USDA Foreign Agricultural Service
GAIN Report
Global Agriculture Information Network

Template Version 2.09

Required Report - Public distribution

Date: 3/22/2007

GAIN Report Number: VE7004

Venezuela

Sugar

Annual

2007

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Report Highlights:
Venezuela's sugar production does not meet demand. The government encouraged cane growers to increase area planted to sugar with the promise of building three new sugar mills. The construction of the mills is still underway and current milling capacity is not sufficient to absorb the additional cane output. Prices for cane and refined sugar continue to be under a controlled price regime and there is no indication that prices will increase in the near future. These factors have had an impact on sugar supply, which led to spot sugar shortages in 2006.

At the time of writing this report, there is no official information about the future of Venezuela's ethanol projects, as result of comments recently made by President Chavez against ethanol.

Includes PSD Changes: Yes
Includes Trade Matrix: No
Annual Report
Caracas [VE1]
[VE]

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PRODUCTION

Sugar production for 2006/07 is estimated at 750,000 tons, slightly more as compared to 2005/06. Total sugar production in 2005/06 was revised upward according to industry figures. The overall increase in production is largely due to better technical assistance provided to growers. Despite having extensive lots of land for cane plantings and appropriate weather, domestic production is not sufficient to meet demand. Historically, between 70 to 75 percent of the country's sugar demand is met by domestic production. Currently, there are 14 sugar mills operating in Venezuela, but total milling capacity is not sufficient to process additional cane production. Four other mills have serious difficulties to function and/or not functioning at all.

During the last three years, growth in cane and refined sugar production responded mainly to a combine effort between cane growers and millers to achieve better yields and a higher sugar content of sugar cane. Additional area planted to sugar cane, specifically in the states of Zulia, Portuguesa and Barinas, did not have a significant impact in overall refined sugar production because there was no milling capacity to process this cane. The sugar industry reported that approximately 300,000 MT of sugar cane was left in the fields, despite the efforts from some mills to make some adjustments for cane reception and milling.

The majority of sugar cane plantings is carry out by independent growers in small to medium size lots (average area of 45 hectares), which account for more than 80 percent of cane plantings. Because of the small size of the lots planted to sugar cane, providing technical assistance to growers is key to increasing production. Usually sugar mills provide the technical assistance.

Cane harvest takes place from November through April and from June through November. The first harvest is responsible for about 70 percent of the cane cut in Venezuela, and the second harvest for the rest. Two Venezuelan mills, Central La Pastora and Central Carora, located in Lara State in the northwest, have plantations on which cane can be harvested all year long.

Currently, the following institutions represent the Venezuelan sugar industry:

- FESOCA: Venezuelan Federation of Sugar Cane Growers' Associations (in Spanish: Federación Nacional de Asociaciones de Cañcultores de Venezuela)
- UPAVE: Venezuelan Sugar Producers Association (in Spanish: Unión de Productores de Azúcar de Venezuela) and the
- VENAZUCAR: Venezuelan Sugar Producers and Refiners Association (in Spanish: Asociación Venezolana de Productores y Refinadores de Azúcar)

Production is forecast to increase in 2007/08 by approximately 3 to 4 percent as compared to 2006/07 in response to efforts from the industry to promote more plantings and obtain better yields.

The government promised to build three new sugar mills and have them operational by mid 2006. The government also encourages cane growers to increase their plantings of cane. The mills are still under construction.

CONSUMPTION *(slight changes from last report)*

While the sugar industry expects consumption to keep its upward trend in the upcoming years, spot sugar shortages put additional pressure on consumers to increase their purchases when there are available supplies. The GOV implemented price controls on staple products since January 2003. Cane and refined sugar are included in the list of products under the controlled price regime. As the retail price of sugar continues to be kept artificially low, there is no major disincentive to reduce domestic consumption of refined sugar. Currently, sugar consumption in Venezuela is estimated between 800,000 MT to 950,000 MT. Forecast consumption for 2007/08 is to remain stable at 960,000 MT. Although the sugar sector is projecting consumption of a million metric tons for the upcoming years.

Two-thirds of refined sugar for is consumed by households and the balance goes to the industrial food sectors, composed of soft drinks and snacks (cookies, crackers and confectionary). The Venezuelan soft drink industry uses 100% sugar without any fructose or other sweetener for its non-diet beverages.

Prices *(slight changes from last report)*

Refined sugar continues to be under the retail price control policy established by the GOV in 2003. During 2006, prices for cane and refined sugar remained unchanged. The latest price increase for sugar occurred on December 29, 2005. At that time, the price went from 1,035 to 1,300 Bolivars per kilo (US$ 0.49 to US$ 0.61 cents per kilo). There is no indication that prices for sugar will be revised.

Cane and refined sugar prices are set through the National Sugar Board (Junta Nacional del Azucar). Initiated by the Government of Venezuela (GOV) in mid 2003, the National Sugar Board is responsible by law to review criteria for setting fair prices for cane and refined sugar. The National Sugar Board is composed of representatives from the sugar cane growers, sugar millers, retail, consumers and government sectors. Since 2005 and most of 2006, the National Sugar Board did not meet on a regular basis, and both producers and millers have expressed that recommendations and decisions taken within the National Sugar Board are, in many cases, not observed nor implemented by the government.

Sugar Spot Shortages

Several spot shortages occurred during 2006. Traditionally, spot-shortages occurred during out-of-harvest periods because import licenses were not issued in a timely fashion. However, other factors have had an impact on sugar supply, namely: a) cane harvest being delayed by heavy rains (October and November 2006) just before the holiday season when demand traditionally rises; and b) the existence of a clear hostility between the GOV and cane growers and millers due to the controlled price of sugar.

Sugar shortages have led to an unfriendly debate in the press and more bitterness between cane growers, millers and the GOV. While cane growers and millers request price increases to keep up with costs of production, the GOV publicly accuses the cane growers and millers of being disloyal to the consumer. When spot shortages occurred, the GOV has alleged hoarding from millers and retailers to create artificial shortages to pressure for price increases.

Marketing

Currently, both the government and the private sector sell refined sugar. Sugar millers continue to offer refined sugar under their brands through Venezuela's traditional retail sector (supermarkets, mom &pops, convenience stores, etc). On the other hand, the GOV directly purchases refined sugar from the millers through its food purchasing entity, CASA, (Corporacion de Abastecimiento y Servicios Agricolas) and then sells it through its food distribution stores (called MERCAL) at lower retail prices.

It is worth mentioning that street vendors (in Spanish: buhoneros) have become an important marketing channel for refined sugar during times of shortages. Consumers rely on informal street vendors to purchase refined sugar, but their prices are much higher than the controlled price.

While the Venezuelan consumer prefers refined sugar, its shortage opened the market for different sugar products. Brown sugar and fruit lactose products are now options taken into consideration by consumers and their markets have expanded. These products are not under the controlled price regime.

STOCKS *(slight changes from last report)*

Sugar stocks are expected to continue to trend downward through most of 2007 because retailers and wholesalers alike are unwilling to keep normal inventory levels for fear of being accused of hoarding by the government. Spot-shortages also occurred during out-of-harvest periods because import licenses were not issued in a timely fashion.

POLICY ***(slight changes from last report)***

During the past eight years, the GOV made several promises to boost sugar production by increasing area planted, building more sugar mills and expanding access to agricultural loans and providing technical assistance to cane growers. The government's intention is to reduce or eliminate imports of sugar in the near future. As of early 2007, some of above plans have materialized. The following is a short list of policies intended to support sugar cane production:

Direct Payments to Producers
The GOV announced agricultural subsidies for selected commodities, including sugar cane. Information about agricultural subsidies has only been published through ads in a pro-government newspaper. The subsidy scheme is oriented exclusively to primary growers, in this case, sugar cane growers. Growers, based on their acreage, are subject to a list of requirements in order to receive this subsidy. Sugar cane growers will receive 11 Bolivars per kilo of cane (US$ 0.6 cents per kilo).

Revenue foregone
The GOV approved revenue foregone for agricultural activities. According to Official Gazette Nº 38,618, dated 02/02/07, all agricultural activities are exempt from income taxes. Production, sowing, harvesting, and transportation services are activities exempt from paying income taxes.

Input and marketing cost reduction measures
The GOV approved minimum prices for agricultural production and transportation costs for the following commodities: corn, rice, sorghum and sugar cane. The Official Gazette Nº38,626, dated 02/14/07, lists the minimum prices for: sowing, planting, harvesting and transportation services.

Gasoline Prices
The GOV also maintains gasoline and diesel prices at extremely low levels (currently about 13 cents/gallon) through the government petroleum company, PDVSA. This benefits the agricultural sector.

Agricultural Financing
In addition, the GOV announced the list of priority commodities that will receive agricultural financing during fiscal year 2007. This was published on the Official Gazette Nº 38,619, dated 02/05/07. Sugar cane is included in this list.

New Mills & Technical Assistance

All government plans to increase sugar production include a technical assistance component, generally provided through the Government of Cuba. The guidelines for this cooperation were set back in October 2000. At that time, both governments signed an agreement to exchange Venezuelan petroleum for Cuban assistance in the areas of agriculture, tourism and recreation. This agreement also mentions the construction of three sugar mills with the assistance of Cuban technicians.

The first sugar mill to be built under this agreement was the "Ezequiel Zamora Agroindustrial Sugar Complex" (in Spanish: Complejo Azucarero Agroindustrial Ezequiel Zamora, or CAAEZ). As construction began in 2000, the government stated that it was going to be one of the most modern sugar mills in Venezuela. According to different press articles, as of March 2007, the CAAEZ is not completed and is plagued with a corruption allegation.

Ethanol Projects *(slight changes from last report)*

On November 7, 2005, the Venezuelan Agricultural Corporation (in Spanish: Corporación Venezolana Agraria, or CVA) announced the "Ethanol Project." However, during March 2007 President Chavez made some remarks against alternative fuels, specifically against ethanol made from sugar cane and corn. At the time of writing this report, there is a lot of press coverage regarding President Chavez comments against ethanol. It is mentioned that the GOV is pulling the plug on all ethanol projects. A summary of Venezuela's ethanol project is presented below.

The Official Gazette Nº 38,425, dated 04/27/06 establishes the creation of 15 basic units of ethanol. The project is intended to increase domestic production of ethanol from sugar cane plantings. A brief description of the "Ethanol Project" is presented below:

- Total cost of the project is estimated at $150 million (this is 323 billion Bolivars).
- Approximately 236,000 to 300,000 hectares of land will be planted to sugar cane.
- Construction of fifteen new sugar mills.
- Each sugar mill will have a refining capacity of approximately 6,900 to 8,000 tons of sugar cane per day.
- It will involve 9 Venezuelan states: Apure, Barinas, Cojedes, Guárico, Mérida, Monagas, Portuguesa, Trujillo and Zulia.
- It will involve 96 small to medium size towns, in approximately 49 counties.
- During 2006, 45,000 new direct jobs and 15,000 indirect jobs will be created.
- It will create 240, 000 new jobs in three years.
- Only small to medium size cane growers are entitled to participate in this project.

The four phases of the "Ethanol Project" are briefly described in the following table:

ETHANOL PROJECT PLANNING PHASES			
Phase	**Activity Description**	**Duration**	**Effective dates**
Phase I	Locating appropriate land	45 days	Concluded on August 2005
Phase II	Variety Selection	137 days	To be completed on December 15, 2005
Phase III	Soil studies, establishing land lots	210 days	To be completed by June 2006
Phase IV	Preparing land, soil studies, start planting cane, building irrigation systems	365 days	To start on January 2006 and to be completed on December 2006

Source: Agencia Bolivariana de Noticias (Bolivarian News Agency) 10/27/05 and 11/07/05

According to the Bolivarian News Agency (ABN), the governor of the State of Apure visited Cuba during 2006 in order to proceed with the above-mentioned "Ethanol Project". Mr. Aguilarte held meetings with the following Cuban institutions:

- Instituto de Investigación de la Caña
- Instituto Cubano de Investigación de los Derivados de la Caña de Azúcar
- Instituto Cubano de Investigación Azucarera.
- Instituto de Ciencia Animal
- Centro de Salud Agropecuaria
- Destilería de Alcoholes de Cien Fuegos
- Asociación Nacional de Agricultores Pequeños
- Ministerio del Azúcar de Cuba

Additionally, on March 24, 2006, the governor of Apure signed a technical assistance agreement with the Government of Cuba. The technical assistance agreement calls for:

- Planting 15,000 hectares to sugar cane
- Building an ethanol processing plant in the area of Biruaca-Achaguas (State of Apure) to be completed by 2008.
- Technicians from the State of Apure to be trained in Cuba in planting, harvesting, and processing plant operations.

In 2005, the Venezuelan sugar industry presented an alternative plan to the government. The project presented by the sugar industry consists of a five-year plan to increase sugar cane plantings. The industry is projecting a total area growth of 25,000 hectares, by planting 5,000 hectares each year of the project. The industry's request of better financing terms for small growers, lower prices for fertilizers and other inputs, has been met by the GOV, with the exception of the industry's request for a yearly increase in sugar prices for both growers and millers. Still, there is no indication that milling capacity will improve in the short term.

TRADE ***(slight changes from last report)***

Traditionally, Venezuela imports around 200,000 MT to 300,000 MT of sugar during the year, because domestic production does not meet demand. During 2005/06 Venezuela imported 150,000 MT, 16 percent less than last year's estimates. The sugar sector commented that such downward level of imports was due to short supplies and higher international prices, but insisted on that the delays from the GOV in issuing import licenses was the major cause of shortage. One of the objectives of the National Sugar Board is to determine a reasonable level of sugar imports. Based on the amount of sugar cane received by each sugar mill, the board recommends an appropriate level of imports and the GOV awards import licenses in line with that level. But since 2005 and most of 2006, the National Sugar Board did not meet on a regular basis, therefore the import licensing planning was delayed. Once the millers had the import licenses in hand, either the international price of sugar was too high or there were no supplies available.

However, because the GOV continues to be more involved in providing cheap food products to consumers through direct imports, it is also carrying imports of refined through its procurement entity, CASA. Official data about government imports of refined sugar are not available to the public. As mentioned in other commodity reports, the role of the government as a reliable and secure food supplier is currently subject to its ability to develop and increase its food distribution systems and to continue to import of food products.

Major suppliers are Colombia, Guatemala, and Brazil. The forecast for 2006/07 is for imports to increase to 180,000 MT from 150,000 in 2005/06.

Tariff Rate Quota's and Import Licenses *(unchanged from last report)*

Under its World Trade Organization commitments, Venezuela is entitled to administer a tariff rate quota (TRQ) of up to 132,013 tons of sugar with a tariff rate of 40 percent. The TRQ is administered through an import license scheme that is managed by the Ministry of Food (in Spanish: Ministerio de Alimentación or MINAL). The TRQ for sugar 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. Import licenses are valid for four months, and can only be renewed if, on expiry, they have not been used for reasons outside the importer's control. When applying for a license, established importers must submit to MINAL a monthly list of imports actually realized, indicating volume and value, together with the invoice on the most recent import, also indicating the volume and value of the merchandise in question. The importer must indicate the amount of the allocated quota that remains unused, which in some cases is reincorporated into the quota to be reassigned. Information on import license requirements can be reviewed (only in Spanish) through the following address: *http://www.minal.gob.ve/view/docs/licemport.pdf*.

Tariff Changes *(unchanged from last report)*

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

Import tax exoneration for sugar imports (HS 1701.11.90) is currently valid until February 12, 2008 (according to the Official Gazette Nº 38,625, dated 02/13/07). This measure had been renewed every six-months until this year, when the GOV changed it for a one year period.

Non-Production Certificates (*Slight changes from last report)*

Since January 2003, importers interested in importing basic commodities as well as some horticultural products and agricultural inputs, must request a “certificate of non-production” or a “certificate of insufficient production” through the Ministry of Industry and Commerce (in Spanish: Ministerio de Industrias y del Comercio, or MILCO). These certificates state that a certain product is not domestically produced or there is not enough domestic production of it. These certificates allow importers to request foreign exchange for its imports, request import licenses and import permits from other government offices. Most recently, the GOV incorporated additional agricultural inputs to the non-production certificate list of 2003 (according to the Official Gazette Nº38,577, dated 12/05/06).

PSD TABLES

Venezuela Sugar, Centrifugal										
	2006	Revised		2007	Estimate		2008	Forecast		UOM
	USDA Official	Post Estimate	Post Estimate New	USDA Official	Post Estimate	Post Estimate New	USDA Official	Post Estimate	Post Estimate New	
Market Year Begin		09/2005	09/2005		09/2006	09/2006		09/2007	09/2007	MM/YYYY
Beginning Stocks	223	223	223	208	208	157	0	0	117	(1000 MT)
Beet Sugar Production	0	0	0	0	0	0	0	0	0	(1000 MT)
Cane Sugar Production	670	670	745	700	700	750	0	0	780	(1000 MT)
Total Sugar Production	670	670	745	700	700	750	0	0	780	(1000 MT)
Raw Imports	180	180	130	175	175	150	0	0	150	(1000 MT)
Refined Imp. (Raw Val)	30	30	20	30	30	30	0	0	30	(1000 MT)
Total Imports	210	210	150	205	205	180	0	0	180	(1000 MT)
Total Supply	1103	1103	1118	1113	1113	1087	0	0	1077	(1000 MT)
Raw Exports	0	0	0	0	0	0	0	0	0	(1000 MT)
Refined Exp. (Raw Val)	5	5	6	5	5	5	0	0	5	(1000 MT)
Total Exports	5	5	6	5	5	5	0	0	5	(1000 MT)
Human Dom. Consumption	885	885	950	905	905	960	0	0	960	(1000 MT)
Other Disappearance	5	5	5	5	5	5	0	0	5	(1000 MT)
Total Use	890	890	955	910	910	965	0	0	965	(1000 MT)
Ending Stocks	208	208	157	198	198	117	0	0	107	(1000 MT)
Total Distribution	1103	1103	1118	1113	1113	1087	0	0	1077	(1000 MT)

Venezuela Sugar Cane for Centrifugal										
	2006	Revised		2007	Estimate		2008	Forecast		UOM
	USDA Official	Post Estimate	Post Estimate New	USDA Official	Post Estimate	Post Estimate New	USDA Official	Post Estimate	Post Estimate New	
Market Year Begin		09/2005	09/2005		09/2006	09/2006		09/2007	09/2007	MM/YYYY
Area Planted	115	115	115	120	120	120	0	0	130	(1000 HA)
Area Harvested	115	115	115	120	120	120	0	0	130	(1000 HA)
Production	7500	7500	7500	7800	7800	8750	0	0	9200	(1000 MT)
Total Supply	7500	7500	7500	7800	7800	8750	0	0	9200	(1000 MT)
Utilization for Sugar	7500	7500	7500	7800	7800	8750	0	0	9200	(1000 MT)
Utilizatn for Alcohol	0	0	0	0	0	0	0	0	0	(1000 MT)
Total Utilization	7500	7500	7500	7800	7800	8750	0	0	9200	(1000 MT)