



Foreign Agricultural Service

GAIN Report

Global Agriculture Information Network

Scheduled Report - public distribution

Date: 11/29/1999

GAIN Report #VE9057

Venezuela

Dairy Annual

Dry Milk Imports will Rise

1999

Approved by:

Martin Patterson

U.S. Embassy

Drafted by:

Clara Nuñez

Report Highlights:

Venezuela is a milk deficit country. Annual imports of dry milk were 60,000 MT in 1998 and again this year, but are expected to increase in the year 2000 despite the ongoing recession and decline in disposable income. Dry milk consumption in Venezuela has proven to be a function of the economic conditions of the country, but the dramatic turnaround in petroleum prices has renewed hope of an economic recovery.

Includes PSD changes: Yes
Includes Trade Matrix: Yes
Annual Report
Caracas [VE1], VE

Table of Contents

Executive Summary	1
Dry-Whole Milk PSD Table	2
DRY MILK	3
Production	3
Consumption	3
Prices Table	4
Trade	5
Marketing	5
Non-Fat Dry Milk PSD Table	6
NON-FAT DRY MILK	7
Production/Consumption	7
Import Trade Matrix	7
YOGURT	8
Production/ Consumption	8

Executive Summary

Venezuela does not produce enough milk to meet its needs. Most consumers still tend to prefer milk purchased as powdered milk, probably because refrigeration does not have a historical basis in many parts of Venezuela. Most children grow up drinking powdered milk. Milk production only covered 69 percent of the domestic consumption in 1998. Domestic milk production is expected to decline approximately 10 percent in 1999. Annual imports of dry milk were 60,000 MT in 1998, should remain flat in 1999, then increase in 2000 due to the expanding shortfall between domestic production and consumption. Most imports of dry milk come from New Zealand (at least half), the United States and the European Union.

Milk consumption dropped by 10 percent in the first half of 1999 as compared to the same period in 1998. The fall in consumption has been attributed to the economic recession and the decline in real incomes. Fluid, UHT milk and cream have been the most affected segments. Dry milk consumption has also been affected, but not to the degree of other dairy products. The latest data on dry milk imports in this report can be attributed to improved information provided by local government and industry sources. Industry and government officials alike are optimistic that the economy will rebound in 2000 and, with the recovery, they believe consumers will renew consumption of dairy products.

Within the Venezuelan dairy sector, industrial and hand-made cheeses account for 47 percent of total consumption, dry milk accounts for 35 percent, followed by fluid milk with 10 percent, UHT milk with 2 percent and 6 percent goes for other uses. These figures include the imported component of dry milk.

The market for non-fat dry milk has been steady over the last five years. Non-fat products are consumed by a small segment of the population. The United States was the main source of imports of non-fat dry milk in 1998.

The Venezuelan Milk Council has approved a plan to protect local milk and by-product production. The Milk Council consists of representatives from the Ministry of Production and Commerce (the restructured Ministry of Agriculture), producers and processors. The new system consists of a tariff rate quota (TRQ) for all imported dairy products which includes a strict control of dairy products at Venezuelan customs. The GOV also decided that all social programs will be supplied with dairy products produced in Venezuela.

Venezuela is an important market for New Zealand's milk and milk-based products. The New Zealand Food Minister came to Venezuela for a two day visit in August of 1999 aimed at strengthening commercial and political ties between the two nations. The Minister noted that New Zealand provides almost 50 percent of the milk and dairy products that Venezuela imports. He also said that his country is very interested in increasing their market share.

Post notes that there is a potential growing market for yogurt and yogurt-based products in Venezuela. The average market growth rate for yogurt has consistently been in double-digit percentage rates in recent years.

PSD Table						
Country	Venezuela					
Commodity	Dairy, Dry Whole Milk Powder				(1000 MT)	
	Revised	1998	Preliminary	1999	Forecast	2000
	Old	New	Old	New	Old	New
Market Year Begin		01/1998		01/1999		01/2000
Beginning Stocks	37	37	28	35		41
Production	48	40	46	38	0	40
Intra EC Imports	0	0	0	0	0	0
Other Imports	20	60	19	60	0	65
TOTAL Imports	20	60	19	60	0	65
TOTAL SUPPLY	105	137	93	133	0	146
Intra EC Exports	0	0	2	0	0	0
Other Exports	2	2	0	2	0	2
TOTAL Exports	2	2	2	2	0	2
Human Dom. Consumption	75	100	71	90	0	110
Other Use, Losses	0	0	0	0	0	0
Total Dom. Consumption	75	100	71	90	0	110
TOTAL Use	77	102	73	92	0	112
Ending Stocks	28	35	20	41	0	34
TOTAL DISTRIBUTION	105	137	93	133	0	146
Calendar Yr. Imp. from U.S.	0	0	0	0	0	0
Calendar Yr. Exp. to U.S.	0	0	0	0	0	0

DRY MILK

Production

Venezuela is a milk deficit country. The dairy sector is based mostly on dual purpose cattle. In 1998 domestic production of milk only covered 69 percent of the domestic demand. The remainder has traditionally been imported in the form of dry milk. Revised figures are supported by GOV data. Dry milk production for 1998 was 40,000 MT and is estimated to decline to 38,000 MT in 1999. Dry milk production is forecast to rebound in 2000 back to 40,000 MT.

The current decline in production is due primarily to the deteriorated economic conditions of the country. According to industry sources, another source of the decline is that many cattle ranchers in the important dairy production area along the Colombian border have been abandoning their estates and selling their animals due to security problems. The extent of this problem is not yet clear, but most probably the effect has been a higher than normal slaughter rate and/or more dairy cattle devoted to dual-purpose herds instead of milk production.

According to Government statistics, the availability of dairy products was just over 2.0 billion liters, of which 69 percent of total supply was covered by domestic production. Domestic raw milk production declined another 12 percent in 1998 as a result of the continuing economic recession. According to industry representatives, the 1998 drop in domestic raw milk production was the highest in the last decade. As noted above, economic conditions and security issues have an impact on productivity, but undoubtedly, another key underlying factor that plagues the Venezuelan dairy industry is poor application of technology. Average daily milk production is only 4 liters per cow, while in other Latin American countries such as Argentina and Uruguay, yields can reach 10 and 12 liters, respectively. Post's long range forecast is that the domestic dry milk deficit will continue to grow. That is, if production keeps falling and the population growth rates stay at current levels, and a recovery of per capita consumption is registered, the domestic dry milk deficit could reach 51 percent by the year 2005 versus the current 31 percent level.

Consumption

Dry milk consumption in Venezuela is closely tied to the economic conditions of the country. Dry milk consumption and imports traditionally rise and fall with the economy. Conditions have been stagnant for the past five years with consumption following. Predicting imports have proven more challenging for the reasons noted above, but the overall trend is positive.

More than 90 percent of consumption is from whole dry milk, which is either imported or processed locally. Per capita dry milk consumption has traditionally been higher than that of fluid milk. Dry milk represents 35 percent of all dairy products consumed, of which imported dry milk accounts for 24 percent.

Despite of the deteriorated purchasing power of Venezuelans, per capita consumption of dairy products only fell from 85.19 liters in 1997 to 84.24 liters in 1998. Fluid, UHT milk and cream were the most affected segments. According to industrial sector representatives, consumption of juices and soft drinks have increased at the expense of milk. Also, industry sources believe that lower-income families have been trying to extend the contents of a can of dry milk by diluting the product with more water.

According to Post contacts, milk consumption decreased 10 percent in the first half of 1999 as compared to the first six months of 1998. The decrease in consumption has been attributed to the economic recession. The decline in consumption in 1999 has created an atypical stock situation. The industry generally does not carry inventories beyond 30 days, but the current situation has forced stocks to be held as long as 45 days.

The Venezuelan price of raw milk is 24 percent higher than the average international price. Producers maintain that milk processors are responsible for the high retail prices because the current farm-gate prices paid by the large processors do not cover their cost of production. Farm-gate prices of raw unrefrigerated milk are presently US \$ 0.34/liter as defined by the formula established by the GOV in 1997. In Venezuela the internal reference price for raw milk has a value established by the Andean system in accordance with the US \$ price list and the environmental factors linked to milk production, and a rate established by the market. In that sense, the domestic price of US \$ 0.34/liter is over the ceiling price of US \$ 0.31/liter fixed by the Andean Community Price Band.

Prices Table			
Country	Venezuela		
Commodity	Dairy, Dry Whole Milk Powder		
Prices in	Bolivars	per uom	Kg
Year	1998	1999	% Change
Jan	2310	3300	42.86%
Feb	2350	3467	47.53%
Mar	2500	3333	33.32%
Apr	2500	3333	33.32%
May	2500	3467	38.68%
Jun	2700	3500	29.63%
Jul	2700	3233	19.74%
Aug	2700	3533	30.85%
Sep	2800	3567	27.39%
Oct	2800	3600	28.57%
Nov	2850		
Dec	2850		
Exchange Rate	Bs. 629	Local currency/US \$	

Source: Local Newspapers and ASOLEP (Venezuelan Powder Milk Industry Association)

Note: The 1999 inflation rate for Venezuela is estimated to be 22 percent.

Trade

Venezuela does not import fluid milk. Venezuela imports around 5,000 MT per month of dry whole milk, which is processed locally, packed and distributed. Most dry milk imports come from New Zealand and the European Union. Dry milk imports usually cover about 30 percent of total consumption. According to figures from the Venezuelan Dry Milk Processors Association (ASOLEP), imports of powdered milk were 60,000 MT in 1998.

Whole dry milk imports for 1999 are estimated to remain about the same at 60,000 MT because importers cannot risk having insufficient supplies. On the other hand, they cannot import larger quantities because they cannot hold much larger stocks. Imports are forecast to be up to 65,000 MT in 2000, because the outlook for the year 2000 points to an increase in consumption since most sources believe that the economy will recover due to higher petroleum prices.

Marketing

About 25 percent of the total Venezuelan dry milk imports came from New Zealand in 1997, while only 9.8 percent came from the United States. In 1998, even though full import data was not completely available, Post detected and contacts have confirmed, a fall in imports coming from the United States.

The primary factor causing the decline is that importers claim better purchasing terms from other countries. For example, there is interest on the part of the importers to use the DEIP program. However, importers that were surveyed claim that the program is inconvenient for routine purchases and would require having someone resident in the United States just to manage DEIP purchases. On the other hand, the New Zealand Dairy Board has an office conveniently located in Caracas to assist them. In addition, the larger importers report that they are able to buy powdered milk from New Zealand and the European Union countries through letters of credit payable in 90 days at DEIP prices, without DEIP complications.

Importers suggested that potential U.S. exporters could increase market share if they strengthen their presence in Venezuela and provide more flexible financing.

PSD Table						
Country	Venezuela					
Commodity	Dairy, Milk, Nonfat Dry			(1000 MT)		
	Revised	1998	Preliminary	1999	Forecast	2000
	Old	New	Old	New	Old	New
Market Year Begin		01/1998		01/1999		01/2000
Beginning Stocks	0	0	0	0	0	0
Production	3	3	3	3	0	3
Intra EC Imports	0	0	0	0	0	0
Other Imports	2	2	2	2	0	3
TOTAL Imports	2	2	2	2	0	3
TOTAL SUPPLY	5	5	5	5	0	6
Intra EC Exports	0	0	0	0	0	0
Other Exports	0	0	0	0	0	0
TOTAL Exports	0	0	0	0	0	0
Human Dom. Consumption	5	5	5	5	0	6
Other Use, Losses	0	0	0	0	0	0
Total Dom. Consumption	5	5	5	5	0	6
TOTAL Use	5	5	5	5	0	6
Ending Stocks	0	0	0	0	0	0
TOTAL DISTRIBUTION	5	5	5	5	0	6
Calendar Yr. Imp. from U.S.	0	0	0	0	0	0
Calendar Yr. Exp. to U.S.	0	0	0	0	0	0

NON-FAT DRY MILK

Production/Consumption

Total production in the last five years has been steady. Production in 1998 was 3,000 MT and it is not expected to increase.

Demand for non-fat dry and fluid milk is a small fraction of the total milk demand. Non-fat is consumed by a small segment of the population with a high socio-economic standard of living. In 1997, some milk companies such as Parmalat and the New Zealand Dairy Board introduced new brands of non-fat milk enriched with vitamins and calcium, but the result has not been favorable. Demand did not grow as expected, but Post forecasts a slight increase in demand from 5,000 MT to 6,000 MT for the coming year 2000 as a result of the large companies investing in intensive advertising campaigns throughout the year.

The expected increase in demand will be covered by imports, with the United States being the most important source of imports. Official import data shows that imports from 1998 (January to June) were 334 MT, however, according to Post contacts, estimated total imports for 1998 are 2,000 MT. The United States has been very active in the non-fat dry milk segment since 1993. The U.S. share of imports was at 30 percent in 1997 and it grew to almost 80 percent of the imports in this segment in the first half of 1998.

Import Trade Matrix			
Country	Venezuela		
Commodity	Dairy, Milk, Nonfat Dry		
Time period		Units:	MT
Imports for:	1997		Jan-Jun 1998
U.S.	180	U.S.	310
Others		Others	
Colombia	155		0
U.K.	150		12
The Netherlands	60		12
Total for Others	365		22
Others not Listed	55		5
Grand Total	600		337

Source: Venezuelan Central Office of Statistics (OCEI, Oficina Central de Estadísticas)

YOGURT

Production/ Consumption

Another product that is getting more attention in Venezuela these days is yogurt. According to Post contacts, yogurt sales during 1998 increased to twice the level of 1996 sales due to the aggressive marketing strategies performed by the major companies. Innovations have included new brands, new presentations of liquid yogurt, yogurt with cereal and yogurt desserts that were not common on the Venezuelan market until recently. The major market is Caracas, representing half of total sales (Venezuela has 23 million inhabitants and 5 million live in Caracas). There is great potential for growth in the other cities of Venezuela.

According to the market leader, Parmalat, total Venezuelan yogurt sales were approximately 24,000 MT in 1998. Parmalat accounted for at least 10,000 MT. Parmalat, a large Italian dairy corporation that has sizeable investment throughout Latin America, is one of the largest dry milk processors in Venezuela (formerly a government-owned company name Indulac). All local manufacturers consider Venezuela to be an attractive and growing market. Compared to other countries, Venezuela still consumes little yogurt, only 1.8 liters per capita/per year. Colombia consumes 6 liters per capita/per year, while France consumes 10 liters per capita/per year. Yogurt producers feel that these figures indicate the existence of a fertile market for developing yogurt consumption in Venezuela.

Venezuelan market-share for yogurt companies (1998)

Manufacturer	Market-share
Parmalat	40% (leader in all yogurt categories)
Inlaca	22.3%
Alpina	16.7%
Los Andes	15.4%
Prolaca	2.9%
Others	2.7%

Source: Parmalat figures