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Venezuela

SUGAR ANNUAL

Annual

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Report Highlights:

Since 2003, the sugar sector has battled to cover expanding costs, and foresees declining domestic production. Imports are expected to increase up to about 600,000 metric tons, but higher international prices, as compared to internal controlled prices, plus difficulties in contracting shipping for imports, could make obtaining product more difficult over time. As lower production is expected to continue, imports for 2010 could go even higher. Venezuela's sugar cane growers and millers are concerned about the negative effects of price controls on production and investment.

Executive Summary:

Price controls, decreasing area planted to cane, and an increasing share of imports filling the market are major problems in the sugar industry. National production has declined 14.8 percent since 2005. Estimates for refined sugar production stand at 621,232 metric tons for 2009, and could decrease in 2010. Imports will still be needed to cover increasing demand led by the soft drinks and confectionary industries. Milling capacity is still lacking, meaning that harvest losses are significant and mitigate production increases. Price controls limit future industry growth.

Commodities:
Sugar, Centrifugal

Production:
According to leading sugar producer organizations, investment to increase milling capacity is not a priority for the industry because price controls on refined sugar limit profitability; sugar mills invest only for repairs and maintenance. Current milling capacity is insufficient to process any further increase in cane. National production has declined 14.8 percent since 2005. Estimates for refined sugar production stand at 621,232 metric tons. Of a total of 15 sugar mills, the milling capacity stands at 79,200 tones per day, Sugar processing capacity is 5,430 tones per day, and packaging capacity is 850 tones per day.

Yet, even with extensive land suitable for cane planting and weather that favors production, demand cannot be met by the domestic industry. Historically, between 70 to 75 percent of the country's sugar demand is met by domestic production, while imports account for the rest.

Currently, there are 15 sugar mills operating in Venezuela, but total milling capacity is not sufficient to process additional cane production. Media reports confirm that sugar mills function at 80 percent of their total milling capacity. In addition, almost no significant investments have taken place to improve capacity.

During the previous year, growth in cane and refined sugar production responded mainly to the combined effort of cane growers and millers to achieve better yields and a higher sugar content of the cane. Additional area planted to sugar cane does not have a significant impact in overall refined sugar production because there is insufficient milling capacity to take advantage of increased raw material output; sugar cane continues to be left on the fields for lack of milling capacity, despite the efforts from some mills to make some adjustments for cane reception and milling.

The first harvest takes place from November through April, and the second 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 remainder. 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.

Area Planted

The Venezuelan Association of Sugar Producers (VENAZUCAR) estimates total area planted to sugar cane at 100,000 hectares for 2009/10, with the industry forecasting that area could be down by 20 percent in the next three years due to land expropriations and controlled prices reducing production incentives. Cane growers are reluctant to increase area because prices are not favorable; cane production is tied to the retail price of refined sugar and this has been controlled since 2003. There is no indication that prices for sugar will be revised in the short term. The current price stands at 1.3 Bs. per kilogram (US$ 0.61 cents per kilogram).

Land Expropriation

During 2008 a significant amount of land appropriate for sugar production was taken over by the government because it was said to be idle. Although the final outcome of these expropriations is not known, it could have a downward effect on next year's output. More land expropriations are expected during 2009.

The intervention of lands initiated during April in Carabobo and Aragua put at risk the production of 120 thousand tons of sugar. National sugar production, which has been falling for several years, could lose another 2,000 hectares through additional interventions. Venezuela currently imports nearly 50 percent of national consumption.

Consumption:

The sugar industry does not expect that further increases in consumption in the short term, and their estimate remains at 1,150,000 metric tons. Annual per capita consumption fluctuates between 35 and 41.6 kilograms.

Cane and refined sugar are included in the controlled price regime list which has been in place since January 2003. Increased purchases of sugar due to constant spot shortages continue to have a significant impact on total consumption. Two-thirds of refined sugar 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 percent sugar without any fructose or other sweetener for its non-diet beverages.

Imports

Imports are expected to be significant again, as demand continues to move ahead of supply.
VENAZUCAR estimates imports of raw sugar at 450,000 metric tons, likely from Brazil, though the industry is well aware that given higher international prices and the controlled domestic prices, it will be difficult to source imports. VENAZUCAR estimates imports, cif basis, at around USD 286.3 million. The Ministry of Agriculture has approved import licenses for 480,000 tones for CY 2009. Puerto Cabello, the main port of Venezuela that receives around 80 percent of all Venezuela's imports, is facing logistical problems with the large quantity of imports, and VENAZUCAR believes that there will be difficulties in contracting shipping for the product. All of these factors could lead to increased scarcity by the end of the year.

Trade:
Tariff Rate Quota's and Import Licenses

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 (MINAL). The TRQ for sugar is allocated through an import license regime specified in a 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 six months to one year, and are good for one shipment. When applying for a license, established importers must submit to MINAL a monthly list of imports realized, indicating volume and value, together with the invoice of 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 at: *http://www.minal.gob.ve/view/docs/licemport.pdf*.

Tariff Changes

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) was 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 government changed it to a one year period.

Non-Production Certificates

Since January 2003, traders 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 (MILCO). These certificates state that a certain product is not domestically produced or there is not enough domestic production, in order to protect the domestic industry. These certificates allow importers to request foreign exchange for its imports, request import licenses and import permits from other government offices. Most recently, the government incorporated additional agricultural inputs to the non-production certificate list of 2003 (according to the Official Gazette Nº38,577, dated 12/05/06).

Policy:
The government has implemented the following policies to support the sugar sector:

Direct Payments to Producers

The subsidy scheme of direct payments is oriented exclusively to sugar cane growers. Growers, are subject to a list of requirements based on their planted area to receive this subsidy. Sugar cane growers received about US 0.6 cents per kilogram.

Input and marketing cost reduction measures

The Official Gazette Nº38,626, dated 02/14/07, lists the minimum prices for planting, harvesting and transportation services.

Fuel Prices

The Bolivarian Republic of Venezuela (BRV) also maintains gasoline and diesel prices at extremely low levels (currently about 13 cents/gallon) through the government petroleum company, PDVSA.

Agricultural Financing

Sugar cane is included in the list of priority commodities that receive agricultural financing during fiscal year 2008.

New Mills and 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.

Ethanol Projects

The "Ethanol Project" initiative was cancelled in March 2007. Initially, the "Ethanol Project" was to be managed by the country's petroleum company, PDVSA, and it included 17 basic ethanol processing units. Although there have been recent press statements from some groups advocating a reanimation of this initiative, no progress has been observed. According to press reports, PDVSA is building a plant in Cojedes with capacity to process about 10,000 tons of cane to produce 70,000 liters per day of ethanol. They also have sugar cane plantations in Portuguesa and Barinas that will provide raw materials. The facility should be ready in the first quarter of 2010.

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 and pop" stores, convenience stores, etc). On the other hand, the government 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 Mercal food distribution stores at lower retail prices.

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.

The Superintendent of Silos has stated that the sugar industry currently sells 90 percent of product to industries such as refreshments, juices and desserts, among others, while the remaining 10 percent goes to final consumers. The superintendent indicated that the government intends to put greater emphasis on getting sugar to final consumers, and will require 60 percent of sugar to be sold directly to the public and 40 percent for industrial consumption.

Prices

Refined sugar continues to be under the retail price control policy established by the government in 2003.

Cane and refined sugar prices are set through the National Sugar Board. Initiated by the Government of Venezuela 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, the National Sugar Board has not met on a regular basis.

The industry has asked to the government to increase prices for sugar to 3.18 Bs. per kilogram.

Production, Supply and Demand Data Statistics:

Venezuela Sugar, Centrifugal									
	2008	**Estimate**		**2009**	**Forecast**		**2010**	**Forecast**	
	USDA Official	**Post Estimate**	**Post Estimate New**	**USDA Official**	**Post Estimate**	**Post Estimate New**	**USDA Official**	**Post Estimate**	**Post Estimate New**
Market Year Begin		**Sep-07**	**Sep-07**		**Sep-08**	**Sep-08**		**Sep-09**	**Sep-09**
Beginning Stocks	117	117	117	251	251	251		317	
Beet Sugar Production	0	0	0	0	0	0	0	0	0
Cane Sugar Production	710	710	710	720	720	621		540	
Total Sugar Production	710	710	710	720	720	621		540	
Raw Imports	260	260	260	260	260	450		500	
Refined Imp.(Raw Val)	130	130	130	140	140	150		150	
Total Imports	390	390	390	400	400	600		650	
Total Supply	1217	1217	1217	1371	1371	1472		1507	
Raw Exports	0	0	0	0	0	0	0	0	0
Refined Exp.(Raw Val)	1	1	1	0	0	0	0	0	0
Total Exports	1	1	1	0	0	0	0	0	0
Human Dom. Consumption	960	960	960	1050	1050	1150		1250	
Other Disappearance	5	5	5	5	5	5		5	
Total Use	965	965	965	1055	1055	1155		1255	
Ending Stocks	251	251	251	316	316	317		252	
Total Distribution	1216	1216	1216	1371	1371	1472		1507	