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Sugar

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Report Highlights:
After showing a slight recovery in production in 2003/04, Venezuelan sugar production is forecast to remain stagnant in 2004/05. Domestic production is still insufficient to fully meet local demand, and imports, mainly of raw sugar, are once again expected to be around 270,000 tons. Export levels are hard to track as much of that product goes through non-official channels and the recent shifts in exchange rates have made it more profitable to export sugar to Colombia. In November 2003 there were spot sugar shortages at the retail level due to a delay in the issuance of import licenses. The Venezuelan government maintains a tight control over the sugar import license regime, and with the government also now importing sugar there is some concern by the private sector that licenses will be delayed again this year.

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

Table of Contents

Executive Summary

After showing a slight recovery in production in 2003/04, Venezuelan sugar production is forecast to remain stagnant in 2004/05. Domestic production is still insufficient to fully meet local demand, and imports, mainly of raw sugar, are once again expected to be around 270,000 tons. Export levels are hard to track as much of that product goes through non-official channels and the recent shifts in exchange rates have made it more profitable to export sugar to Colombia. In November 2003 there were spot sugar shortages at the retail level due to a delay in the issuance of import licenses. The Venezuelan government maintains a tight control over the sugar import license regime, and with the government also now importing sugar there is some concern by the private sector that licenses will be delayed again this year.

PRODUCTION

Venezuelan sugarcane is harvested twice during the year with the first harvest taking place from November through April (70 percent) and the second from June through November (30 percent). Currently, there are fifteen cane crushing mills operating in Venezuela. The three largest mills are Central Azucarero Portuguesa, Central El Palmar, and Central La Pastora. Average yields are around 63 tons per hectare and sugar recovery rates are about 8 percent. While Venezuela has an excellent climate for sugar production, high production costs, lack of affordable financing and land tenure problems have plagued the sector.

Until the devaluation of the local currency in February 2002, importing sugar was much more attractive than increasing domestic production. While economic incentives have partially changed, the lower yielding cane varieties prevalent in Venezuela and the lack of wide-spread modernization of field management techniques continues to hamper the sector. Fertilizer and pesticide use is also down due to increasing costs, especially for imported items. Farm equipment is not being properly maintained because imports of spare parts have not kept pace with demand due to foreign exchange controls. Water availability for irrigation has not been a problem to date, although power costs and pump maintenance could become issues in the future.

Cane area is estimated to have increased by 8 percent in 2003/04 in response to the extreme sugar shortage that occurred in November 2003. However the forecast for production in 2004/05 is for no further increase mainly due to the lack of a price stimulus to increase plantings. The Venezuelan government is still promoting its agricultural planting plan for 2004, and while the focus has mainly been on increasing acreage for grain and feed crops (corn, sorghum, rice) the objective for sugar is to increase acreage up to 167,000 hectares. The plan is reported to include credit and financial assistance but probably no technical assistance. In recent years these types of proposals have not let to increased production and so far there is no indication that this year will be any different.

According to industry sources, the amount of sugarcane milled has fallen dramatically since the 2000/01 year. In the two main producing states of Lara and Portuguesa the quantity milled is down almost 30 percent and down that much in Zulia state as well. The biggest drop was in the state of Aragua where only half as much sugarcane is now being milled as 4 years ago.

POLICY

There has been an on-going series of plans to re-nationalize the sugar industry, but other than the announcement in 2002 of the creation of a state-owned sugar mill in the state of Barinas, Complejo Agroindustrial Azucarero Ezequiel Zamora, most sugar production is in private hands. The Zamora mill is still under construction and has not yet milled any cane. The GOV does have part ownership of the Pio Tamayo mill in Lara state. The GOV has discussed many programs of production incentives such as expanding credit, developing more productive and disease resistant varieties of sugar cane, and providing extension services aimed at improving cultivation practices. However, there has been limited follow-through.

STOCKS

Sugar stocks are expected to remain at below normal levels through most of 2004 because retailers and wholesalers alike are unwilling to keep normal inventory levels for fear of being accused of hoarding by the government. Yet, stores are no longer rationing retail sales as occurred in the fall of 2003. With lower overall stock levels, it will become even more crucial that the government closely monitor sugar availability and issue the necessary import licenses in a timely fashion to prevent future shortages.

CONSUMPTION

Traditionally, about two thirds of domestic sugar consumption is for household use, with the rest going to the industrial sector (soft drink industry.) Sugar consumption is expected to remain suppressed due to falling disposable incomes of consumers, and an economy that is showing only a mild recovery. Manufacturers of products that have a significant sugar content, such as cookies, crackers, and confectionery products, are adjusting their demand for sugar as they are faced with rising prices. Currently the country has only one major cookie manufacturer, Nestle. The Venezuelan soft drink industry generally uses 100% sugar without any fructose or other sweetener for its non-diet beverages. Both Coca Cola Company and Pepsi-Cola have large investments in the country. The soft drink industry sector has been particularly hard hit, with one research study indicating that soft drink consumption decreased 27% between January and October 2003. Post does not forecast a recovery in consumption in the short term.

Retail prices for refined sugar have been under price control by the government since February 2003. Since then, the retail price of sugar was allowed to increase only once, on April 15, 2004, going from Bs. 900 to Bs. 1,035 per kilo, but this still kept the price at around 25 cents/lb due to the 20 percent devaluation that also occurred in February 2004.

FESOCA (Venezuelan Sugarcane Growers Association) and with the two sugar miller's association, UPAVE (Venezuelan Sugar Producers Association) and VENAZUCAR (Venezuelan Sugar Producers and Refiners Association) are involved in the negotiations to set sugar prices. During 2003, the Ministry of Agriculture and Lands (MAT) favored the creation of National Boards (Juntas Nacionales.) Cane grower's and miller's associations, agricultural board of trade and government representatives are members of the National Sugar Cane Board (Junta Nacional de la Caña de Azúcar.) Since then, the National Sugar Cane board is responsible for recommending and establishing fair prices in the sector, with the consensus of all of its members.

TRADE

The majority of sugar imports come from Colombia due to geographic proximity. Cuba, Guatemala, Bolivia, Brazil and the U.S. have also been recent suppliers of sugar according to Venezuelan data. Most sugar is imported raw, as there is sufficient refining capacity in the country. Trade agreements between Venezuela and other Latin American countries with preferential tariff rates also affect trade flows. Imports for 2003/04 are forecast at 270,000 tons, assuming no further drop in production levels. The import forecast for 2004/05 is 260,000 tons.

The GOV maintains a tight control over sugar imports through an import license regime. Both millers and cane growers are concerned that increased government control in this sector may mean more delays or denials of import licenses to the private sector as the government starts to import directly. The majority of imports arrive between September and November of each year, before the major sugar harvest of the country. The spot shortages in the fall of 2003 may be repeated this year if import licenses are not issued in a timely fashion.

Millers believe that larger quantities of refined sugar will be imported by CASA this year, the government state trading company. Official data is not available, but sources indicate that CASA imported at least 17,000 tons of sugar in 2003, mainly from Cuba. The CASA imports mainly go to supply the new government network of food distribution stores, Mercal.

Venezuela also traditionally exports some raw and refined sugar. The refined sugar has mainly gone to Colombia due to the fact that one of the Venezuelan sugar mills, CAZTA is located near the Colombian border and can often import raw sugar and export refined depending upon price movements. Venezuela's refined sugar prices are now generally lower than the Colombia price, even at the official exchange rate. Venezuela's refined sugar price at the official and parallel exchange rates are 25 and 15 cents/lb, respectively. This price advantage represents a tremendous incentive for borderline transactions, and non-registered exports through “canales verdes” could reach 10,000 tons a month.

Tariff Changes
Raw and refined sugar coming from the Andean Community enters Venezuela duty free. Bilateral agreements signed between Venezuela and Guatemala, Nicaragua and El Salvador also gives sugar from these countries duty free entry.

The present base tariff on sugar is 15 percent ad valorem calculated on the CIF price basis. Sugar is included in the Andean Community price-band variable-levy system. This tariff system was implemented by Venezuela for sugar and several other agricultural products in September 1995. The base tariff is raised if the CIF price is below a floor price, and lowered if prices surpass a ceiling price. White and refined sugars have different prices within the price band system. Floor and ceiling prices are based on average prices for white sugar, contract No. 5 FOB London during the last five years.

Tariff Exoneration
On February 11, 2003, the Venezuelan government provided total tariff and tax exoneration for sugar imports (HS 1701.11.90) citing food security concerns as a consequence of the two-month national strike. Importers must first obtain a certificate of insufficient domestic production, issued by the Ministry of Agriculture and Lands, before they are eligible to receive the exoneration. The tariff and tax exonerations were just renewed and are valid until October 2004.

Tariff Rate Quota
On November 23, 1999, the GOV published a resolution in the Official Gazette # 36,835 announcing the tariff rate quota (TRQ) for 132,013 tons of sugar with a tariff rate of 40 percent. On October 30, 2003, the GOV extended the validity of the TRQ until October 2004 in Official Gazette #37,807.

The TRQ is allocated through an import license regime specified in an Official Notice published in a local newspaper. Import licenses are awarded to mills based on the percentage of sugar cane received and milled. Approximately 70 percent of the licenses are awarded to the mills located in Central-Western and Central regions of the country, that processed around 86 percent of all total sugar production. By August, millers are able to present final figures of cane received and milled to the government, along with their requests for import licenses. Millers hope to have licenses awarded by the end of August in order to receive imports by October.

PSD TABLES

PSD Table

Country Venezuela

Commodity Centrifugal Sugar (1000 MT)

	2003	Revised	2004	Estimate	2005	Forecast	UOM
	USDA Official [	Estimate [	DA Official [	Estimate [	DA Official [	Estimate [	New]
Market Year Begin		09/2002		09/2003		09/2004	MM/YYYY
Beginning Stocks	423	391	334	267	0	222	(1000 MT)
Beet Sugar Production	0	0	0	0	0	0	(1000 MT)
Cane Sugar Production	650	500	630	550	0	550	(1000 MT)
TOTAL Sugar Production	650	500	630	550	0	550	(1000 MT)
Raw Imports	180	230	210	250	0	240	(1000 MT)
Refined Imp.(Raw Val)	1	41	1	20	0	20	(1000 MT)
TOTAL Imports	151	271	211	270	0	260	(1000 MT)
TOTAL SUPPLY	1224	1162	1175	1087	0	1032	(1000 MT)
Raw Exports	0	0	0	0	0	0	(1000 MT)
Refined Exp.(Raw Val)	0	40	0	20	0	45	(1000 MT)
TOTAL EXPORTS	0	40	0	20	0	45	(1000 MT)
Human Dom. Consumpti	885	850	995	840	0	840	(1000 MT)
Other Disappearance	5	5	5	5	0	5	(1000 MT)
Total Disappearance	890	855	1000	845	0	845	(1000 MT)
Ending Stocks	334	267	175	222	0	142	(1000 MT)
TOTAL DISTRIBUTION	1224	1162	1175	1087	0	1032	(1000 MT)

PSD Table

Country Venezuela

Commodity Sugar Cane for Centrifugal (1000 HA)(1000 MT)

	2003	Revised	2004	Estimate	2005	Forecast	UOM
	USDA Official [	Estimate [	DA Official [	Estimate [	DA Official [	Estimate [New]	
Market Year Begin		09/2002		09/2003		09/2004	MM/YYYY
Area Planted	0	99	0	107	0	107	(1000 HA)
Area Harvested	0	99	0	107	0	107	(1000 HA)
Production	0	6250	0	6875	0	6875	(1000 MT)
TOTAL SUPPLY	0	6250	0	6875	0	6875	(1000 MT)
Utilization for Sugar	0	6250	0	6875	0	6875	(1000 MT)
Utilizatn for Alcohol	0	0	0	0	0	0	(1000 MT)
TOTAL UTILIZATION	0	6250	0	6875	0	6875	(1000 MT)

TRADE MATRIX

Import Trade Matrix

Country Venezuela
Commodit Centrifugal Sugar

Time Period	Sep/Aug	Units:	1,000 MT
Imports for:	2002		**2003**
U.S.	14	U.S.	
Others		Others	
Bolivia	5	Colombia	119
Brasil	4	Bolivia	11
Colombia	225		
Cuba	17		
Guatemala	5		
Total for Others	256		130
Others not Listed			
Grand Total	270		130

Source: National Statistics Institute-INE
Notes:
Data for 2002/03 is Venezuelan import statistics from all countries, except Colombia
Colombia data is based on export statistics in World Trade Atlas
Data for 2003/04 is not for a complete year. Data is from September through December 2003

PRICES

Prices for Refined Sugar (kilo) in Bolivar Terms			
Month	**2003**	**2004**	**Change**
Jan	912.58	1,001.70	9.8%
Feb	1,050.71	971.08	-7.6%
Mar	909.41	1,005.93	10.6%
Apr	902.11	n.a	n.a
May	902.12	n.a	n.a
Jun	905.78	n.a	n.a
Jul	906.23	n.a	n.a
Aug	908.24	n.a	n.a
Sep	914.44	n.a	n.a
Oct	925.57	n.a	n.a
Nov	947.41	n.a	n.a
Dec	943.74	n.a	n.a

Source: National Statistics Institute-INE

Notes: Official exchange rate between Jan-03 and Jan-04 was Bs. 1,600 per 1$ US,

since Feb-04 the official exchange rate is Bs. 1,920 per 1$ US.

Prices for Refined Sugar (kilo) In Dollar Terms			
Month	**2003**	**2004**	**Change**
Jan	0.51	0.63	23.5%
Feb	0.66	0.51	-22.7%
Mar	0.57	0.52	-8.8%
Apr	0.56	n.a	n.a
May	0.56	n.a	n.a
Jun	0.57	n.a	n.a
Jul	0.57	n.a	n.a
Aug	0.57	n.a	n.a
Sep	0.57	n.a	n.a
Oct	0.58	n.a	n.a
Nov	0.59	n.a	n.a
Dec	0.59	n.a	n.a

Source: National Statistics Institute-INE

Notes: Official exchange rate between Jan-03 and Jan-04 was Bs. 1,600 per 1$ US,

since Feb-04 the official exchange rate is Bs. 1,920 per 1$ US.