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Venezuela

Sugar

Annual

2000

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Report Highlights:

Sugar imports from Central American countries and Andean Community countries over the last two years have soared. A situation of increasingly high inventories and little or no significant increase on the consumption side has pushed sugar cane growers and millers to request import restrictions.

Despite Government announcements of support to the industry, the only achievement was the implementation of tariff rate quota licensing at the end of 1999.

Includes PSD changes: Yes
Includes Trade Matrix: No
Annual Report
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Executive Summary

Despite ideal conditions for sugar cane production, Venezuela produces only about 70 to 80 percent of domestic consumption needs. Cane and sugar production are projected to remain unchanged during the next three years as result of troublesomeness of the entire sector. The Ministry of Production and Commerce has announced to the press that sugar imports will be halted, but nothing has been published in the Official Gazette except for tariff rate quotas for sugar cane.

The Venezuelan sugar industry continues to face difficulties caused by a combination of high production costs, large imports, soaring stocks, declining purchasing power of Venezuelans and difficulties obtaining financing. The sugar mills have been the hardest hit by the crisis and at least two major mills have closed their doors, while the other seven mills seem to operating with losses. The above mentioned factors have led the industry leaders to voice concerns to government officials, especially now that President Chavez has promised to strongly support the overall agricultural sector.

Venezuela imports both cane and sugar. Imported Colombian cane is crushed in mills along the border. Imports of raw and refined sugar are dominated by Colombia and El Salvador, followed by Guatemala. Colombian sugar enters duty free due to Colombia's status as an Andean Community country, while El Salvador's sugar also benefits from a zero customs duty because of a bilateral agreement.

Venezuela exports some refined sugar produced near the border into Colombia. Some sugar produced in northern Venezuela is exported to nearby Caribbean islands.

Sugar Cane For Centrifugal

PSD Table						
Country	Venezuela					
Commodity	Sugar Cane for Centrifugal				(1000 HA)(1000 MT)	
	Revised	1999	Preliminary	2000	Forecast	2001
	Old	New	Old	New	Old	New
Market Year Begin		01/1999		01/2000		01/2001
Area Planted	0	117	0	117	0	117
Area Harvested	0	117	0	117	0	117
Production	0	6950	0	6950	0	6950
TOTAL SUPPLY	0	6950	0	6950	0	6950
Utilization for Sugar	0	6950	0	6950	0	6950
Utilizatn for Alcohol	0	0	0	0	0	0
TOTAL UTILIZATION	0	6950	0	6950	0	6950

Centrifugal Sugar

PSD Table						
Country	Venezuela					
Commodity	Centrifugal Sugar				(1000 MT)	
	Revised	1999	Preliminary	2000	Forecast	2001
	Old	New	Old	New	Old	New
Market Year Begin		09/1998		09/1999		09/2000
Beginning Stocks	178	238	238	398	0	267
Beet Sugar Production	0	0	0	0	0	0
Cane Sugar Production	600	535	610	535	0	535
TOTAL Sugar Production	600	535	610	535	0	535
Raw Imports	140	5	60	4	0	5
Refined Imp.(Raw Val)	60	350	60	60	0	60
TOTAL Imports	200	355	120	64	0	65
TOTAL SUPPLY	978	1128	968	997	0	867
Raw Exports	50	50	45	40	0	50
Refined Exp.(Raw Val)	10	10	5	10	0	10
TOTAL EXPORTS	60	60	50	50	0	60
Human Dom. Consumption	679	669	669	679	0	679
Feed Dom. Consumption	1	1	1	1	0	1
TOTAL Dom. Consumption	680	670	670	680	0	680
Ending Stocks	238	398	248	267	0	127
TOTAL DISTRIBUTION	978	1128	968	997	0	867

Production

There are two well-defined cane harvest seasons in Venezuela. The first season takes place between November and April. This crop represents 70 percent of total domestic production with the bulk of the harvest occurring during December through February. The smaller “winter” crop occurs between June and October, with most of the harvest in September.

The outlook over the next two to three years calls stagnant production because at this moment supply heavily surpasses domestic demand. Currently, efforts to increase production will not pay off because a history of increasing imports lead to soaring stocks. The overflow of sugar in the country will need to reach levels were supply, demand and stocks are evenly balanced before any attempt to increase sugar production is made.

Sugar production over the last two years has been on a downward trend as a result of a combination of factors: a) Central American origin imports, b) the excessively high cost of agricultural inputs for sugar production, c) increasingly high stocks, d) difficult access to financing and e) declining purchasing power of consumers that has resulted in stagnant demand.

During 1999 the number of Venezuelan sugar mills went from sixteen to thirteen, with seven of those remain in danger of closing operations. Most Venezuelan sugar mills have been looking at ways to increase their efficiency and expand production through investments in upgrading infrastructure in the short term, but the domestic market has been flooded by imports.

Plans to Nationalize the Sugar Industry

Given the GOV's initial interest in expanding sugar production over the next few years, industry representatives approached the government to identify constraints and to propose incentives. Among the most important constraints identified by industry representatives were: the lack of affordable financing, high production costs and land tenure problems. An incentive proposed by the sugar industry representatives was to restrict sugar imports from third countries and from Andean Community countries (see Trade section).

The Minister of Production and Commerce stated to the press that, as result of the Government’s plans to relaunch sugar as a leading commodity and because of some financial problems that a couple of mills are facing, he may consider nationalizing sugar mills that had been privatized.

In 1989 Venezuela began the process of privatizing its sugar industry. The Venezuelan Investment Fund (Fondo de Inversiones de Venezuela, FIV) was established to manage the sale of Venezuela's state-owned mills and plantations. At that time 19 mills were operating, six of which were state-owned (Central Tacarigua, Central Urena, Central Rio Yaracuy, Central Motatan, Central Majaguas and Central Cumanacoa). FIV sold these six mills to private companies between 1989 and 1994.

Recently, a Cuban delegation of sugar experts was in the country at the request of the GOV evaluating the sugar mills. This action confirms the GOV’s intention to take over the sugar industry, but it does not give a clear perspective of how it would put all the pieces together.

Crop Area

During the 1999/00 season, area planted to sugar cane is estimated at 117,000 hectares. According to FESOCA (Venezuelan Sugar Cane Growers Association) and UPAVE (Venezuelan Sugar Producers Association) about 80 percent of the sugar area is under irrigation by conventional and pivot systems. Acreage would likely increase once farmers get access to more competitive agricultural loans. Agricultural loans will provide access to prepare more area for sugar cane (See Policy Section for more information). However, it is not economically attractive to increase area planted to sugar at a time when supply surpasses demand. FAS/Caracas doubts that any increase of area planted could be achieve in the next two to three years.

Yields

Traditionally, Venezuela's sugar cane recovery rate has been one of the lowest among South American countries. However, this situation existed while the mills belonged to the GOV. Recovery rates have improved under private sector management. Better management practices have resulted in fewer sugarcane fields being burned. Currently, average yields stand at 60-61 MT/per hectare.

POLICY

The GOV considers the sugar sector to be an important agricultural commodity because it represents a source of employment and, therefore, the government sees a need to provide production incentives. These efforts could include expanding the availability of credit, developing more productive and disease resistant varieties of sugar cane, and by providing extension services aimed at improving cultivation practices. The extension services (improving cultivation practices, developing more productive and disease resistant varieties of sugar cane) will likely be done through an official government research entity such as Fondo Nacional de Investigaciones Agropecuarias (FONAIAP). Some producers have been approaching U.S. universities & experiment stations directly for variety assistance.

Agricultural Loans

Agricultural financing is being promoted by the GOV as an incentive for farmers to plant more sugar cane. The access to agricultural loans as presented by the GOV seems simple, but once farmers initiate a formal request they must present items such as land tenure certifications, guarantees, personal balance sheets, planting and harvesting plan, among others. Once the bank approves the loan request, it goes to the GOV’s "second floor" bank that will finally approve the loan. It is worth noting that not all farmers are able to gather the appropriate documentation, thus narrowing the access to loans. Finally, by the time the farmer needs to start planting, the loan may not be accessible. The bureaucracy of the process will likely prevent area planted from increasing as much as growers would like to achieve.

CONSUMPTION

For several years now, sugar consumption in Venezuela has been stable at around 650,000 to 700,000 MT. Overall growth in sugar consumption has been driven by industrial users. Nearly one hundred percent of total industrial usage is for the production of soft drinks. The local soft drink industry does not use high fructose corn syrup or other sweetener for its non-diet beverages.

At present, household consumption of sugar accounts for two thirds of total usage, with the balance being directed as inputs in the food processing sector. Sugar as an input into animal feed rations is expected to remain at current levels during the next 2-3 years.

During 1999 sugar consumption did not change significantly, although soft drink officials mentioned that consumption of soft-drinks fell between 12 and 17 percent. Soft drinks can be replaced by fruit juices (U.S. exports of fruit & vegetable drinks to Venezuela reached record levels in 1999), non-alcoholic malt beverages and beer. But those products are most costly than soft drinks. Moreover, soft drinks are distributed in a much larger volume than pasteurized products.

Stocks

Over the past 20 years, ending stocks of sugar have been heavily influenced by the protectionist policies of various Administrations; for example, during most of the 1980's, sugar inventories averaged 321,000 MT, while over the past eight years the level was 106,000 MT.

Sugar stocks were kept very high during 1999 because retailers, wholesalers and soft drink manufacturers alike have been importing large quantities of raw and refined sugar for the last two years. All of these groups sought to keep reasonable inventory levels on hand for fear of not having a sufficient and reliable supply of domestic production, which was partly true during the mid-nineties.

Soft drink manufacturers imported sugar because of competitive international prices, but because importing is a risky and complicated process in Venezuela, reports are that bottlers are not expected to continue importing. Instead, sugar millers and wholesalers will reportedly import and sell to the soft drink industry. The consequence of large imports by both bottlers and sugar millers is a market full of sugar which means nothing but ascending stocks. High stocks create unwelcome downward pressure on prices during a time when the government wants to stimulate domestic sugar supply.

Post estimates the year ending stock levels of 1999 at 398,000 MT- higher than the typical supply level of approximately 106,000 MT-due to much larger imports carried over the last two years and lower consumer purchasing power. The forecast for 2000/01 is a reduction in high stocks while the sector readjusts in the short run with options such as imports facing a licensing scheme, which will limit the amount of sugar entering the country.

TRADE

Venezuela is not self sufficient in sugar production . Domestic production currently accounts for about 80 to 88 percent of domestic consumption. The majority of sugar imports comes through Colombia because the sugar enters duty-free into Venezuela. (See Tariff Changes section for additional details)

The heavy flow of imported sugar has depressed local sugar prices. Both FESOCA and UPAVE believe the GOV should impose an import license regime on sugar from Central American countries and Andean Community countries. The GOV has acknowledged FESOCA and UPAVE's request and published an import licensing regime for sugar cane (For more information see Tariff Changes section).

FESOCA published an open-letter to the Minister of Production and Commerce, J.J. Montilla, demanding an import ban for sugar from any origin, including Andean Community countries. FESOCA argues that the domestic cost of production is so high that it makes the crop economically inefficient, therefore, one solution would be to stop imports and drive up prices. Post notes that traditionally Venezuela imported around 200,000 MT of sugar each year from Colombia, El Salvador, Guatemala and Honduras. According to official trade statistics, Venezuela imported 363,000 MT of sugar in 1999/00, almost 82 percent more than its normal import levels, mainly because the international price of refined sugar was more attractive (lower) than the domestic price (higher due to production costs). However, import figures for 1998/99 of approximately 355,000 MT reflect industry sources.

Venezuela used to export sugar to nearby Caribbean islands such as Aruba and Curacao. Also, Colombia was a natural export market as result of having a sugar mill near the border. Exporting sugar to Colombia was basically seasonal (the mill at the border bought Colombian cane when it was off season in Venezuela, refined it, and re-exported it to Colombia) but this trend diminished over the last two years. Although the GOV considers sugar to be an export commodity there is no evidence of government efforts to promote sugar exports. Post has no knowledge of any GOV trade mission searching for an export market.

Total sugar exports are expected to increase by as much as 66 percent for 1999/00 as compared to 1998/99; continuing this increased export trend during 2000/01 because sugar millers strive to reduce stock pressure.

Tariff Changes

Raw and refined sugar coming from the Andean Community enters Venezuela duty-free. Bilateral agreements signed with Guatemala, Nicaragua and El Salvador also give sugar from these countries duty-free access. The Ministry of Production and Commerce has made statements to the press that it would apply an import license regime for all sugar imports from Central American countries to encourage consumption of the local crop, but nothing has been published in the Official Gazette.

On November 23, 1999, the GOV published a Resolution in the Official Gazette (Number 36,835) announcing a tariff rate quota (TRQ) for 132,013 MT of sugar cane with a tariff cap of 40 percent; according to Venezuela's commitment to the GATT agreement of 1994. The TRQ's will be granted through an import license regime according to specified guidelines published by the GOV. The import license regime will allocate only 30 percent of the total amount of the TRQ and will issue import licenses for the first three months of 2000. Wholesalers, sugar mills or others must present the following supporting documents to receive an import license:

- detailed monthly relation of imports from the last two years, indicating volume and value of imports
- Venezuelan sugar mills must present a report of payments due to sugar cane growers.

As of the writing of this report, the GOV has not issued a sugar import license, although Post knows that importers have presented the documentation to the appropriate authorities.

The 40 percent tariff cap to the sugar entering through TRQ's is applied only if the resulting tariff of the application of Andean Community price band and reference price system is higher than the TRQ.

The present base tariff on sugar is 15 percent ad valorem calculated on the CIF price basis. The GOV discourages sugar imports from countries outside the Andean Community through the application of its basic import duty and the Andean Community's price band and reference price systems. During 1999 the average tariff for sugar cane was over 120 percent, and it was over 130 percent for white refined sugar. For the most current tariff rates, check the following web-site at: www.comunidadandina.org

Sugar coming from the United States has not been reported during 1998/99 mostly because the stiff import duties make competition tough for all sugar except that of Andean Community and Central American sugar origin.

Export Subsidies

The GOV does not provide any special incentives for sugar cane or refined sugar exports.