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Venezuela

Livestock and Products Annual

Annual Report 2018

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Report Highlights:
The Venezuelan economy is collapsing. Four years of economic contraction, hyperinflation, and diminishing hard currency for imported goods will negatively impact production, consumption, and trade for livestock, beef, and beef products. Due to the deteriorating economic situation, per capita beef consumption has decreased over 70 percent in eight years, from 24 kg in 2011 to 7 kg in 2018.

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 four consecutive years of economic contraction, with seven-digit hyperinflation that topped a million percent in 2017, according to the International Monetary Fund (IMF). At the end of 2018, it is estimated that the Venezuelan economy will have lost 50 percent of its GDP since 2014.

The Government of the Bolivarian Republic of Venezuela (GBRV) maintains a near monopoly 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 meat imports, which were 47 percent of overall consumption in 2008, and have fallen to 4 percent in 2017. The Venezuelan livestock industry is unable to respond and compensate for this drop in imports and because of this the availability of meat and the level of consumption have decreased by 70% over the last eight years, going from 24 kg per capita in 2011 to 7 kg in 2018.

Commodities:

Meat, Beef and Veal

Production:

GBRV official data suggests that the Venezuelan cattle herd was 15.45 million head in 2017, distributed among 108,211 ranches and dairy farms. However, the Venezuelan Livestock Federation (Spanish acronym: FEDENAGA) estimates a herd size at 11 million head, based on data from regional associations and the beef industry. Estimates for the total area of livestock production are about 13 million hectares (or 32 million acres).

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:

<u>1. Non-specialized</u>: 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. It represents about 42 percent of the national herd and contributes about 40 percent of beef production in Venezuela. Animal feed is almost solely foraged pasture.

<u>2. Dual purpose</u>: 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 and 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. In addition, this relationship has advanced Venezuelan livestock production, serving to enable the development of a number of industry services and consultants that provide the latest equipment and technology, as well as innovations in veterinary medicine and pasture management. The ongoing economic crisis in Venezuela continually challenges and diminishes the availability of these important services. Moreover, production challenges are exacerbated by a shortage of vaccines and medicines to control serious animal diseases, such as foot-and-mouth disease, brucellosis and tuberculosis.

Venezuela did not import beef products until 2003 when government policies subsidizing foreign exchange enabled imports. This had the effect of decreasing domestic beef production and market share against imported beef and beef products. Contributing factors of the livestock sector decline include:

- Highly subsidized imports of live cattle for slaughter, fresh and frozen beef until 2014;
- Rising costs, such as high security costs for the ranches along the Colombian border;
- Ranch expropriations and confiscations by the GBRV;
- Sharp decrease in the availability of gasoline and fuel oil in rural areas;
- Instability in the electricity service, and blackouts that can last several days;
- Severe shortage of banknotes, which makes payments to ranch workers more difficult;
- Lack of spare parts for agricultural machinery and equipment;
- GBRV price controls for beef and beef products;
- Hyperinflation;
- Shrinking margins and decreasing profitability.

Notwithstanding the tenuous situation for the sector, there exist some conditions, including climate, politics, and economics, that could enable a livestock industry rebound:

- More stable and lasting rainy seasons that have supported a recovery of pasture growth after severe droughts in 2015 and 2016;
- Low cost of financing, through government regulated rural credit programs;
- Less competition from imported meat 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 meat.

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. Also, while prices for beef and beef products were up 46.3 percent due to hyperinflation in the last twelve months, costs have only increased 30 percent. Because of this, the sector has generally been able to maintain profitability in real terms.

Livestock slaughter, nevertheless, will likely fall in marketing year 2018-2019. In 2018, there were a total of 50 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 55 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:

As the Venezuelan economy is headed toward four consecutive years of double-digit economic contraction, hyperinflation is expected to surpass a million percent in 2018. Diminished purchasing power decreases domestic consumption as prices for most basic foodstuffs increase almost daily, and can double each month. 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.

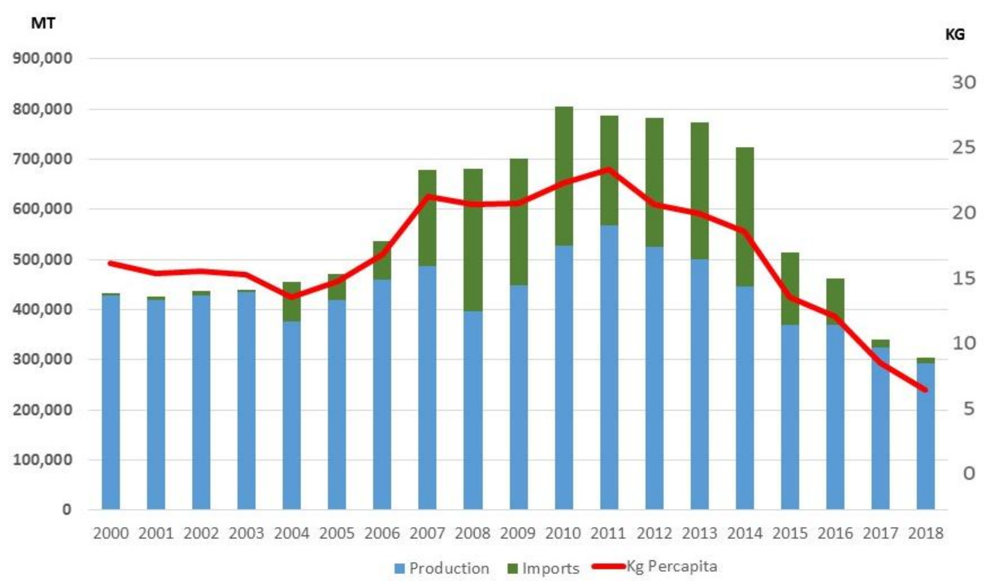
Poultry meat is a substitute for beef; however, the poultry processing sector struggles from the lack of imported feed materials and plummeting production. Beef is now price competitive with poultry meat and Post sources indicate that in lower income neighborhoods the price per kilogram for beef is often equal to, or slightly less, than poultry. As a result, the approximate per capita consumption of poultry and beef are comparable at 8 kilograms and 7 kilograms, respectively. These figures are notably down from just a few 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 approximately 96 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.

Adverse economic conditions, land expropriations, and shortages of inputs prevented growth in the livestock industry. When imports fell sharply after 2014, domestic production failed to compensate for that shortfall. 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 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 continues 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 and they are already recurrent or routine.



Beef Production, Imports and Per Capita Consumption. Venezuela 2000 - 2018

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.