



Weekly Report

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Merentes Vs. Giordani?

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In Venezuela, the last few weeks have been marked by heightened expectation from the economic agents expecting a mega-issuance of bonds by the Central Bank of Venezuela (BCV) aimed at taking pressure off the exchange market. At **Ecoanalítica**, we don't believe that this is what the Administration has in mind.

Did the BCV's strategy fail?

Up until now, the BCV has been injecting foreign currency into the swap-market through a quasi-weekly mechanism in which a number of different economic agents have been participating, from natural persons to big businesses and corporations. To date, the BCV has injected US\$258.3 million in 6 auctions. So far this year, the parallel market exchange rate has depreciated by 7.4%. Taking this into consideration, the exchange bonds being issued by the BCV are extremely attractive given that their implicit exchange rate is at VEF 4.9/US\$.

A number of analysts believe that the BCV has failed in its strategy to control the swap-market through regular injections of foreign currency. We do not share this opinion. We believe that it is too early to evaluate the role



that the BCV is playing in the swap-market, and those who do are doing so now, must take two very facts into consideration: 1. During the first weeks of the year, CADIVI has been operating with serious deficiencies, coming virtually to a standstill while it implemented the new operation system to accommodate the new dual exchange system; 2. The only “official” injection of foreign currency into the swap-market has been coming from the BCV, with other players being noticeably absent such as the National Treasury and PDVSA.

Exchange Bonds

Name	Coupon	Announce Date	Maturity	Currency	Amount Offered (thousand US\$)	Amount Issued (thousand US\$)	Price (%)	Parallel market the day before	Parallel market the day of the issue
Exchange Bond BCV Nº 1	0	13/01/2010	14/04/2010	USD	50,000	50,000	116.25	6.25	5.85
Exchange Bond BCV Nº 2	0	14/01/2010	15/04/2010	USD	50,000	50,000	116.25	5.85	5.70
Exchange Bond BCV Nº 3	0	19/01/2010	20/04/2010	USD	40,000	39,412	112.00	5.83	5.80
Exchange Bond BCV Nº 4	0	21/01/2010	25/04/2010	USD	40,000	39,250	112.00	6.00	6.00
Exchange Bond BCV Nº 5	0	27/01/2010	28/04/2010	USD	40,000	39,684	112.00	6.10	6.16
Exchange Bond BCV Nº 6	0	08/02/2010	10/05/2010	USD	40,000	40,000	112.00	6.34	6.41

Sources: BCV and Ecoanalítica

The mechanism need to improve

Furthermore, the BCV needs to improve the mechanism. At **Ecoanalítica**, we believe that in order for the BCV to improve the mechanism it must specifically focus on three areas. First, it must increase the weekly amounts it is injecting into the swap-market via the new exchange bonds. According to our calculations, during the first stage of this strategy, the amounts auctioned should be between US\$ 130 – US\$ 150 million, and later, after the market is stabilized, level off to around US\$ 120 million weekly. Second, the auctions should be exclusively aimed at the corporate sector and businesses (including small and medium sized businesses). At the very least, there must be some control in place that ensures that at least 80% of the resources being auctioned are earmarked for and reach the business sector. Third, the BCV should announce these assignment criteria and let the public know that sectors that should be benefited by these issuances.

Moreover, in **Ecoanalítica** we consider for this mechanism to work the exchange rate implicit debt of these operations should be settle at levels close to that quoted on the parallel market. And not as it has been the norm until now, where the exchange rate differential was on average around 25%, this is because the differential isn't an incentive to lower the price of the parallel exchange rate (as is the intention within the Government); in the end it just generates the possibility of profit by arbitrageurs to purchase a low exchange rate (the exchange rate implicit bonds) and sold at market price (parallel). Thus, the BCV is partially wasting "effort" involving the



issuance of debt instruments. The way to decrease the parallel exchange rate will be substantially increasing the issuance of these instruments and increasing the supply of foreign exchange through Cadivi. But if the emissions begin to perform effectively and lower the rate on the parallel market, beneficiaries will be those "foreign exchange brokers" and neither the state nor society will increase their welfare.

A mega-issuance?

A newspaper, with nationwide circulation, recently published that it was "imminent" that a mega-issuance of exchange bonds would be coming coordinated by the BCV and the Ministry of Planning and Finance for an amount between US\$ 500 and US\$ 750 million. Given how attractive the bonds are, this announcement caused quite a stir and generated expectations in the market. These "expectations" have also affected the parallel market exchange rate during the last few days.

The information we have gathered at **Ecoanalítica** is that the BCV was never planning an issuance of this magnitude. What the BCV is focused on is improving CADIVI's daily liquidations, stabilizing them so that they are around US\$ 115 million daily, and continuing to make weekly issuances of exchange bonds, slightly increasing the amount. The BCV continues to believe that the exchange market only needs between US\$ 5.0 and 7.0 billion throughout the year in order to stabilize this year.

As we have mentioned a number of times in previous Reports, at **Ecoanalítica**, we believe that the amount need to stabilize the exchange market throughout the year is closer to US\$ 12.0 billion. This would stabilize the parallel market exchange rate at around VEF 6.0/US\$ which would be equivalent to a 40% differential rate compared to the "petro-dollar" exchange rate of VEF 4.3/US\$.

Is this all it can expect?

In terms of debt issuances, what can the market expect? In the medium term, we do not expect the Administration to be issuing any foreign debt? The Ministry of Planning and Finance is currently totally restructuring the Public Credit Office, which in our opinion, this will delay any actions coming out of this office. Furthermore, Minister Giordani is not very convinced that there is a need to issue debt in US-dollar denomination in order to feed the exchange market. He quite adamantly stated that any decision made which has anything to do with the Central Government issuing debt has to go through his office, leaving no doubt who is in charge of public finances.

So everything points to PDVSA being the "other" player which may get involved and influence the exchange market. As we mentioned in our last Weekly Report, PDVSA is in some serious need of financing. The oil



company's finance technicians have pointed out that PDVSA has enough margin to be able to issue debt, denominated in US-dollars, in the medium term (a 2 or 3 year bond) in order to cover part of its obligations. The amount issued could be between US\$ 2.5 and US\$ 3.0 billion.

The differences between the BCV and the Ministry of Planning and Finance?

According to the publication *El Mundo Economía y Finanzas (Economy and Finance World)*, Minister Giordani ordered to stop the mega-issuance of exchange bonds because with the placement of Treasury Bills and the amount of national public debt bonds that will be issued as stipulated in the 2010 Borrowing Law, should be enough to stabilize the parallel exchange market. This was the gist of a statement issued by the Minister recently while explaining the purpose of the exchange bond.

Though it's true that Giordani's statement is contradictory and even shows a lack of knowledge regarding how the different debt instruments work, it does not signal that the BCV and the Ministry of Planning and Finance are in any kind of confrontation. Why is this? First, the exchange bond didn't die because of Giordani, in fact, it was never really a strategy in control of the BCV directorate nor Merentes. Second, in the Cabinet, the responsibilities are clear: Giordani is in charge of fiscal management, public borrowing, and CADIVI operations; while Merentes is in charge of stabilizing the exchange market. Each one has the authority and room to maneuver in their respective areas.

Is Giordani upset with the strategies that Merentes is implementing? If this is the case, he is the one most responsible, not having accelerated CADIVI's foreign currency liquidation process and not having clarified the situation surrounding the policies which will govern how dividends will be paid out, including past debt (up until 2009) and what will be applied starting this year. The BCV can't substitute CADIVI, theirs are offices and strategies that complement each other, they don't exclude each other.

The pressure will continue

If the Ministry of Planning and Finance and the BCV don't get with it and fine tune their strategies, the ever increasing pressures reflected in the exchange market will continue. With respect to the Ministry, it must focus on getting CADIVI operational, and the BCV must improve its auctioning mechanism. The key is confidence. A lot has been gained by the fact that the BCV has taken control of managing the swap-market, that PDVSA and the National Treasury are no longer relevant players in this scenario. This was a very important step, but not enough. One hopes that Giordani and Merentes keep this in mind.



Economic Tips

Fiscal revenue collected in January. According to figures released by the National Treasury Office (ONT in Spanish) in its monthly management report for the month of January, fiscal revenue collected reached VEF 8.44 billion. This represents 5.29% of total spending estimated for 2010. The revenue collected came from the oil sector, VEF 1.84 billion. This is equal to 4.7% of the yearly estimate it is expected to pay; the non-oil sector, VEF 6.5 billion, equaling 7.7% of its yearly estimate; and extraordinary revenue, VEF 96.7 million.

Tax collection for the month of January. The figures published in the ONT report show net revenues collected by the SENIAT at VEF 6.41 billion, 7.8% of the yearly estimate for 2010. This represents almost the total of non-oil revenue.

Payments made according to the ONT. According to the ONT, the figures representing payments made up until January 29 equal a total of VEF 10.74 billion, down by 7.9% compared to the same period last year.

Public debt payments. The ONT monthly management report shows that domestic debt payment up until January 29 reached VEF 348.5 million. With respect to the foreign debt for the same period, the amount reached VEF 207.4 million, while the projected amount was VEF 173.0 million. This implies a surplus of VEF 34.3 million with respect to what was budgeted.

Shortages in Caracas. According to information released by the BCV, the shortages indicator for the Caracas Metropolitan Area was at 14.5% for the month of January, up by 1.3 percentage points compared to December 2009, but 4.3 percentage points more than what it was in January 2009.

Caracas product diversity index drops. The market product diversity index for the Caracas Metropolitan Area for the month of January released by the BCV was down compared to the month of December 2009, going from 155.0 to 139.2 which imply a drop of 10.2%.

Salary increase signed. President Chávez signed the Decree which officially sets the minimum wage increase for workers for the year at 25%, as was announced on January 15 during his yearly address to the National Assembly. Said decree will go into effect on March 1, increasing salaries by 10%, and on September 1, salaries will be increased by 15%.



Interest rates. The lending rate for the second week in February was at 17.7%, down by 218 basic points compared to the previous week. Time deposits and savings rates were at 14.5% and 12.6%, respectively, with time deposits down by 13 basic points and the savings rate remaining constant.

International Reserves. International reserves were down by 1.2% going from US\$31.97 billion during the second week of February to US\$31.60 billion in the third week of the same month. Compared to the previous year, international reserves are up by 8,9%.

Monetary liquidity. Monetary liquidity for the second week of February was down by 1.2% compared to the first week settling at VEF 231.45 billion. Compared to the previous year, monetary liquidity has increased in nominal terms by 22.5% but dropped by 3.4% in real terms.

Oil Tips

Will Carabobo block 2 be offered up in tender? After having announced the winners of the tender to develop the Carabobo project, blocks 1 and 3 of the Orinoco Oil Belt, PDVSA announced that it would develop Carabobo block 2 by itself. However, sources involved with the process say that PDVSA is considering opening up Block 2 to a second round of bidding.

Companies working the Orinoco Oil Belt have their work cut out for them. The partners, working with PDVSA to develop the two extra-heavy oil projects on the Orinoco Oil Belt, Carabobo 1 and 3, will be getting financing from the international banking system which will take into account: the cost of the volatility of the oil markets and the world economic situation, without mentioning the political risk that exists. Taking inflation into account and the country risk factor, as well as the high costs involved with heavy crude oil upgrading, the companies will be acquiring a substantial amount of debt that will require high oil prices on the market in order to cover capital plus interest of their investment which would be around US\$30.0 billion during the next few years.

Debts that haven't been paid. In May, last year, the goods and equipment of 74 oil service contracting companies were expropriated and passed into the hands of the State and the control of PDVSA. For some companies, the expropriation process remains bogged down. TideWater Inc, and oil service contracting company has informed the SEC that it has gone before the International Centre for Settlement



of Investment Disputes (ICSID) requesting arbitration in order to demand that receive indemnity for its barges and tugs that are operating on Lake Maracaibo and the Paria peninsula.

Investments begin. The third largest oil company in Russia, TNK-BP, part of the Russian consortium awarded a contract to work the Junín 6 block on the Orinoco Oil Belt approved US\$180 million in investment over the next three years, as part of the agreement between Russia and Venezuela regarding the development of the block and in order to increase domestic oil production in the medium term.

Taking care of the natural gas. In order to guarantee the continuous supply of natural gas to clients in the electric power sector, industrial and commercial sector of the western part of the country, Pdvsa Gas, through its Transportation and Distribution Office for the Central Western Region is developing operational and maintenance activities to optimize the infrastructure of the Eastern-Western Center Inter-connection System.

Collective bargaining agreement not being followed. The leader of the Futpv, Raúl Páricas, stated that the current collective bargaining agreement has not been followed (in a matter of days it will be substituted), in fact, 80% of it has failed to be followed. He continued to say that during the next Futpv assembly, he will request work areas to be audited to verify that health and security regulations were not followed, as well as other regulations. He also stated that PDVSA has not paid the bonuses due for performance evaluations since 2005.

Sisdem defective. The Job Democratization System (Sisdem in Spanish) created by PDVSA in 2005 in order to guarantee the transparency in the administration of jobs in PDVSA, aimed at doing away with union mafias and democratizing jobs is not working. According to eastern union organizations, people go through the process but they are not hired for the infrastructure and maintenance projects, plus PDVSA hires people from a list that they turn over to contractors, affecting the people who are currently in the system.

Gasoline for Brazil. The Brazilian state-run oil company, Petrobras, announced that it would once again, after four decades, begin to import gasoline from Venezuela in order to guarantee its domestic supply. According to the Brazilian media, Brazil would buy around two million barrels, at an estimates cost of US\$140 million.

International baskets. At the close of the market in New York on Thursday, February 25, WTI was trading at US\$78.3/bl, down by 1.5% compared to the US\$79.4/bl it closed at last Thursday. Brent was down by 1.9% compared to the US\$77.8/bl it closed last Thursday, to settle at US\$76.3/bl.



Venezuelan oil basket. The price of the Venezuelan oil basket dropped last week, Friday, February 19, to close at US\$68.5/bl, down by US\$2.8 compared to the US\$65.7/bl of the previous week. The yearly average of the Venezuelan oil basket dropped at US\$69.7/bl.

Business Sector Tips

Exports to the United States. According to Venamcham (Venezuelan/American Chamber of Commerce), total exports between the US and Venezuela in 2009 were at US\$28.09 billion, down by 45.3% compared to 2008. 96.5% of exports are oil exports and 3.5% were non-oil exports. However, exports began to recover towards the end of last year, thanks to improving oil prices. In fact, December 2009 monthly figures show a 23.0% increase compared to the same month the previous year. (Fuente?)

Imports from the US also fell. Venezuelan imports from the US reached US\$9.36 billion, down by US\$3.25 billion compared to 2008 (27.8% less). 92.3% of all imports correspond to the non-oil sector, and 7.7% to the oil sector.

Guri depends on available turbines. President Chávez pointed out that the calculations made indicate that the critical moment for the Guri Dam will be around June 22 and all will depend on how the turbines are functioning. If the water level reaches 240 meters (262.4 yards) above sea level in June, machine room 1 turbines should be put into operation, they operate up to 215 meters (235.1 yards). This would generate around 2,550 megawatts, 42.5% of the installed capacity.

Only lowered demand by 5%. According to Javier Alvarado, president of *Electricidad de Caracas*, the private sector was only able to lower the demand of electric power by 5% compared to what it was using at the same time in 2009. Meanwhile, the public sector saved 23%, thereby meeting the government's 20% goal.

Imports coming from Colombia and Ecuador drop. Exports from Colombia and Ecuador dropped during the month of December by 77.6% and 9.3%, respectively. The overall balance in 2009 shows a drop of 33.5% and 16.2%, from these two countries, according to the National Administrative Statistics Department. Machinery and spare parts dropped by 79.7%, foot ware by 77.6%, leather by 77.1%, and vehicle and auto parts by 72.3%.

Ecuador wants an agreement. Next month, the government of Ecuador will propose to Venezuela, that a Trade Agreement for Development be implemented that will allow



for “less complicated exporting,” announced the Minister of Production for Ecuador, Nathalie Cely. The proposal was announced in a press conference while the Minister was addressing the textile sector that is worried about the sales process with Venezuela.

Telecommunication sector figures. Revenue collected by the different telecommunications operators during the fourth quarter increased by 13% compared to the previous year settling at US\$615 million. Revenues and investments in 2009 reached US\$13.01 billion and US\$1.50 billion respectively.

Internet subscriptions increase. In 2009, the number of new subscribers for Internet service increased by 561,000, an increase of 38% compared to 2008, according to Conatel.

80 thousand tons of chicken on its way from Argentina. The trade agreement with the Agriculture Supply and Services Corporation (CASA in Spanish) and with PDVAL make Venezuela the main purchaser of chicken from Argentina, according to the Argentinean Minister of Foreign Affairs. Venezuela will import 80,000 tons of chicken for US\$ 140 million.

Prive of cheese going up. The dairy industry is expecting an increase in the price of Gouda, Dambo, yellow, Edam, Fimbo, Munster and deep fried cheese of 80%, since it was denied its petition to CADIVI to reconsider putting these items on the list to be imported at VEF 4.30/US\$. An 84.5% increase in the price of vacuum packed pasteurized white cheese is also expected.

The price of fish is going up. The price of fish has gone up by an average of 18% compared to the month of September. A kilo (2.2 lb) of grouper increased by 24.5%, croaker by 21.4%, cazón (small shark) by 18.5%, mackerel by 14%, corvina by 11%, and red snapper, tuna, and *corocoro* (grunt) by 10%.

Fishing sector in 2009. According to the Agro-Production Integral Development Plan (PIDA), the Venezuelan fishing industry in 2009 produced 268,220 tons of fish while fish farming produced 10,738 tons. The Administration would like to see the fishing industry increase production by 13% in 2010, reaching 314,500 tons.

Sugarcane production expected to drop by 31.3%. The Federation of Sugarcane Producers (Fesoca in Spanish) announced that they expect that sugarcane production will be 31.3% less than it was in 2006, confirming the slide backwards that the industry has been suffering during the last four years. Production for 2009-2010 is expected to be at 6.2 million tons, while the production in 2006 was at 9.02 tons.



Raw materials for production have dropped by 32% in four years. According to Fesoca, raw material for the production of rum has been dropping by 32% since 2006, with the current crop at 248,000 tons. Furthermore, the rum industry has faced a cost increase of 295% during the last four years.

More threats leveled at Polar. The President de la Republic has accused Polar Industries of allegedly dragging their feet with regard to deliveries of food items to the Bicentenario hypermarkets. He immediately threatened to expropriate a processing plant for precooked corn flour, and specifically signaling out the president of the company, Lorenzo Mendoza, by name. In response, Polar points out that their deliveries to Cativen (Exitó, now Bicentenario) have increased by 85% during the last quarter.

Toyota and union reach an agreement. The Toyota automobile assembly plant and its labor union have reached a collective bargaining agreement for the coming two years. It's expected that this will let the company settle down and go back to business as usual. Meanwhile, MMC Automotriz, the Mitsubishi assembly plant in Venezuela, has labor problems again and has been shut down for a week now. Leading the strike is the Union for a New Generation of Workers.

It's in the pipeline. National Assembly representatives are working on drafting the report for the second discussion of the Organic Labor Law (LOT in Spanish). According to the ANTV Foundation, with the approval of this legal instrument, the figure of a "contract worker" working inside a public and/or private company is expected to be eliminated.

Cement production dropping. Workers for the National Cement Factory are protesting the company's failure to comply with benefits and dropping cement production. The factory located in *Ocumare del Tuy* indicated that cement production for 2009 was at 3,500 tons daily, and that currently it was at 1,800 tons daily. They say that the drop in production has to do with the ovens not working properly.

World Crisis Tips

US Consumer confidence falls dramatically. The Conference Board's Consumer Confidence Index fell significantly in February to go from 56.5 points reported in January to 46 points. The present situation index decreased from 25.2 points last month to 19.4, the worse reading in 27 years (since February of 1983 = 17.5). Only 6.2% of the people (8.5% in January) think the situation is good, while 47.5% (46.3%



in January) think it's not. The expectations index also decreased to 63.8 points, from 77.3 the previous month.

FED increases discount rate. On February 18, the Federal Reserve made the first modification to its monetary policy, making it less flexible. FED increased the discount interest rates (the rates at which FED lends money to banks, equivalent to the overnight rate) by 25 base points to set it at 0.75%, 50 base points over the reference rate (in normal financial situations, it is usually 100 points over). The terms of these loans were also shortened to a normal overnight period, starting on March 18, while, due to the emergency financial conditions, this term could be of up to 90 days.

Not an aggressive measure. It is worth pointing out that this is not a consolidation of the monetary policy but a de-relaxation, since between October and November of 2008 the banking system requested over US\$100 billion to the FED, while these loans are currently around US\$14 billion.

Obama proposes a mortgage relief fund. Obama announced the creation of an additional fund for US\$1.5 billion for the mortgage relief plan HAMP (Home Affordable Modification Program). This program is destined to help home owners in states where average home prices have dropped over 20%, especially those who are unemployed, to prevent more real estate foreclosures. With this plan, the Government will give financial support to both mortgage debtors and creditors, modifying the payment structure by reducing the payment of interests. So far, five states qualify for the plan: Arizona, California, Florida, Michigan and Nevada.

Strong foreign demand in Europe. Eurozone's Purchasing Managers' Index (PMI) indicates Europe's foreign sector has had a sustained recovery in past few months, since the manufacturing index continues to improve over 50 points for the sixth consecutive month (an index over 50 indicates the sector is growing), reporting 54.1 points in February. The sector is growing faster than its long-term growth rate, thanks to a foreign demand for goods manufactured in the euro zone: during December, exports increased by 3.1% compared to the previous month (reaching a 12-month high), while imports grew by 1.7%, putting the eurozone's commercial balance at a five-year-high, with a €7 billion surplus in December.

Weak domestic demand in Europe. In contrast with the manufacturing index, the PMI services index, though still over 50 points (is still growing), decreased for the second consecutive month to set at 51.9 points, indicating a lower long-term growing rate (53.7 points). The reason for this is a weak recovery of the domestic demand, since most services can not be exported.

Greece to receive EU rescue for €25 billion. According to sources of the Eurozone's Ministry of Finance, Greece will be receiving financial aid from the EU for €25 billion,



approximately US\$34 billion, of which Germany will have to contribute with approximately 20% for being the largest European economy. There is also information about the Greek government's plan to issue sovereign bonds for €3-5 billion to face the due payment of bonds for €20 billion in April and May. Greece is estimated to have a total debt of around €300 billion.

Greek Government replaced the Chief of the Public Debt Office. Unexpectedly, the Greek Government replaced the chief of their national debt management agency, Spyros Papanicolau, by Petros Christodoulou, who had previously worked for Credit Suisse, Goldman Sachs, JPMorgan Chase and the National Bank of Greece. Greece's First Minister, George Papandreou, confirmed last Sunday that Greece was not looking for financial support but political support to allow his nation to contract debt at the same rate as the rest of the European Union members.

Pound Sterling fell after a speech by the Bank of England's (BoE) Governor. On Tuesday, February 23, the Pound Sterling decreased against the US\$ by over 0.8% (down from US\$1.55/£ to US\$1.54/£), after the Governor of the BoE, Mervyn King, said in his speech it was likely for us to continue to live in a flexible monetary policy in 2010. This brought worries to the market, especially because Britain's y/y inflation reached 3.5% last week, much more than the inflationary goal of 2%.

Political Tips

Henri Falcon quits the PSUV. The Governor of Lara, Henri Falcon, announced in a regional network broadcasting he was quitting the United Socialist Parties of Venezuela (PSUV). Falcon's decision was due to internal discrepancies, for the Governor, the PSUV is far from meeting its objective, for it is contaminated by *"bureaucracy, an absence of discussion, favoritism, grouping and a wrong understanding of the concept of loyalty."*

Following suit... Three National Assembly representatives for Lara are thinking about quitting the PSUV. Out of 13 regional representatives, members of the government party, 7 would be in favor of Governor Henri Falcon and could also quit within days. Possible resignations are also to be expected at Municipal Council levels. The PSUV announced that City Halls maintain their support towards the party. Falcon's inclusion in the PPT could prevent the blue party from being "excluded" from the negotiations with the PSUV for the upcoming parliamentary elections.



What has happened in the Cancun summit? After the first day of the Latin American and Caribbean Union Summit, three issues were highlighted for Venezuela. The first, after a “hot” exchange between presidents Uribe and Chavez, the hosting president, Felipe Calderon, suggested the creation of a group of friend countries to improve the relations between Venezuela and Colombia. In that regard, Chavez assured relations should be clear and focused on *“recovering trust and maintaining transparent and cooperative relations.”* Second, Panama and Venezuela committed to narrowing their cooperation to improve political and commercial relations. Finally, Chief President Chavez informed Latin America would contribute to the Government of Haiti with a fund for US\$30 million to face the devastation expenses caused by the earthquake of last January.

A new mediation. The President of the Dominican Republic, Leonel Fernandez, will preside the Group of Friends of Venezuela and Colombia. The summit’s host, the Mexican President, Felipe Calderon, announced in a press release that Fernandez would be leading this group of countries to help diminish the differences between Colombia and Venezuela. The Dominican President explained the “latent” difference between Venezuela and Colombia forced the creation of a space for compromise and dialogue, to allow the reinstatement of “normal” commercial bonds between both nations.

And Chavez turned it down a notch. The Venezuelan President, Hugo Chavez, said he was willing to normalize the commercial relations with Colombia after his argument with his homologue Alvaro Uribe during the Rio Group presidents’ summit. *“Respect and trust must be fully restituted, and if Uribe needs to sell more Colombian products to Venezuela, we are willing to evaluate the situation, with respect, though,”* said Chavez in a press conference. He added: *“I ratify our best intentions to reinstate calm and the normal commercial, political and social relations between two republics inhabited by the same people, the same reason.”* However, Chavez demanded respect of his Government from his Colombian homologue. President Chavez indicated *“A Colombian government that respects the Venezuelan government is necessary. One that recognizes a legitimate democratic revolution is going on in Venezuela. We respect Colombia and want to work with the Colombian government again as we have worked all these years, with a few issues, especially during the past few years when war in Colombia has been accentuated with support by the United States putting pressure and extending the conflict beyond Colombian borders.”*

The power of communal groups. Before the end of the first quarter of 2010, the National Assembly estimates the approval of the Law of People’s Participation and Power which contemplates the implementation of the Communal State, with an economic model sustained by social property, said representative Ulises Daal, member of the Parliament’s Permanent Citizen Participation, Regional Decentralization and Development Commission. The regulation establishes the development of communal groups as a level above communal councils. With the



approval of this law, the Government is looking to promote a socialist economic model in which the production of goods depends on the communities, thus widening the concept of direct participation among the communities and the Administration, said the representative.

Government internet control is not true. The Minister of Public Works, Diosdado Cabello, said there was no intention to control the internet, in response to versions that say the Government would approve a law to limit the display of critical opinions against the Chavez Administration. About the Radio Caracas Television issue, Cabello said “they are not following the Venezuelan law, so they can not air in Venezuela, they can cry, do whatever they want, they can go to Court, even OAS, I imagine he (Marcel Granier) thinks OAS has a way to grant him a concession, he’s wrong, the place for that is Conatel and that kind of pressure doesn’t work with us.”

Chavez threatens Polar. President Chavez threatened Lorenzo Mendoza, president of Polar Enterprises, with closing his company if he refused to supply food to the Bicentenario Hypermarkets, formerly known as Exito supermarkets.

We will continue to move forward towards the NA. The Communist Party of Venezuela will carry out an internal pre-candidate selection process for the upcoming parliamentary elections, even though the PSUV has not answered the different requests to talk about pending electoral alliances. The member of the PCV central committee, Carlos Aquilino, said “with or without PSUV, we will move forward in our candidacy for the NA.” He warned the rooster party would run for office, with or without the PSUV, but, they expect to achieve political agreements with the revolutionary forces, including President Chavez’s party.

Federal Council Law approved. President Chavez approved the Federal Government Council Law in an act celebrated in el Calvario, asking for it to be applied “in all of its revolutionary radicalism.” According to the President, a better concept of decentralization is handled with this law, so “it is not that old capitalist, sub-imperialist and dismantling concept of decentralization, (...) from a semantic and philosophical point of view, that term does not fit, but is in the Constitution and we need to develop it.”

Decentralization or state liquidation? The new Federal Council law proclaimed by Chavez was rejected by regional governors, political parties and civil organizations, who considered it to be unconstitutional and a tool to destroy regional power. The Governor of Carabobo, Salas Feo, said spaces would be created under this law so that the President would be able to appoint a person in each region. For Ledezma, Metropolitan Mayor of Caracas, this represents a “terrible setback for Venezuela.”



Chavez urged to put “personalisms and other isms” aside. The Venezuelan president, in his Sundays’ radio show, *Alo presidente*, urged people to fight “personalism” and personal ambition. He insisted in strengthening union, voluntary work, the unity of the revolutionary movement (...) people’s work and unitary work because the enemy encourages division and our people are also sometimes attacked by “personalisms”, “divisionisms”, personal ambitions.”

Two lawsuits in one day. The Supreme Court of Justice dismissed in one day two lawsuits against President Chavez introduced in mid-2007 alleging they did not have “any elements that could be considered a specific act, fact or omission included in a behavior that could be considered as criminal.” Both lawsuits were related to the attitude assumed by Chavez during the visit by the Nicaraguan President, Daniel Ortega, to Venezuela, who backed the National Government’s decision to not renew the broadcasting concession to RCTV, aside from punishing the student protests that took place against said closure.

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ECONOMIC OVERVIEW



