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Wheat Flour Shortages Creates US Export Opportunity

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Agricultural Situation

Approved By:

Todd Drennan

Prepared By:

Clara Nuñez

Report Highlights:

For the past several months, Venezuela has experienced a significant shortage of wheat flour due to a perfect storm of events that included poor import planning, port congestion, labor laws and transport restrictions during the holidays, and a reduction of flour production due to a shutdown of one of the largest flour mills. Bakers have managed to adjust their product inventories while maintaining hope that the problem will be resolved by the end of January.

General Information:

Wheat Flour Shortage Reaches Critical Level

For the past several months, Venezuela has experienced a fall in wheat flour production that reached critical levels over the holidays. Since mid-December 2013, bakeries have eliminated certain bakery items and reduced overall bread production due to the lack of flour. A number of factors are affecting flour supplies, which started with the shutdown of flour production of Molinos Nacionales (MONACA), the country's largest flour milling operation made up of four wheat mills. For several months in 2013, and particularly during the period August-December, MONACA was paralyzed by labor disputes, which resulted in the stoppage of its operation. MONACA in recent years accounted for approximately 30 percent of Venezuela's flour production.

As a result of the reduction in MONACA's flour production, bakeries had to utilize their reserve inventories, which reached critically low levels by the end of December. Many bakers reported not receiving any flour shipments since the beginning of December 2013, forcing them to adjust their product lines and work with other bakeries to share dwindling flour supplies. Some bakeries have closed temporarily, while others hold on producing a reduced number of products with the hope that flour supplies will return to normal in the coming weeks. In addition to the closing of MONACA, normal flows of flour from mills to bakeries significantly reduced because of the normal slowdown of production due to the Holiday season. Bakers complained that the collective vacation law, which extended holiday leave for laborers and the prohibition of heavy cargo trucks operating during the Christmas season contributed to the overall shortage. Venezuela consumes approximately 15 million 50 kilo-bags of flour a year for bread and pastry products, or approximately 1.2 million bags per month. Venezuela is currently 1 million bags short of its immediate needs according to statements made by the President of the Venezuelan Industrial Baker's Federation (FEVIPAN).

Production of pasta has not been affected by the current wheat flour shortage, as the sector's wheat inventories remain sufficient to meet immediate demand.

Port Congestion and Foreign Exchange Constraints Impede Grain Imports

Port Authority officials at Puerto Cabello, Venezuela's largest port report some 25 ships waiting to offload cargo since mid to late December 2013. The reason for the backlog is largely blamed on the government's poor planning in procuring and delivering a massive supply of food products during the last two months of 2013 to meet holiday demand. Those imports created a large backlog of empty containers that are making it difficult to offload new cargo in a timely manner. Three vessels carrying grain, including one vessel with 20,000 tons of wheat earmarked for MONACA, have been stuck at the port since as early as December 15, 2013.

Also contributing to the flour shortage is the government's delay in approving foreign exchange requests from private grain importers to purchase wheat dating back to November 2013. The lengthy process for requesting and receiving approval to purchase dollars creates a problem for wheat millers in managing their inventories. In the case of at least one importer the delay resulted in the cancelation of a

shipment from Canada because the shipping waterways became frozen and inaccessible.

Finding Solutions to the Problem

FEVIPAN reported that it will be meeting with government officials to explain the critical situation the baking industry is in and to try and develop a plan to resolve the problem. To address the immediate need for flour, the government purchased 100,000 bags (50k) of flour from Colombia in December, but distribution was sporadic and it was not enough to alleviate the problem. Furthermore, imported flour competes directly with wheat millers and thus will not be a viable long-term solution. As a result of the crisis, a shipment of 125,000 tons of U.S. wheat was purchased by the Venezuelan government according to reports submitted by U.S. exporters, the week of January 6. According to wheat millers, another 90,000 tons of wheat could be imported over the next month to further stabilize wheat supplies and flour production.

Venezuelan wheat millers reported that their import requests for wheat submitted months ago were not approved until late December 2013. However, these approvals represent grain shipments that have not yet been booked and will likely not arrive in Venezuela in the next few weeks. According to the Venezuelan Flour Millers' Association, there is enough flour to meet demand through January. They are counting on approximately 4,000 tons of flour from MONACA to come online in the next week, which will hold the industry until other wheat shipments arrive in February and March. According to all concern, however, the government will have to be more flexible in its processing and approval of U.S. dollars and coordinating the arrival and unloading of future vessels if the shortage problem is to be resolved.