Holland & Knight

Venezuela Economic Outlook

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Here is our monthly summary of recent economic developments in Venezuela:

- The U.S. Department of the Treasury published on July 12, 2021, a General License 40, which authorizes for one year certain transactions related to the export or re-export of liquefied petroleum gas (LPG) to Venezuela. The license allows the sale of gas to the Venezuelan government, Petróleos de Venezuela, S.A. (PDVSA) and any other public entity, enabling the mitigation of the severe domestic gas crisis that the country is experiencing. However, the license does not allow payment in kind (exchange of crude oil for LPG), which could weaken the scope of the humanitarian relief that could be obtained from this measure if the buyers are unable to mobilize the necessary funds to pay for the gas.

- This license could be considered as a sign of an upcoming license that allows diesel imports. However, the political events that took place on the same day of the General License 40 issuance threaten further similar developments by the U.S. The diesel deficit has been affecting production and distribution activities, both through intermittent supply and costs since April. In June, there was a slight improvement in the diesel supply, which was consider ephemeral, attributable to the arrival of the vessel Bueno at the end of May with 500,000 barrels of low sulfur diesel.

- On the oil front, oil exports rose for the second consecutive month to 713,097 barrels per day (bpd) in July as PDVSA offset cargo delays at its main port by boosting ship-to-ship transfers, according to tracking data and documents reviewed by Reuters. With that, July marks the highest level of Venezuelan crude exports since February. "A growing number of mostly unknown customers with no background in oil trading has helped PDVSA increase shipments, most of which now go to Asia," Reuters said.

- Corporación Venezolana de Petróleo (CVP), a subsidiary of PDVSA, assumed 100 percent of the capital stock of the joint venture Petrocedeño. French oil company TotalEnergies and Norwegian Equinor ASA left Venezuela's key joint venture as the country's energy industry has been weakening. According to two sources with direct knowledge of the decision, Bloomberg reported, the companies transferred their capital stock to the upgraded oil production joint venture Petrocedeño to state-owned PDVSA. TotalEnergies and Equinor, which held 30 percent and 10 percent of the capital stock, respectively, had been significant partners of PDVSA since the 1990s. PDVSA will now exercise full control of Petrocedeño. This company operates one of the heavy crude upgraders in the Orinoco Oil Belt, which has a capacity of 200,000 bpd of crude oil that is commercially viable in the international market.

- Citibank also joins the entities that will cease their operations in the country. Citi and Banco Nacional de Crédito (BNC) officially announced that they have entered into a definitive agreement whereby BNC will acquire Citi's operations in Venezuela. The closing of the sale received regulatory approval on July 7, 2021. Citi has been in Venezuela for more than 100 years, and the acquisition of its operations and personnel in the country will enable BNC to create business opportunities for multinational corporations and Venezuelan companies, as well as individuals, by offering them an attractive portfolio of products and services and a nationwide commercial network.

- The Organization of American States (OAS) warned that Venezuelan migration could reach 7 million people by the end of 2021 or early 2022, surpassing the exodus from Syria, considered the largest in the world, with 6.7 million refugees who have left that country. According to a report released by the OAS Working Group on the Venezuelan Migrant and Refugee Crisis, "if there is no political, economic and social solution in the short term, it is estimated that there could be more Venezuelan refugees than Syrians."

- Recently, *The Economist* published its well-known Big Mac index, a benchmark indicator. It compares the purchasing power of several countries to the sum of dollars required to buy the famous McDonald's hamburger. Unfortunately, the magazine had excluded Venezuela from such indicator in 2018 because of the hyperinflationary spiral, which led the publication to argue that the index would probably underestimate price increases and devaluation given the complex economic scenario. However, the monitoring carried out on July 20, 2021, considered the Big Mac price in Venezuela, the country where the highest dollar price is required to purchase it (US$8.35), a figure that reflects a significantly higher price than the hamburger's original price, which is $5.65 in the United States.

- Tiziana Polesel, the president of the Venezuela's National Council of Commerce and Services (Consecomercio), commented to EFE news agency that there is "unfair competition" between imports and national production because "while this tax is not charged for a product to be marketed in Venezuela ... the national manufacturer of the same product is charged all the taxes to import the inputs needed to manufacture." Polesel clarified that "before they had to pay taxes to nationalize those products and today they are exempt," which "benefits a sector that has been able to import" with "competitive prices." Indeed, in 2018, President Nicolás Maduro signed a decree with which he exempted the import of intermediate and finished products from taxes in order to "accelerate the country's growth." Although the exoneration was for one year, the decree has been maintained with extensions since then. The Venezuelan manufacturing industry association has since requested that products manufactured in Venezuela enjoy the same benefits granted to imported products.

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