

USDA Foreign Agricultural Service

# GAIN Report

Global Agricultural Information Network

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## Venezuela

## Coffee Annual

## 2016

**Approved By:**

Office of Agricultural Affairs

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**Report Highlights:**

Coffee production in marketing year (MY) 2016/17 is expected to decline to 400,000 bags (1 bag = 60 kilograms unless otherwise noted) green bean equivalent (GBE). Coffee farmers must withstand a myriad of production challenges, in addition to a severe coffee rust outbreak. Venezuela is now a net importer of coffee, but due to the economic crisis and limitations on access to foreign exchange, imports will likely decline in MY 2016/2017 to 652 thousand bags GBE.

## **Executive Summary:**

The Venezuelan coffee sector has undergone profound changes in the past year and half jeopardizing the very existence of the crop. According to coffee farmers, the economic and political situation is becoming more difficult every day impacting access to credit, inputs and a lack of market incentives: the Government of the Bolivarian Republic of Venezuela buys about 80% of the green coffee crop at fixed prices. In MY 2016/17, production is forecast to fall to 400,000 bags GBE, one of the lowest production levels in the past 15 years.

There are multiple factors affecting coffee production in Venezuela that have put the sector at risk. The most serious was an outbreak of coffee rust impacting over 70 percent of Venezuela's coffee planted area. Contributing to severe production problems is a long list of government failed economic and agricultural policies along with a lack of investment in new technologies, and growing coffee imports. Venezuela, therefore, is now a net importer of coffee, but with severe limitations on foreign exchange, imports in MY 2016/17 are forecast to fall to 652,000 bags GBE. Falling production and imports will lead to lower per capita consumption.

## **Commodities:**

Coffee, Green

## **Production:**

### **General**

The Venezuelan agricultural sector is experiencing a severe structural development crisis that is increasingly more visible every day. There are long lines of customers at supermarkets waiting to purchase whatever foods are available, and food and feed processors are working at less than full capacity due to a lack of raw materials. Subsidized food and agricultural imports make up about 70 percent of total food consumed in Venezuela and displaces less competitive domestic production due to rising production costs and reduced good-farming practices. The coffee sector is a prime example of how the crisis is playing out in Venezuela.

### **Crop Area**

Coffee production occurs in the Coastal Range and the western Andean region of Venezuela. The main coffee producing States are: Lara, Portuguesa, Anzoátegui, Trujillo, Táchira, Monagas and Mérida.

Over the past several years planted area has not changed due a lack of incentives to invest in the expansion of production and threats of expropriation of idle farms. While there are no reliable official numbers, sources indicated that planted acreage will likely decline in 2016. A severe outbreak of coffee rust has plagued the region and the lack of resources to contain it will likely result in a lower number of harvested hectares and a corresponding decline in yields. As a result, Post reduced area planted and harvested in MY 2016/17 to 186,000 and 150,000 hectares, respectively. Most farmers that grow coffee historically generated off-farm income to supplement overall income, but now off-farm income has become more important to total household income due to diminishing economic returns from coffee.

**Production**

The majority of Venezuelan coffee farms are very small averaging around 5 hectares. They are characterized as low yielding, but high quality operations. Post forecasts production for MY 2016/17 to fall to 400,000 bags GBE. The detrimental impacts of coffee rust are spreading unabated and significantly impacting production areas. The absence of government policies to implement disease control programs further exacerbate the situation, resulting in production falling one of the lowest levels on record. The drop in production came virtually entirely due to a drop in average yields caused by the coffee rust outbreak, but failure to provide adequate fertilization and pest controls only add to the challenges. Farmers have tried to refrain from reducing the number of bearing trees with the hope that the situation would improve, but sources indicate tree numbers will also fall in MY2016/17 to 450 million. Producers reported that the rust disease affected about 70 percent of all coffee operations in the country and it will take the better part of several years to fully recover, assuming the GBRV changes agricultural policies and provides incentives and assistance to plant more trees and increase yields with ample fertilization and better farming practices.

**Production Policy**

The Ministry of Agriculture has been working on a program called the "Coffee Revitalization Plan" to boost coffee production, but to date the program has not been implemented due to other funding priorities. Industry representatives continue to appeal to GBRV support to address the needs of the sector in the areas of production inputs such as agrochemicals, fertilizers, and machinery, as well as to discuss changing pricing policies.

The GBRV remains the majority buyer of the national crop, compelling farmers to sell their coffee to the State agency Coffee Corporation of Venezuela (CVA-Café). The GBRV has removed all intermediaries in the commercialization channels for the purpose of controlling all movement and delivery of green coffee in Venezuela. CVA-Café manages all raw materials, both national and imported so as to control finished coffee product supplies. The GBRV is essentially manages a monopoly on all green coffee supplies, as well as roasted and processed coffee made in state-owned processing facilities

**Consumption:**

Consumer behavior has adjusted as they no longer worried about quality and price, but rather quantity and availability. Venezuela is now a net importer of coffee due to the significant reduction in production over the past several years. Coffee domestic use in MY 2016/17 is forecast down to about 1 million bags GBE due to the severe decline in production and not enough imports to fully meet demand.

**Trade:****Imports**

In MY 2016/17, Post forecasts imports to fall to 652,000 bags GBE because of foreign exchange limitations. Venezuela was a historic producer of one of the best Arabic coffees in the world. However, in recent years Venezuela has gone from being an exporter of premium coffee for about 200 years, to becoming a net importer. The GBRV is the sole importer of coffee. Since MY 2009/10, Venezuela has imported large quantities of green coffee to compensate for declining production. Imports are mainly from Nicaragua and other Central America countries. Local roasters report that imported coffee beans are lower quality with small and inconsistent bean sizes and are lacking adequate aroma. Much of the coffee is imported under Oil-for Food Agreements, in which Venezuela sends crude oil to political allies, like Nicaragua, in exchange for basic food products and consumer goods. Current low oil prices will reduce any sort of purchasing leverage previously enjoyed.

**Exports**

The Venezuelan coffee market is fluid. No official exports have been registered since 2004. However, unofficial shipments through the border with Colombia do occur, not only in green beans, but roasted ground coffee also. Higher prices and a favorable exchange rate fuel contraband trade.

In an attempt to end the smuggling, a government decree published on December 8, 2014 bans the transportation of coffee to three Venezuelan states Apure, Táchira and Zulia, that border Colombia. According to the decree, coffee can only be sold to state-controlled organizations and distribution centers that will be strictly monitored by the government. The Venezuela-Colombia border was officially closed to commerce and migratory movement by the GBRV in August 2015, which will limit contraband trade flows.

**Policy:**

**Prices**

Coffee, like many other food products in Venezuela, is subject to a government controlled price regime established in 2003. Price controls coupled with high inflation, has led to lower returns and forcing farmers to diversify their operations by growing other short-cycle products such as vegetables as well as take on additional off-farm jobs. Farm-gate prices for green coffee were last raised in December 2014; however retail prices were not. The increase in the price of raw coffee was applauded by farmers, but by not raising the retail price at the same time, coffee roasters are facing lower margins resulting in losses. This situation has created an imbalance in the commercialization of coffee contributing to market disruptions and coffee shortages throughout the country. Coffee roasters are insisting on a price adjustment that coincides with the increase given to producers.

The fixed GBRV price of 1 quintal (46 kilograms) of green coffee is approximately Bolivares (BsF.) 15,000 bolivars, with farmer costs of production estimated at BsF.60,000 per quintal. The fixed price per kilogram of roasted coffee is about BsF. 4,000.

**Production, Supply and Demand Data Statistics:**

Coffee, Green	2014/2015	2015/2016	2016/2017
	Market year begin: Oct-14	Market year begin: Oct-15	Market year begin: Oct-16

Venezuela	USDA Official	New post	USDA Official	New post	USDA Official	New post
Area Planted	0	200	0	200	0	186
Area Harvested	0	160	0	160	0	150
Bearing Trees	0	460	0	460	0	450
Non-Bearing Trees	0	30	0	30	0	25
Total Tree Population	0	490	0	490	0	475
Beginning Stocks	55	55	21	21	0	12
Arabica Production	460	460	500	500	0	400
Robusta Production	0	0	0	0	0	0
Other Production	0	0	0	0	0	0
Total Production	460	460	500	500	0	400
Bean Imports	685	685	670	670	0	650
Roast & Ground Imports	1	1	1	1	0	1
Soluble Imports	5	1	5	1	0	1
Total Imports	691	687	676	672	0	652
Total Supply	1,206	1,202	1,197	1,193	0	1,064
Bean Exports	30	30	30	30	0	0
Rst-Grnd Exp.	0	0	0	0	0	0
Soluble Exports	0	0	0	0	0	0
Total Exports	30	30	30	30	0	0
Rst,Ground Dom. Consum	1,150	1,150	1,150	1,150	0	1,060
Soluble Dom. Cons.	5	1	5	1	0	1
Domestic Use	1,155	1,151	1,155	1,151	0	1,061
Ending Stocks	21	21	12	12	0	3
Total Distribution	1,206	1,202	1,197	1,193	0	1,064
1000 HA, MILLION TREES, 1000 60 KG BAGS						