withdrawn from the court, they could be transferred to a State-run fund for the protection of tenants.

Labor Law is still waiting for its regulations. The Organic Labor Law (Lottt), enacted on May 7th, is still waiting for its regulations, which would allow it to be better enforced. The political agenda has kept busy the members of the Higher Labor Council, who, besides seeing to it that the law is enforced, have been entrusted with writing the text of the Lottt regulations.

Investigating the past. Representatives Orángel López, Edgar Lucena and Jesús Farías were appointed by the AN as members of the Commission for Justice and Truth that has been entrusted with the mission to investigate cases of crimes against Human Rights, which due to political reasons were committed in Venezuela in 1958-1998. *"We asked these representatives to join relatives of disappeared people and victims of that terrible period, which some insist in forgetting,"* Diosdado Cabello, president of the AN, said.

Law enforcement is being overseen. The National Bolivarian Police (PNB), as well as other law enforcement entities, will deploy inspection rallies in night clubs and bars in Caracas to check if joint resolution issued by the ministries of Defense and Interior and Justice, which establishes weapon-free areas, is being complied with. This operation will check whether those establishments have installed metal detectors and if they have security personnel in place to check that people attending those places do not carry bladed weapons and firearms.





ECONOMIC OVERVIEW

