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Report Highlights:

The Venezuelan economy has collapsed. Five years of economic contraction, hyperinflation, and diminishing hard currency for imported goods has negatively impacted production, consumption, and trade of livestock, beef, and beef products. Due to the deteriorating economic situation, per capita beef consumption has decreased.

Executive Summary:

The Venezuelan economy is heavily dependent on oil exports that support approximately 96 percent of all export revenues and about half of all government funding. Low oil prices and more recently a considerable decrease in the volume of production, economic mismanagement and anti-market policies have caused five consecutive years of economic contraction, with seven-digit hyperinflation that topped a million percent in 2018, according to the International Monetary Fund (IMF). Since 2013 the Venezuelan economy has lost 50 percent of its GDP, the IMF projects an additional 35 percent reduction for 2019 and hyperinflation is expected to surpass a million percent again in 2019, making this recession the longest and deepest experienced by Venezuela in modern times.

The five-year contraction is one of the worst in the world over the past half-century and one of the few that was not caused by armed conflicts or natural disasters. Venezuela's per capita agricultural production began to decrease drastically in 2009 and has now collapsed to levels lower than those obtained more than 50 years ago. The economic collapse has generated a serious food crisis and has driven an emigration wave estimated at four million people.

The Government of the Bolivarian Republic of Venezuela (GBRV) maintains a severe control on foreign exchange, imports of food, raw materials, critical agricultural inputs, and the distribution/allocation of those goods. The low availability of foreign currency has limited beef imports, which were 58 percent of overall consumption in 2008 and have fallen to zero in 2018. In 2019, beef imports are estimated to remain null. The Venezuelan livestock industry has been unable to respond and compensate this drop in imports.

Commodities:

Meat, Beef and Veal

Production:

Post estimates that due to current macroeconomics and market conditions, livestock slaughter will fall in market year 2019.

GBRV official data suggests that the Venezuelan cattle herd was 15.4 million head in 2018. However, the Venezuelan Livestock Federation (Spanish acronym: FEDENAGA) estimates a herd size of 9.5 million head, based on data from regional associations and the National Slaughterhouses Association (Spanish acronym: ASOFRIGO). Estimates for the total area of livestock production are about 13 million hectares (or 32 million acres).

Venezuela has a strong tradition in cattle production, encompassing single-purpose operations and dual production of meat and milk. There is also a smaller sector of specialized milk production that supplies the domestic beef market with discarded animals.

In Venezuela, there are three livestock production systems: 1) non-specialized beef production; 2) dual purpose production (dairy and beef); and, 3) specialized dairy production. All systems, to varying degrees, supply livestock to the beef and beef product industry. Details of each system are as follows.

1. Non-specialized beef: The Zebu, or humped cattle, is the primary type of cattle in non-specialized ranching operations, specifically the breeds Nelore and Brahman. Non-specialized ranches are concentrated in the areas of the western plains of Venezuela, south of Lake Maracaibo and into the Andean piedmont and lowlands. This type of ranch applies minimal technology or is slow to adopt innovation and represents about 42 percent of the national herd, contributing about 40 percent of beef production in Venezuela. Animal feed is almost solely foraged pasture.

2. Dual purpose: These herds are primarily hybrid cattle of the Venezuelan Criollo, Carora (a crossbreed of Brown Swiss and Criollo), Holstein, Brown Swiss, and Brahman breeds. The cows are used for milk production and bull calf offspring are raised for beef production. Most dual-purpose ranches are located in lowland zones of western Venezuela and apply some technology and innovation. Animal feeding is primarily foraged pasture and may include supplemental animal feed and minerals. This type of operation represents about 55 percent of the national herd and contributes 95 percent of dairy products and up to 60 percent of the beef and beef products produced in Venezuela.

3. Specialized dairy: Primary herd breeds include Carora, Holstein, Brown Swiss and Jersey. Dairy farms are primarily located in the Andean mountain zone of western Venezuela. Specialized dairy operations are apt for innovation and eager to adopt new technologies when feasible. Animal feeding is a mix of foraged pasture, silage, mixed rations and balanced feed. Specialized dairy farms only represent three percent of the national herd and contribute up to five percent of the milk produced in Venezuela.

Dual purpose ranches and ranches specialized in the Brahman breed in the tropical climate regions of Venezuela have a strong, historical relationship with ranching operations in Texas. These relationships over time resulted in shared innovations in animal nutrition techniques, rangeland management, business operations, and herd stock improvements, both from trade in genetics and more recently live cattle. Unfortunately, the ongoing economic crisis in Venezuela has challenged and reduced the availability of inputs and innovation services.

For most of the period since the 1960s and until the early 2000s, Venezuela was self-sufficient in beef production; however, imports started to increase since 2004 when high oil revenues allowed the government to subsidize foreign exchange and ultimately improved purchasing power. Increasing subsidized imports affected domestic beef production. Additional factors contributing to the decrease of the livestock sector include:

- Rising costs, such as high security costs for the ranches along the Colombian border;
- Ranch expropriations and confiscations by the GBRV;
- Concurrent shortages of gasoline and fuel oil in rural areas;
- Instability in the electricity service and blackouts that can last several days;

- Shortage or high prices of veterinary medicines, vaccines and agricultural supplies
- Lack of spare parts for agricultural machinery and equipment;
- Severe shortage of banknotes, which makes payments to ranch workers more difficult;
- GBRV price controls for beef and beef products;
- Shrinking margins and decreasing profitability;
- Severe restriction of access to banking credit;
- Significant shortage of professional staff and workers due to increasing emigration;
- Drastic and constant reduction of purchasing power due to hyperinflation;

Notwithstanding the tenuous situation for the sector, there exist some conditions that could enable the livestock industry to rebound:

- Less competition from imported beef at subsidized prices;
- Less strict government enforcement of fixed prices for beef and beef products;
- Lower feed costs from foraged pasture and less dependence on imported feed ingredients, an issue detrimental to the production of poultry and pork meat;
- As a result of lower feed costs, beef is often cheaper than poultry and pork meats.

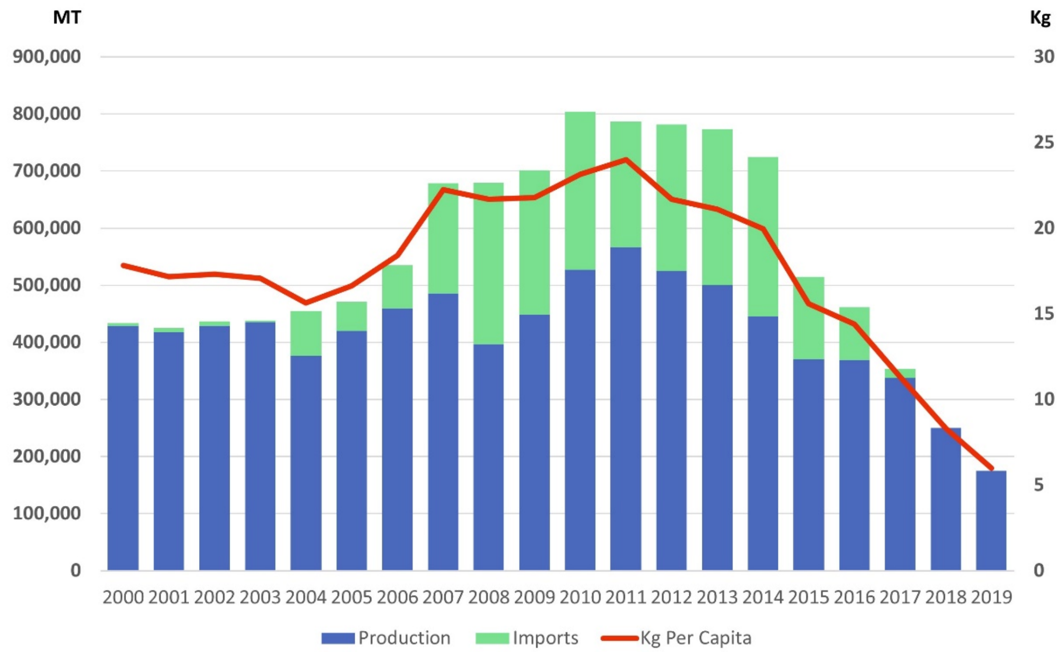
In general, the trend among Venezuelan livestock producers is to continue investing in their operations. Post contacts have commented that more innovative ranches have higher returns than financially comparable businesses. Because of this, the sector has generally been able to maintain profitability in real terms.

Since 2018, the use of the U.S. dollar as a reference price or in bank transfers, has been a growing trend in the domestic live cattle and beef carcasses trade. This in response to hyperinflation and the constant devaluations of the local currency. However, in general, retail sales of beef are made in bolivars.

The Venezuelan government has fixed prices for many beef products since 2008, which sometimes has caused market distortions and affected profit margins. Nevertheless, the beef market is difficult to control since it is estimated that there are more than 50,000 suppliers and more than 5,000 distributors or intermediaries. Because of this, in recent years the government has been unable to enforce the price controls, and the last official price regulation was published in August 2018.

Average Prices per Kg. Beef (CWE). Venezuela. 2013, August 2019

	2013	2014	2015	2016	2017	2018	2019
Price Per Kg. Beef CWE. USD	0.86	1.10	0.91	1.03	0.90	0.75	1.04



Beef Production, Imports and Per Capita Consumption. Venezuela. 2000 – 2019*
Source: FEDENAGA – ASOFRIGO. *Estimate

Note: Not official USDA data.

The scarcity of U.S. dollars has limited the livestock sector's ability to import vaccines, veterinary medicines and other supplies and equipment. This has created animal health problems (including foot and mouth disease, brucellosis, and tuberculosis), limited the growth of the herds, and led to an overall decline in production.

One of the most important animal health problems facing Venezuelan livestock is foot and mouth disease (FMD) or *aftosa* in Spanish. Venezuela is the only country in South America that is reported as endemic to this disease, and according to the 2018 Status Report of the South America Foot-and-Mouth Disease Program (PANAFTOSA), vaccination coverage decreased to only 53% of cattle heads in 2018, representing a drastic reduction from the coverage of 95% reported by Venezuela in 2014. This high-risk animal health situation has already affected neighboring countries such as Colombia, where FMD disease outbreaks occurred in 2018 reportedly due to this unofficial trade.

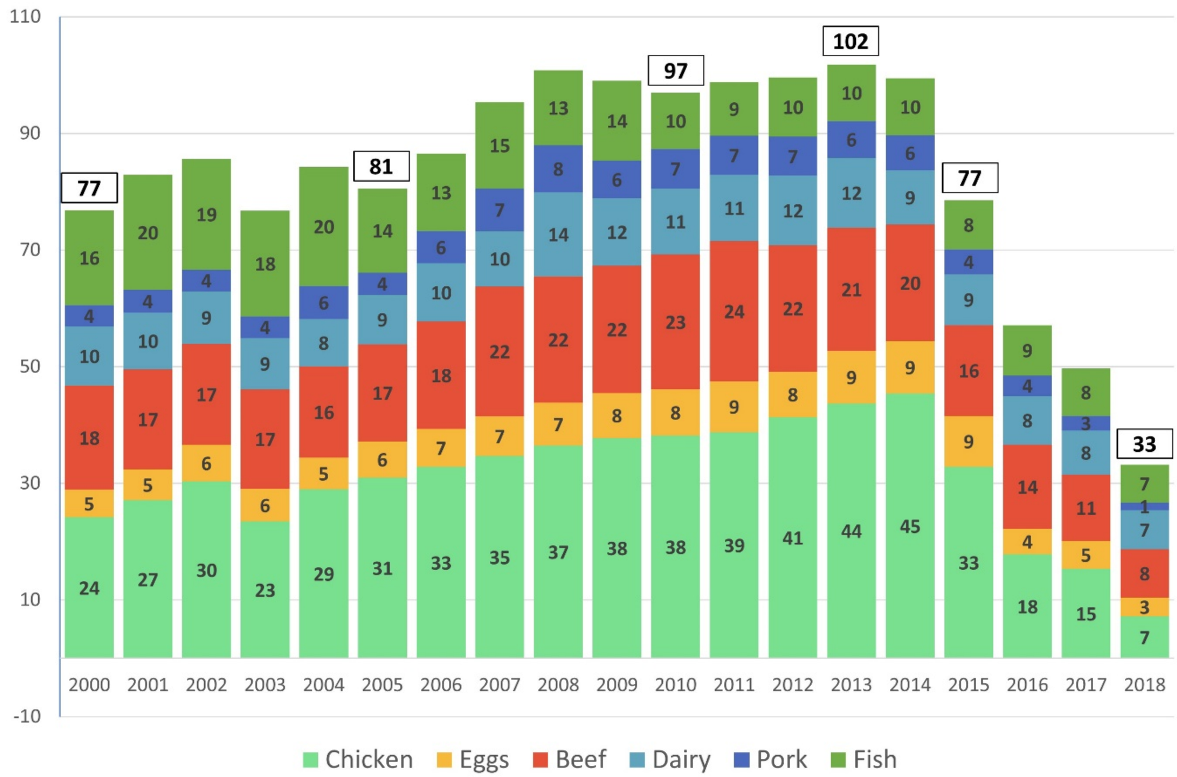
Since March 2019, Venezuela has suffered constant and prolonged nationwide blackouts as a result of a severe crisis in its power generation system. This has greatly affected livestock production operations in all its phases. Farms and ranches have been without power for several days or even weeks, slaughterhouses have temporarily suspended operations and retailers have suspended or decreased beef distribution for the same reasons.

In 2019, there were a total of 60 private and 12 government-owned medium to large-scale slaughterhouse operations with a combined capacity to slaughter 1.8 million head annually. Post contacts indicate that most of these medium to large-scale operations are at 57 percent of capacity. There are also about 200 small-scale slaughterhouses where the supply chain originates from modest sized ranches within the local municipality. The Ministry of Agriculture and Lands and the Ministry of Health supervises and regulate medium to large-scale slaughterhouses to assure quality and sanitation. Small-scale slaughterhouses are not regulated nor supervised by the government.

Consumption:

According to private industry figures, the average per capita animal protein consumption in Venezuela from 2000 to 2009 was 86.86 kg per year. The categories of this consumption were represented by chicken meat (30.69 Kg / 35.33%), eggs (6.19 kg / 7.12%), beef (18.58 Kg / 21.39%), dairy products (9.98 kg / 11.49%), pork (5.17 Kg / 5.95%) and fish (16.25 Kg / 18.71%). In 2013, because of the increase in imports and the improvement of purchasing power, per capita consumption of animal protein reached a historical high of 101.84 Kg. These figures began to decline rapidly in 2015 because of the economic collapse and the consequent loss of purchasing power.

By 2018, the consumption of animal protein had diminished to a historical low of 33.22 Kg, representing a decrease of 67% compared to 2013; highlighting the serious food crisis that the country is going through.



Per Capita Animal Protein Consumption. Kg. Venezuela. 2000 - 2018

Source: Venezuelan private industry (ASOFRIGO, FENAVI, FEPORCINA, ASOPROLE, R.AGUDO).

Note: Not official USDA data.

The accelerated loss of purchasing power has been the main factor in the drastic reduction in the consumption of beef and other animal proteins. By 2013, a Venezuelan worker earning minimum wage needed 4 hours of salary to buy a kilo of beef, six years later this figure reaches 55 hours of work. It is estimated that at least 40 percent of the population with formal employment earns a minimum wage, most of them in the public sector. In the private sector, minimum wages tend to double or triple this amount, but they are still not enough to cover their food needs.

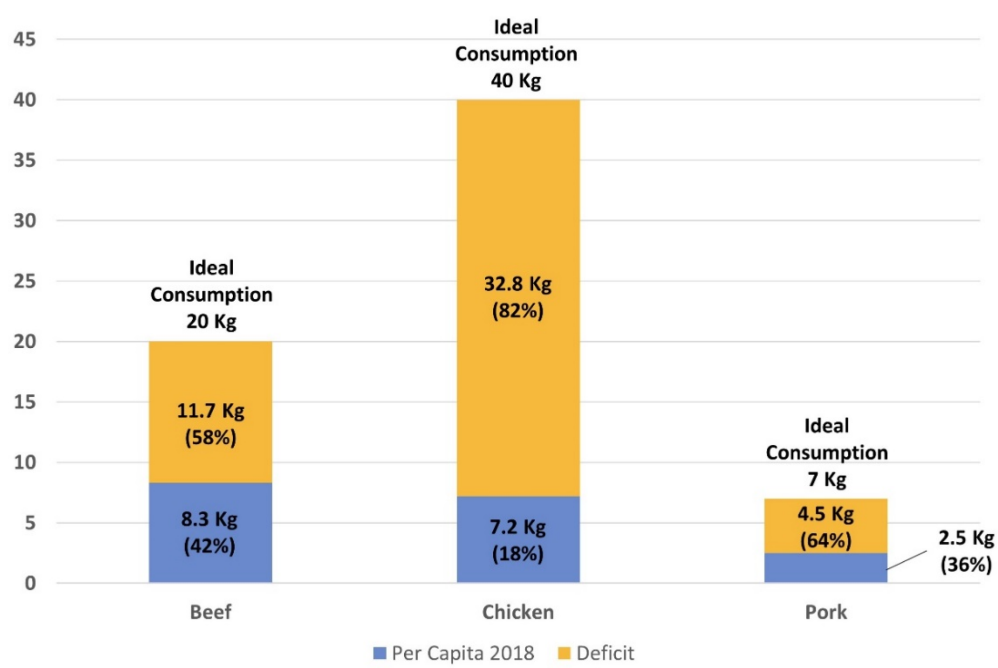
Work Hours at Minimum Wage to Buy 1 Kg of Packed Beef. Venezuela. 2013 – August 2019

Year	2013	2014	2015	2016	2017	2018	2019
Price per Kg. Ground Beef. USD	1.72	2.20	1.82	2.06	1.80	1.50	2.08
Hours to buy 1 Kg	4.11	8.80	15.33	16.48	57.60	34.29	55.47

It is estimated that by 2019, if economic and market conditions do not improve, per capita consumption of beef will decrease to approximately 6 Kg per year.

Animal Protein Per Capita Consumption. Kg. Venezuela. 2013 Vs. 2018

	Poultry	**Eggs**	**Beef**	**Dairy**	**Pork**	**Fish**	**Total**
2013	43.70	9.02	21.12	12.00	6.30	9.70	101.84
2018	7.21	3.21	8.30	6.70	1.30	6.50	33.22
% Decrease	**83.50%**	**64.43%**	**60.70%**	**44.17%**	**79.37%**	**32.99%**	**67.38%**



Animal Protein. Supply and Deficit Per Capita. Venezuela. 2018
Source: Venezuelan private industry. FAS Caracas calculations.

The Venezuelan market is characterized by having three primary beef and beef product marketing channels:

- Traditional: represents 60 percent of the market and primarily includes local butcher shops that sell beef and beef products of low, medium and high quality, depending on location and the surrounding community's economic circumstance;
- Modern: represents 30 percent of the market and is comprised of supermarkets and medium sized grocery stores, selling packaged, higher quality meat;
- Industrial: represents 10 percent of the market and is comprised of beef renderers and packers.

Poultry meat is a substitute for beef; however, the poultry processing sector struggles from the lack of imported feed materials and plummeting production. Beef is now price competitive with poultry meat and in lower income neighborhoods the price per kilogram for beef is often equal to, or slightly less, than poultry. As a result, in 2018 the approximate per capita consumption of poultry and beef are comparable at 7 kilograms and 8 kilograms, respectively. These figures are notably down from just a six years ago when beef and poultry consumption were well over 20 kilograms per capita. A lack of purchasing power is causing consumers to buy either low quality beef cuts and/or ground meat, but often families still cannot afford beef products as a regular staple of the weekly family diet.

Trade:

The Venezuelan economy is heavily dependent on oil exports that support more than 95 percent of all export revenues and about half of all government funding. High oil prices from 2004-2014 helped usher in a Venezuelan Central Bank policy that subsidized foreign exchange for food importers. GBRV regulations against "excessive profits" by the private sector resulted in those imported products often being sold at competitive prices displacing domestic production. Subsidized foreign exchange stimulated significant trade in frozen and/or chilled beef and beef products and live animals for slaughter in government packinghouses. The primary exporters for these products during that time period were Brazil, Argentina and Nicaragua.

When imports fell sharply after 2014, domestic production failed to compensate for that shortfall. In 2018 Venezuela completely stopped the importation of beef, no imports have been registered so far in 2019 and are not expected to resume in the short term. The market continues to contract primarily from a sharp decrease in purchasing power and consequent reduction in consumption. A consumption recovery to historic levels above 20 kilograms per capita will require imports, in addition to government food subsidies and/or a substantial improvement in purchasing power. Neither scenario is foreseeable in the short term under the current political and economic crisis.

Venezuela banned all U.S. beef and beef products since 2003 due to regulatory concerns with bovine spongiform encephalopathy (BSE), or "mad cow" disease. The ban continued even though the World Organization for Animal Health (OIE) now classifies the United States as negligible risk for BSE. In 2016, however, a bilateral trade protocol for importing U.S. live cattle was finalized, eliminating all BSE trade restrictions. The first shipments of U.S. live cattle in over a decade arrived in February 2017, accounting for 190 animals exported to Venezuela in 2017. From 2018 to date, U.S. live cattle exports dropped to zero.

Policy:

Government imposed fixed prices on milk and most beef products have been in place since 2008 and continue as official policy, yet hyperinflation and lax government enforcement has made those fixed prices mostly irrelevant. Increasing scarcity of vaccines, supplies, and equipment to support GBRV specialized diagnostic laboratories have challenged the effectiveness of government managed animal health programs. In September 2017, the Scientific Committee of the OIE withdrew official recognition of Venezuela's national foot-and-mouth disease control program, due to the fact that it no longer meets the requirements of the Terrestrial Animal Health Code (Terrestrial Code) for the certification of an official foot-and-mouth disease control program.

Attachments:

No Attachments