



Weekly Report

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Oil Outlook 2013: will it be enough?

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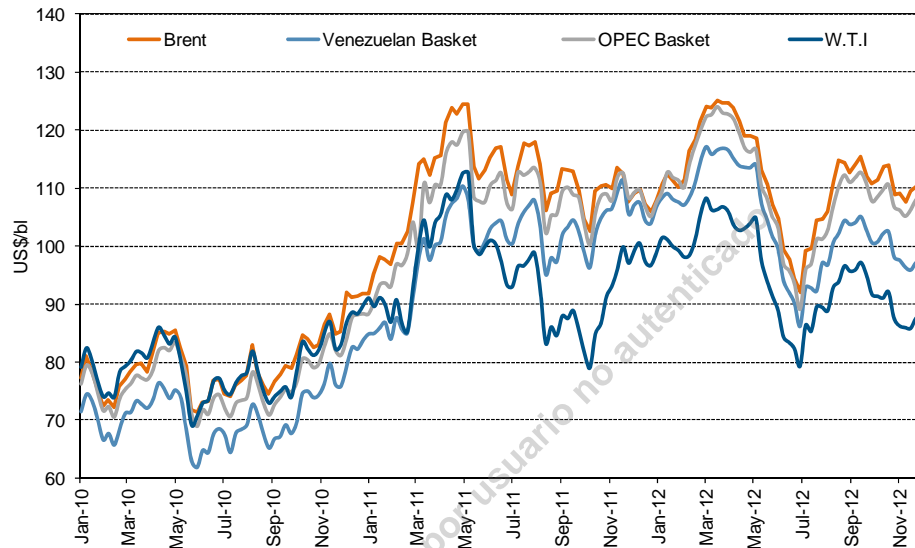
Few things have changed in the oil market prices since the last Outlook report. In our last quarterly analysis we said that as an oil producer, our main concern should be the average price, which in the last eight quarters was US\$99.4 per barrel for the Venezuelan basket (CVP) with very little inter-quarterly variation from that level.

Considering this performance, we maintain our view that the oil market will still be less determined by macroeconomics, and more by geopolitics, which could exert an upward pressure on prices. However, the weight of these two forces seems to overlap, maintaining prices within a range (US\$100-US\$120 per barrel). This time, we decided to analyze the nation's foreign currency flow for 2013 and thus determine the performance of our Balance of Payments.





International oil baskets prices



Sources: Menpet and Ecoanalitica

Two important elements...

We want to introduce two important elements for 2013 and the long term. The first has to do with oil market foundations (supply and demand), particularly the increase in US production and its impact worldwide and in Venezuela. The second refers to the little importance given to geopolitics and a possible price increase, which in our opinion could be a relevant factor for Venezuela in the next few months.

The US factor should not affect us

Recently, the International Energy Agency (IEA) revealed its oil market projections up to 2035. Among several interesting issues is that the IEA forecasts that by 2020 the US will surpass Saudi Arabia as the largest oil supplier in the world.

In our opinion, although this statement is in line with the US energy policy of reducing its energy dependence and have a more efficient energy consumption, Saudi Arabia will always be capable of producing more than the US if it so desires, and for any reason, so a drop below US production levels would be to maintain the idle capacity of Saudi Arabia.

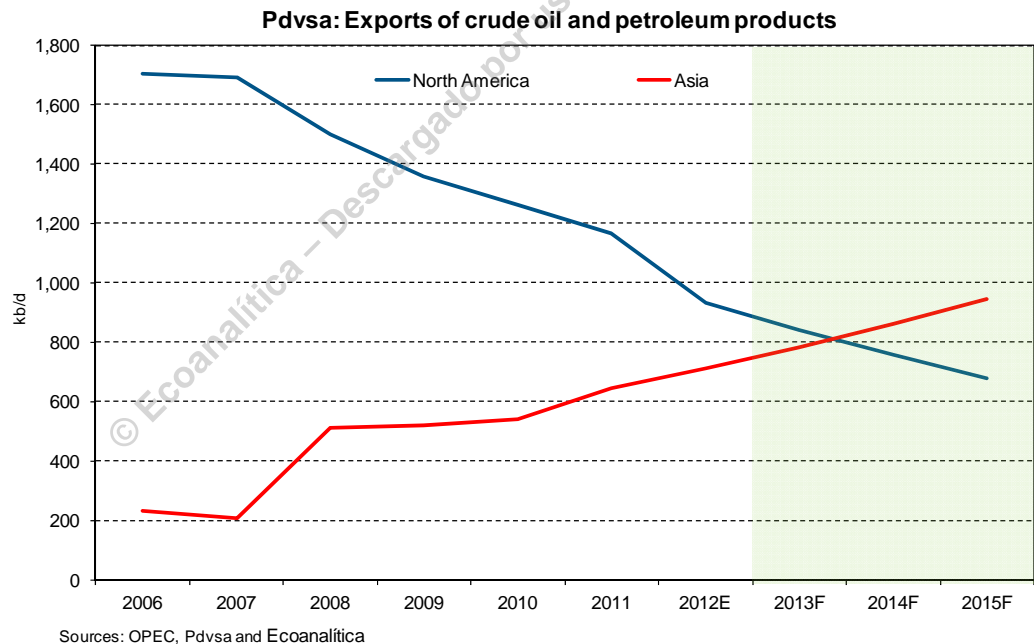
It is important to consider that the control of the oil market isn't, and has never been, a function of which country produces more oil, but of idle capacity. In this sense, what makes Saudi Arabia strong is that it has the capacity to increase its production, not its present volume. Thus, we believe that Saudi Arabia and OPEC will maintain their high negotiation power in the oil market in the long term.



China will save the day...

In our opinion, the concern that may arise in Venezuela due to an increase in US production won't have a significant impact. Remember that like Saudi Arabia, Venezuela has the largest reserves of crude oil in the world. However, Saudi Arabia has the physical and ideological infrastructure to take advantage of them, while Venezuela is still tied to the ideological trap, which affects the investment capacity of the oil industry.

Likewise, Venezuela has migrated a large part of its exports to the Asian market, particularly China, and according to statements of Rafael Ramirez, Minister of Oil and President of Pdvsa, for 2015 Venezuela is expected to place 1 million barrels in those markets. **Ecoanalítica** considers that China will become our main crude oil purchaser, sooner rather than later.



So far, everything continues the same...

Our market consensus indicator doesn't reveal relevant changes with respect to the previous provisions. The demand in emerging markets will grow less in 2013, with a growth of 1.07 mb/d, compared to 1.15 mb/d in 2012.

Considering the consumption behavior in OECD countries, the net effect is that the pace of growth of world demand is expected to increase in absolute terms in 2013, with a growth of 0.82 mb/d, compared to 0.73 mb/d in 2012.



On the other hand, supplies will be tighter in 2013, with the two producing blocks at their top capacity. We expect OPEC's supplies to increase 1.46 mb/d in 2012 and decrease 0.49 mb/d in 2013; in the block of countries outside the cartel, we expect the increase to be 0.47 mb/d in 2012 and 0.96 mb/d for 2013.

Global Supply and Demand (consensus)	2011	Annual change (mb/d)	2012	Annual change (mb/d)	2013	Annual change (mb/d)
Demand	88.40	0.90	89.15	0.73	90.00	0.82
OECD Demand	46.03	(0.13)	45.68	(0.43)	45.45	(0.25)
Non-OECD Demand	42.37	1.03	43.47	1.15	44.55	1.07
Supply	87.70	0.83	90.01	2.30	90.53	0.72
Non-OPEC Supply	52.40	0.13	52.86	0.47	53.90	0.96
OPEC NGLs + CNC	5.50	0.30	5.85	0.37	6.06	0.24
OPEC crude	29.80	0.40	31.30	1.46	30.58	(0.49)

Sources: IEA, EIA, OPEC and Ecoanalítica

As a result, we still expect higher prices in 2013, with an average of US\$114.1/bl, for Brent, and US\$104.1/bl for the Venezuelan basket, and a much more interesting, controversial, and politicized oil environment worldwide.

What to expect in 2013?

The performance of an economy such as the Venezuelan is closely linked to oil prices, since the export of oil and its by-products produce almost all the foreign currency that enter the country, and 60% of the income of the Central Government. Therefore, in the Venezuelan case, the behavior of variables such as public spending, imports, and debt servicing is closely linked to the volatility of oil prices.

Ecoanalítica carried out an exercise to evaluate the flow of foreign currency that the nation will have next year. In this analysis, we assume that the present policies will continue, including those related to public indebtedness. For the Venezuelan debt service projections, we used the latest figures published by the Ministry of the People's Power for Planning and Finances, and by Pdvsa.





Hard currency cash flow (US\$ million)			
Concept	2011	2012 E	2013 P
Liquid foreign assets stock			
Public sector	20,017	24,510	12,533
Income			
Venezuelan oil basket price (US\$/bl)	100	104	104
Oil income	75,821	80,346	84,179
Oil imports	6,761	10,142	8,620
"Net" oil income	69,060	70,205	75,559
Non-oil-related income	4,522	4,073	4,343
Total income	73,582	74,277	79,902
Expenditure			
Non-oil-related public imports	12,225	14,419	12,371
Private imports via Cadivi	23,731	24,739	18,892
Non-priority private imports	8,691	13,675	12,595
Services	11,095	12,426	8,698
Rent and current transfers	3,696	4,250	3,825
Public external debt	13,509	12,455	18,425
Capitals outflow and others	18,906	12,289	12,596
Total expenditure	99,929	94,254	87,402
Result	-26,347	-19,977	-7,500
Financing			
Chinese Fund	14,500	4,000	4,000
Bonds, loans and others (Republic + Pdvs)	16,340	4,000	2,000
Total Financing	30,840	8,000	6,000
Net Flow	4,493	-11,977	-1,500

Sources: BCV, Pdvs and Ecoanalítica

The import boom is over

Given our estimated oil price for next year (US\$104.1/bl) and our net oil export figures (2.22 mb/d). On these assumptions, first, note that the oil revenue is not sufficient to meet the foreign exchange requirements of the economy. The increase in domestic demand this year caused imports to grow at a rapid pace (highlighting 50.0% increase in imports of the oil industry) preventing the decline in capital outflows this year could contain foreign exchange requirements.

Is worth noting that debt policy has been placed in a vulnerable position during the current economic model. By 2013, we expect a public external debt service of US\$ 18.43 billion (including the Chinese Fund), which means an increase in foreign exchange requirements for this category of 47.9% compared to US\$12.46 billion incurred this year. This suggests that importer boom of this year is impossible to maintain in 2013, so devaluation and restrictions in the access to foreign exchange will be the



order of the day, as the government has committed its resources abroad and is refusing to issue external debt. It is evident a structure of currency flow deficit under the current economic model.

In our baseline scenario, imports plus external public debt service (including PDVSA and the Chinese Fund) may reach US\$71.26 billion; that is 89.2% of net oil exports at the close of 2013. This figure would represent an increase of 1.3 percentage points compared with 2012, when the import requirements and commitments for debt may reach 87.9% of net revenue from net oil exports. Given the fall in external public liquid assets (US\$11.98 billion) and the refusal to issue external debt, this would compromise currency allocations to other categories as imports of services, income payments and capital flight, so, in our opinion, the adjustment will be made via private imports.

Concept	2011	Share	2012	Share	2013	Share
Imports CIF (US\$ million)	51,408		62,975		52,478	
Públic	18,986	36.6%	24,560	39.0%	20,991	40.0%
Private	32,422	63.4%	38,415	61.0%	31,487	60.0%
Private Imports distribution (US\$ million)	32,422		38,415		31,487	
Cadivi + Aladi + Sucre	23,731	73.2%	24,739	64.4%	18,892	60.0%
Sitme	5,265	16.2%	7,205	18.8%	9,446	30.0%
Remainder	3,426	10.6%	6,470	16.8%	3,149	10.0%

Sources: BCV, Cadivi and Ecoanalítica

The weight of energy agreements

This percentage could be much lower, even 3 percentage points below the levels observed, if the Government does not commit an average of US\$ 9.11 billion of annual revenues in the conclusion of agreements with other countries, especially Petrocaribe. The cost of these agreements is reflected in an average drop of 13.0% in revenues from oil exports.

Oil: the Aquiles Tendon of the Socialism of the 21st Century

This exercise shows that the space for public sector external debt exists, as long as oil prices continue their upward trend, hence the refusal of the Minister Giordani to continue with this policy. To *Ecoanalítica*, a fall in oil prices can quickly undermine Venezuelan state capacity to meet its commitments in respect of imports and external debt service next year, which would necessarily, undergoes a structural change in the economic model for the private sector to invest their resources.

In sum, in *Ecoanalítica* we still affirm that the 21st century socialism external accounts still show a behavior too dependent on oil price. Failure to diversify our exports and disincentives for private investment, both domestic and foreign, must be taken into consideration elements for the National Executive under the Nation's II Socialist Plan to prevent



imbalances that arise if volatility is presented sharply in the future, as the result is the collapse of government spending and private consumption, which are fundamental for the growth of the Venezuelan economy as it currently operates.

BALANCE OF PAYMENTS (General Summary - US\$ Million)	2012E	2013F	2014F	2015F	2016F
Current Account	19,131	38,672	39,199	43,136	49,493
Goods	40,307	53,759	54,364	58,625	65,286
Oil Exports	93,288	97,122	101,235	105,578	112,527
Non-Oil Exports	4,073	4,343	4,706	5,083	5,438
Import of goods f.o.b.	57,054	47,707	51,577	52,035	52,679
Services	-12,477	-7,930	-7,315	-6,815	-6,292
Others	-8,044	-6,435	-7,078	-7,786	-8,565
Capital and Financial Account	-19,986	-29,159	-33,182	-39,744	-43,207
Direct investment	-463	-503	-951	-2,768	-3,331
Portfolio investment	4,109	4,520	4,068	4,678	5,380
Other investment	-23,760	-33,316	-36,454	-41,824	-45,444
Reserves Variation	-3,750	6,474	3,282	520	3,083

Sources: BCV and Ecoanalítica

Epilogue: Geopolitics may change the outlook

Despite fiscal concerns, it could be argued that the macroeconomic environment has improved since August, but it is difficult to say that the geopolitical environment has softened. In fact, in three key areas, the situation has become more rooted and threatening.

First, the crisis in Syria has worsened, and is having more effects throughout the Middle East. Second, apparently the situation in Iraq has also worsened, including an increase in tensions between Baghdad and the Regional Government of Kurdistan, due to oil, which could lead to deeper hostilities. Finally, Iran's foreign relations have not improved, and the feeling that events will significantly escalate in time is palpable.

Worse for some, better for Venezuela

All of this is a long issue, and although it hasn't received a wide coverage in the last few months, it doesn't mean that the situation has improved or that they are less tangible for a price escalation. In the past we have commented about the result of an increase in tensions between Iran and the US: prices around US\$150 per barrel as a minimum.

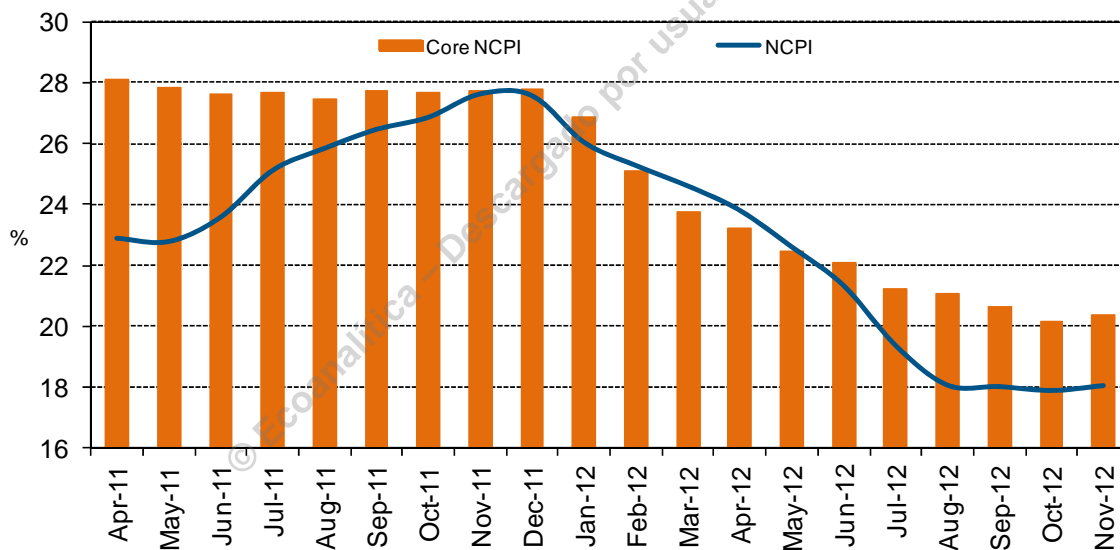
In our opinion, in a year of adjustments, as 2013 is expected to be, a significant increase in oil prices could improve the outlook considerably given the expected devaluation and fiscal cuts, avoiding a recession in the economy, and would become fertile ground to accelerate the reforms towards a Socialism of the 21st century with a radical cut.



Economic Tips

Inflation reached 16.0%. According to figures published by the Central Bank of Venezuela (BCV), the National Consumer Price Index (Índice Nacional de Precios al Consumidor - INPC) variation for November was 2.3%, or a cumulative variation of 16.0%, about 9.4 percentage points lower than that recorded during the same period of 2011.

NCPIVs Core NCPI (y/y)



Sources: BCV and Ecoanalítica

Alcoholic beverages and tobacco had the highest inflation. Among the 13 categories studied by the BCV, in November alcoholic beverages and tobacco showed the higher inflation, with a variation of 4.9%.

Scarcity index drops. In November, the scarcity index decreased from 16.1% to 14.6%, which means that out of every 100 products that consumers requested in stores, supermarkets and other establishments throughout the country, 15 were not available.

Food basket decreased by 2.9% in October. According to figures released by the National Statistics Institute (INE), the food basket value was VEB 1,937.0 in October,



up 2.9% from September and up 16.1% from September 2011, thus meaning that the reference food basket increased VEB 269.0 in one year.

Tomato registered the highest variations. VEB 41.2 was used to buy this product, up 21.5% points from September. Meanwhile, yucca suffered the second highest variation on prices (18.9%), product for which VEB 54.0 was spent.

Minimum wage covers 105.7%. The above signifies that minimum wage is enough to buy basic foodstuffs, because a worker earning the minimum wage (VEB 2,047.5) could buy 105.7% of the basket estimated by INE.

More equal and poorer. According to the 2012 Social Outlook published by the Economic Commission for Latin America and the Caribbean (Eclac), Venezuela and Uruguay are among the Latin American nations with the best distribution of income among the people. According to this report, the country has also had an increase of 1.7% and 1.0% in their poverty and homelessness rates compared to those in 2011.

Sitme at half speed. In November, Sitme negotiated only US\$454.2 million, half of what it had been negotiating monthly during the third quarter, and even the lowest monthly amount since the creation of this currency assignment mechanism. The scarcity of bonds in the system, and of new issues by the State and Pdvsa are a significant impediment for an increase in negotiated amounts.

Sitme won't migrate to the Public Stock Exchange. The Bolivarian Public Stock Exchange (Bolsa Pública de Valores Bicentenario - BPVB) is not in conversations or negotiating to migrate the Sistema de Transacciones de Títulos en Moneda Extranjera (Sitme) from the BCV, according to Félix Franco, president of that institution. However, it ratified that it is technically and technologically fit to manage a bonds market in foreign currency, and if there are plans to replace Sitme with a scheme controlled by the BPVB, he would abide by that measure.

Public payroll: to infinity and beyond. According to reports published by the National Institute of Statistics (Instituto Nacional de Estadísticas - INE) in ten years, the public payroll increased from 1,345,674 workers in October 2002 to 2,463,759 in October of this year, an 83.1% increase in ten years, at a rate of around 306 workers per day. Despite the huge oil rent, the greater weight of public imports and the increasing social programs are threatening to leave the State with no funds to meet their labor commitments.

Better to have bonds than bolivars. The injection of bolivars through government spending has been such that financial entities have taken steps to reduce the cost of the money that they can't place. Surplus banking reserves, an important indicator of



excessive liquidity, was VEB 54.92 billion on average in November, an increase of 57.5% compared to VEB 34.86 billion in October. Given the impossibility to place funds, private banks have opted to purchase bonds from public banks, who are benefitted with these operations.

“A calamity”. Jorge Botti, President of Fedecámaras, said that the reduction in the number of companies in the last 10 years is a calamity for the country's production capacity. According to INE figures, in 2002 there were 614,000 companies, while in 2012 there were 377,000, a 62.9% drop. Botti said that those that have disappeared are small and medium companies, since they couldn't *“withstand 8 years of State controls”*.

Interest rates. The lending rate for the fourth week of November was at 16.5%, up by 0.8 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 increased 1.6%, going from US\$26.06 billion during the fifth week of November to US\$26.48 billion during the first week of December. Compared to the same period last year, international reserves have decreased by 4.7%.

Monetary liquidity. Monetary liquidity (M2) went up by 3.9% in the fourth week of November compared to the previous week, settling at VEB 654.24 billion. The M2 has increased 57.6% in relation with the same period last year.

Sitme figures. So far this year, US\$9.16 billion have been negotiated through the System for Foreign Currency Transactions (Sitme), averaging US\$40.3 million a day, with an implicit exchange rate of 5.3 VEB/US\$; this represents an increase of US\$1.03 billion (12.6%) over the same period of 2011, when US\$78.13 billion were negotiated. Lastly, during the fifth week of November the amount traded reached US\$84.7 million, US\$9.8 million more than the previous week when US\$75 million were traded, with a daily average of US\$15.0 million.





Oil Tips

Investment in production will reach US\$8.00 billion in 2012. Eulogio Del Pino, vice president for Exploration and Production of Pdvsa, said that this year the investment of the State-owned company will be the highest, and will close at US\$18.0 billion. The official said that *"before 2000, Pdvsa's investments were around US\$3.0 or US\$4.0 billion. It started increasing, and reached US\$18.0 billion, and in exploration and production, we are injecting between US\$7.0 and US\$8.0 billion"*. What Del Pino mentioned refers to Pdvsa's social contributions, which in 2011 almost doubled its core investment.

It will be the same in 2013. Del Pino said that for 2013 investments are estimated to be the same, because the large constructions are already producing. *"We already have the first barrels in Petromiranda and Petromacareo. In the next days we will have the first barrel in Petrocarabobo, a mixed company with Repsol and two Indian state owned companies"*. He added that *"in the Faja we produce 2.5 million barrels per day (mb/d) through the mixed companies"*.

The consequences are felt. The effects of the deterioration in the Venezuela refining circuit, particularly the consequences of the two fires in Amuay and El Palito, are reflected in the increasing purchases of by-products. According to the US Department of Energy (DOE), the import of by-products from the US in September were 196,000 barrels per day (kb/d), an astronomical increase of 880% compared to the 20 kb/d purchased in September, 2011.

The cost is US\$548 million. Statistical information of the DOE indicate that during September, Venezuela imported 41 kb/d of diesel and around 28 kb/d of gasoline for blending (which is processed with other additives in the refineries). These purchases were for approximately US\$548 million, which affects the already beaten cash flow of Pdvsa.

And sales fall. While Venezuela's purchases increase, the sale of oil products to the US are falling. Data show that in September, volumes fell to 33 kb/d, a 29.7% drop compared to the 47 kb/d in September 2011. Crude exports increased 32%, going from 759 kb/d in September 2011 to 1 mb/d in September 2012. However, reviewing the accrued average from January to September, dispatches decreased 2.2%, falling from 893 kb/d in 2011 to 873 kb/d in 2012.



China and Venezuela: BFF. During the 11th meeting of the sub-commission for energy and mining cooperation of the China-Venezuela high level Mixed Commission, Rafael Ramírez, Minister of Oil and Energy said that *"China is now our main oil partner"* and added that Venezuela *"reiterates its commitment to keep deepening the relations"*. He added that joint oil production with Chinese companies went from 52 kb/d to 140 kb/d from 2006 to date, and that by 2018, Joint Ventures with binational capital will extract 1.10 mb/d crude oil in Venezuelan fields.

In a honeymoon. Venezuela and China signed new cooperation agreements in electric and oil projects during a visit of Ministers Giordani and Ramírez to Beijing. *"The development engineering to produce 900 megawatts of electric power based on coke and coal was agreed, as well new prospects, like Junín 10 South, and the development of existing fields"*, said Rafael Ramírez, Minister of Oil; however, he gave no details about which Chinese company will participate in the exploration of Junín 10, which has reserves of 220 mb heavy crude oil.

Downward stability. The price of Venezuelan oil had a stable week, although it closed slightly lower than the week before. The Ministry indicated that last week oil prices remained almost stable, since the market's attention was focused on the financial aid agreement for Greece, and the negotiations of the US Congress to avoid the so-called fiscal abyss.

Spill in San Joaquín IV controlled. Pdvsa informed that last Wednesday, November 28, it controlled a new oil spill that occurred the day before close to a flare in the San Joaquín IV Plant located in Anaco, Anzoátegui. According to Pdvsa, during a tour in the affected zone *"they proved and guaranteed the integrity of the Guarío river, and placed hay and plastic barriers to prevent the movement of crude to the river if rains"*.

International baskets. Last Friday, November 30rd in New York, WTI closed at US\$87.6/bl, which shows an increase of 0.01% compared to US\$87.5/bl recorded the previous week. Meanwhile, Brent increased by 0.1% to reach US\$ 110.5/bl compared to the previous week when it reached US\$110.4/bl.

Local basket price. On Friday, November 30rd the Venezuelan oil basket price closed at US\$97.1/bl resulting in an decrease of 0.1% compared to the US\$97.2/bl recorded the previous week. Meanwhile, the average of the Venezuelan oil basket stands at US\$ 103.9/bl.





Business Sector Tips

45 days chance. The army may not request mobilization guides to medication transporters for 45 work days, due to an extension authorized by the Ministry of Food, published in *Official Gazette* N° 40.060. It is the second time that the Ministry postpones the mandate to have this document, which must contain the origin, destination, and shipment data.

Price of coffee adjusted. The National Government published in *Official Gazette* n°40.063, of Tuesday, December 4, the change in the price of coffee for consumers, as follows: the price of one kilo of ground coffee, and of toasted coffee was set at VEB 46.7, the price of half a kilo was set at VEB 23.3 for consumers, the price of 250 grams is VEB 11.6, of 200 grams, VEB 9.3, of 100 grams VEB 4.7, and of 50 grams VEB 2.3.

Control earnings. According to Carlos Osorio, Minister of Food, from now on, the methodology used by Sundecop will be implemented to establish food prices, which sets the price of the product in each link in the production chain, so "*everyone will receive a marketing margin between 3% and 5%*". The purpose is to prevent disproportionate increases between each link in the distribution and marketing chain, and minimize speculation in consumer prices, said Osorio.

VEB 30.00 billion for food security. The implementation of the "10th Exceptional Plan for the Supply of Food of the Basic Basket, and of Raw Materials to Elaborate Food and other Products" will cost VEB 30.00 billion. The purpose of the plan is to "*guarantee a stable, continuous, growing, and timely supply of foods from the basic basket and other first necessity products*", financed by the trust funds of Distribuidora Venezolana de Alimentos (Pdval), and the Corporación de Abastecimiento y Servicios Agrícolas (CASA).

Conindustria: Industrial sector will grow 2%. During a press conference, the president of Conindustria, Carlos Larrazábal, said that although his forecasts indicate that this year the economy will grow over 5%, it won't be the same in the industrial sector, where growth is estimated at 2%. Larrazábal said that restrictions to access foreign currency, the access to raw materials, price controls, and legal insecurities have been the main stumbling blocks for the industry.



Exchange rates at VEB 7.7/US\$. Conindustria President Carlos Larrazabal, travel to Brazil where he met with his counterparts on the subject of Mercosur. Larrazabal said that Venezuela needs a competitive exchange rate policy and the industrial sector the Government proposes to amend the exchange rate at VEB 7.7/US\$, implying a devaluation of 78.6% from the VEB 4.3/US\$ existing.

An integral integration. Jorge Botti, President of Fedecámaras, said that Venezuela's integration to Mercosur must include all actors involved in the national economy. For Botti, our country's entry in the southern block is an excellent opportunity, but the proper economic policies must be implemented to allow the country to solve the structural problems of its economy. Using exchange controls as an example, Botti highlighted the higher competitiveness of Brazilian companies in some sectors, and said that *"we must be very careful so that we don't put employment at risk"*.

Industrials discuss the Socialist Plan for the Nation. According to Ricardo Menéndez, Minister of Industry, 61 industrial plants are debating the set of proposals to be presented to the Second Socialist Plan for the Nation 2013-2019. Menéndez highlighted the participation of Maderas del Orinoco, from Monagas, in forestry matters, and stated that the Second Socialist Plan for the Nation is also being discussed with the participation of communal councils, workers, and organized communities in several public spaces.

There will be currency through Cadivi. Manuel Barroso, President of the Foreign Currency Administration Commission (Comisión de Administración de Divisas - Cadivi), denied that the Commission will no longer liquidate dollars for travel. Barroso said that *"what some media have said is absolutely false and the system is working normally"* and dollars will continue to be assigned to the different sectors of the economy.

Delays in the liquidation of currency. Carlos Larrazábal, president of Conindustria, informed that there is an average delay in the delivery of official foreign currency of 150 days, resulting in debts with foreign suppliers for around US\$9.0 billion, and it is topping almost all credit lines. Larrazábal also said that customs delays and delays in currency delivery significantly damage Venezuela's trade relations with the rest of the world, which will be felt by consumers as shortages and price increases.

800 companies sanctioned. The process to detect and sanction exchange rate fraud continues in Cadivi. Besides opening administrative files against users for the incorrect use of the quota for travelers, a significant group of companies that have requested foreign-currency at a preferential exchange-rate have been sanctioned, for simulating imports and over-invoicing. Manuel Barroso, president of Cadivi, informed



that around 800 companies in the private sector have been suspended from the system due to irregular actions, and that most are in the health sector.

“No delays” in ports. Elsa Gutiérrez, Minister of Air and Water Transport, informed that none of the ports in the country have delays for the December season. The Minister said that *"There are no delays in the ports of the country"* and that there is an increase in trade flows due to the nature of the season. Gutiérrez admitted that the ports are not up-to-date, since they don't admit fifth or sixth generation ships, so the government is expanding and streamlining the port of La Guaira.

But here they say something else... Cipriana Ramos, president of the Customs Commission of Consecomercio, informed that the nationalization process of the merchandise entering the country is not effective, and that the implementation of the Customs Office Bolivariana de Puertos (Bolipuertos) has caused more congestion in the ports. Ramos asked Bolipuertos to modify the dispatch process through Sidunea, the new customs declaration system of the State, to be able to dispatch the merchandise directly from the docks.

Modernizing La Guaira. According to Elsa Gutiérrez, Minister for Air and Water Transport, the project to expand and streamline the port of La Guaira has progressed 33%. Gutiérrez said that the project is being executed within the established time frame, and expects it to be ready in 2014. The renewal of the port of La Guaira, the second most important in the country, will allow managing the increasing movement of cargo in the country.

Glass jars abroad. Ricardo Menéndez, vice-president for the Economic Productive Area, informed that the State-owned company Venvidrio, previously Owen Illinois, will export 82,000 tons of glass jars for food and beverages, until the first quarter of 2013. Menéndez said that before the nationalization, the company only met the demands of the domestic market, and now, 30 containers of jars are sent every day to countries like Cuba, Guatemala, Brazil, Argentina, and Bolivia.

Many conflicts in Guayana. The cooperative members of CVG Venalum blocked the roads in Ciudad Guayana to demand payment of the compensation bond of VEB 40,000 that the Administration will pay to workers in the aluminum sector, due to delays in the collective bargaining agreement. In turn, the outsourced personnel of CVG Alcasa and those of the former multinational Materiales Siderúrgicos S.A. (Matesi), now Briquetera de Venezuela (Briqven) demand their entry into the fixed payroll of the companies.





World Economy Tips

Austerity isn't the solution. In its newest report, the Organisation for Economic Co-operation and Development (OECD) warns *"the US and the euro zone against taking swift austerity measures in the upcoming months so as to avoid already weakened global economy to slip back into recession."* The report also points out that after five years of crisis, global economy will weaken again; therefore, they have reviewed downward growth outlook for the United States (from 2.4% to 2.2% in 2012 and from 2.6% to 2.0% in 2013) and the euro zone (from -0.1% to -0.4% in 2012 and from 0.9% to -0.1% in 2013).

Argentina scores. Jorge Argüello, Argentina's Ambassador to the U.S., announced that a New York court has suspended a ruling ordering Argentina to deposit US\$1.33 billion corresponding to a cash payment of the total amount owed to two investment funds. Therefore, Argentina may pay the debt on the maturity date (December 15th) without funds having to be immobilized.

Bail-out mechanisms with negative perspectives. The ratings agency Moody's downgraded the euro zone's bailout funds from the top rating of Aaa by one notch to Aa1 on long-term debt. Both the European Stability Mechanism (ESM) and the temporary European Financial Stability Facility (EFSF) were given continued negative rating outlooks by Moody's, which stated that "ESM's and EFSF's risk and rating are closely related to those of their main supports," thus rating downgrading of both mechanisms responds to the recent downgrading of France's risk rating.

Spanish banks will receive EUR 47.0 billion. The European Commission has approved Spain's plans to restructure four of its weakest banks. The banks will receive US\$47.0 billion and will have to cut thousand jobs. The four banks are Bankia, Banco de Valencia, NCG and Catalunya Banc, which will have to recognize losses after property bubble burst and won't be able to pay interests to some investors while they are being restructured.

"Very complicated". Spain's Mariano Rajoy recognized that *"cutting 2.6 points in deficit in a recession context is very complicated, with so many problems with income and an expensive financing;"* therefore, Spain's deficit could exceed 6.3% as estimated by the European Commission. When asked if he would ask for request to the ECB, Rajoy pointed out that so far he believes it's not necessary, but that he won't hesitate if he has to resort to the ECB if necessary.



China will grow 7.5% in 2012. Chen Deming, China's Minister of Commerce, assured that China will attain the government-set target of 7.5% economic growth for 2012 and that they could even surpass it. Chen's statement comes after the economy grew 7.7% in the first nine months of the year, even though results for 3Q2012 showed that the economy decelerated for the seventh quarter in a row.

The U.S. on the edge of the abyss. Treasury Secretary Timothy Geithner said that he "*can't promise*" that the United States won't go over so-called fiscal cliff, insisting it is up to "*congressional Republicans that are now opposing an increase in tax rates.*" House Speaker John Boehner, the top U.S. Republican, said later that he doesn't want any part of going over the cliff and that he's going to do everything he can to avert that."

U.S.: Better growth than expected. According to data reviewed by the U.S. Department of Commerce, U.S. GDP grew at a rate of 2.7% (y/y) in 3Q2012, up from the previous estimate of 2%. The upward adjustment was mainly attributed to the 1.1% increase in exports (previously estimated at -1.6%), whereas consumption which initially reported a 2% growth was revised downward to just 1.4% (y/y) in 3Q2012.

Manufacture takes a break. While its competitors are improving their conditions, the U.S. industry appears to take a break. According to the newest survey conducted by the U.S. Institute for Supply Management (ISM), economic activity of the manufacturing sector contracted in November. Respondents pointed out that fear for a "fiscal cliff" have had a significant impact on investment decisions, thus affecting production.

Job creation gets more complicated. Job index published by ISM was at 48.4, down 3.7 points from October, thus suggesting that factories have been cutting jobs. Manufacture has an important weight in job creation; in October it accounted for 7.6% of the 171,000 new jobs created in the country; therefore employment contraction in that sector is a sign of the evolution of labor market in the U.S.

Mercosur will discuss Ecuador's and Bolivia's accessions. According to Brazil's Ministry of Foreign Affairs, accession of Ecuador and Bolivia to the integration mechanism will be discussed at the upcoming summit of Mercosur, to be held on December 6-7 in Brasilia. President Dilma Rousseff will host the summit which is expected to be attended by presidents of Argentina, Cristina Kirchner; Uruguay, José Mujica, and Venezuela, Hugo Chávez.

No one has left when it is entering another. Spain's oil company Repsol has brought a lawsuit to the International Centre for Settlement of Investment Disputes



(ICSID) against the government of Argentina for having nationalized its affiliate YPF. According to Repsol, Argentina violated an agreement on reciprocal protection of investments signed with Spain with the “discriminatory expropriation that didn’t respect legal provisions.” Repsol has valued its 51% share in YPF at about US\$10.0 billion.

Political Tips

“El Gato”: Still a long way to go. According to most recent survey by IVAD pollster, most voters in Monagas State would support reelection of Governor José Gregorio Briceño (a.k.a. “El Gato”), even though Briceño runs without the support of opposition parties. “El Gato” would be supported by 47% of voters, whereas Yelitza Santaella (PSUV) would get 32.9% of votes on December 16 elections, and Soraya Hernández, opposition candidate, would get just 8%. 60% of those who said that they would vote for Briceño based their decision on the Governor’s “good performance.”

Vote tallying system to be audited. The system that will add up and issue election results on next December 16th elections will be tested by representatives of the political parties that will participate in the upcoming gubernatorial elections, the CNE informed. The tallying system receives and stores scrutiny forms issued by the polling machines and issues the definite results.

Trial against CNE board is requested. Representatives of the Democratic Unity Panel (MUD) requested the Attorney General’s Office to take CNE directors Tibisay Lucena, Sandra Oblitas, Tania D’Amelio and Socorro Hernández to trial, on the grounds that they violated the law against corruption when they authorized that 108 voters were transferred to other polling centers after the term provided for by law ended. Ramón Guillermo Aveledo, MUD’s executive secretary, reported relocation of six PSUV’s candidates; “*this is a blatant offense*,” Aveledo claimed.

Capriles with the best campaign. According to a survey by IVAD, four of every ten residents in Miranda State believe that current governor and candidate for reelection, Henrique Capriles, has developed a better campaign, whereas three of every ten voters are identified with the campaign performed by government’s candidate, Elías Jaua. IVAD’s poll also reports that only six of every ten citizens that describe themselves as government followers believe that Jaua’s campaign is better.



No guarantees. According to a study by World Justice Project, American Bar Association, Venezuela is the country with the least procedural guarantees for people being tried and where laws are less enforced in Latin America. The report also states that the Venezuelan State has serious problems to guarantee freedom of speech, private property rights and in the fight against corruption and violence.

Vox populi, vox dei. Vice-President Nicolás Maduro stated that President Chávez *“is very well; he’s undergoing therapy (in Cuba) and is going to come back in a better shape.”* Maduro stressed that throughout the election campaign, the people gave Chávez a mandate: *“President, take care of yourself; President, be disciplined with your treatment”* and that is precisely what Chávez is doing: *“fulfill the people’s mandate.”*

If it fits, it’ll be welcomed. Head of Government of the Federal District Jacqueline Faría applauded that an opposition party, specifically Copei, presented its proposals for the 2013-2019 Socialist Plan at the Diego Ibarra Square, where about 501 proposals have been received so far. Faría highlighted that proposals presented by political parties will be received and considered, provided they fit the “historical” (our quotation marks) objectives proposed by President Hugo Chávez.

He has to leave. Capital District Mayor Antonio Ledezma asked President Chávez to temporarily leave his post while he’s undergoing treatment in Cuba. *“He has to take care of his health, but somebody has to rule the country; Venezuela cannot be managed with a remote control”* Ledezma said. Mayor Ledezma also highlighted that the multiple problems the country is going through at this moment are reason enough not to leave the presidential chair empty during Hugo Chávez’ absence.

A new jump. Un Nuevo Tiempo (UNT) party appears to be losing members day by day. Last week, several of its members in Miranda and Lara States left UNT and joined the ranks of government party. In Miranda, UNT coordinator in Yare and UNT president in Sucre Municipality have decided to support Elías Jaua because they believe that his plans are better for the people; whereas in Iribarren Municipality in Lara State, UNT members have called people to vote for government’s candidate Luis Reyes Reyes.

Deadline for “socialist debate” extended. Minister of Communication and Information Ernesto Villegas announced that citizen debates to present initiatives for the Second Socialist Nation’s Development Plan for 2013-2019 will be extended until December 10th. Villegas added that Vice-President Nicolás Maduro and Minister of Science and Technology Jorge Arreaza will collaborate to systematize proposals presented by citizens.



Legislative Tips

Law to punish abuses. The Committee on Interior Politics of the National Assembly (AN) approved 13 articles of the Special Law to Prevent and Punish Torture and other Inhuman and Degrading Actions. Among other things, the law provides for 15-25 year prison sentences for public servants that as a result of functions inherent in their powers may provoke physical injuries or inflict moral offenses to citizens that are under their custody, with the intention to intimidate, punish, obtain information or confession.

Presidential succession law is proposed. The new trip of President Chávez to Cuba to undergo a “special” treatment against cancer has brought back to the front burner the debate on who would be Chávez substitute if he dies or becomes disabled to fulfill his functions before he’s sworn in on January 10, 2013. For this reason, people like Luis Herrera, who is an expert in Constitutional Law at Universidad Católica Andrés Bello, has stressed the necessity of drafting a special law to clarify all doubts about presidential succession.

Sanctioned 2013 budget. Last Tuesday, December 4th, the AN approved the Budget and Indebtedness Laws for 2013, which reach an amount of VEB 396.4 billion, earmarked to develop the first phase of the nation’s second Socialist plan. The draft agenda included the discussion of the BCV’s spending budget, which amounts to VEB 7.9 billion and of the respective reports prepared by the Permanent Committee on Finance and Economic Development.





ECONOMIC OVERVIEW

