

USDA Foreign Agricultural Service

# GAIN Report

Global Agricultural Information Network

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## Venezuela

### Sugar Annual

### Sugar Annual Report

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**Report Highlights:**

The Venezuelan sugar industry foresees declining domestic production in 2010 due to the industry's marginal profitability and policy considerations. Imports are expected to increase up to about 700,000 metric tons, but price controls and difficulties in contracting shipping could lead to a greater scarcity by the end of 2010. The government recently increased the regulated consumer price to Bs. 3.73 per kilogram, an amount that domestic producers believe is not sufficient to cover rising production costs.

**Executive Summary:**

A combination of price controls, decreasing cane planted area, and increased competition from imports are negatively impacting the domestic sugary industry. The National Federation of Associations of Venezuelan Cane Producers (FESOCA) forecasts cane production to fall to 500,000 tons in 2010. Estimates for refined sugar production stand at 600,000 metric tons. As result of the recent currency devaluation, the sugar industry's costs have increased by 30 percent. The Venezuelan government has regulated the price of sugar for the domestic market at Bs. 3.73 per kilogram. Imports will still be needed to cover the needs of the soft drink and confectionary industries. Milling capacity is still lacking, meaning that harvest losses are significant.

**Commodities:**

Sugar, Centrifugal

Sugar Cane for Centrifugal

Sugar Beets

**Production:****Production and Milling:**

VENAZUCAR, Venezuela's sugar milling industry association, has reported that millers are not increasing investment because price controls on refined sugar limit profitability. Estimates for refined sugar production stand at 600,000 metric tons. The country's 15 operating sugar mills process 78,000 tones per day, sugar processing capacity is 5,430 tones per day, and packaging capacity is 850 tones per day. Venezuela's total milling capacity is not sufficient to process any additional cane production. Media reports confirm that sugar mills function at 80 percent of their total milling capacity.

Even with extensive land and suitable weather, cane producers cannot meet domestic demand. Historically, between 70 to 75 percent of the country's sugar demand is met by domestic production, while imports account for the rest. Now, between 60 to 65 percent of sugar demand is met by domestic production and imports covers around 35 to 40 percent of total demand.

Previously, growth in cane and refined sugar production was due mainly to the combined effort of cane growers and millers to achieve better yields and a higher sugar content of 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 sugar cane 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:**

According to the National Federation of Associations of Venezuelan Cane Producers (FESOCA), the 2010 harvest will reach only 500,000 metric tons (MT), approximately 100,000 MT less than in 2009. VENZAUCAR estimates total area planted to sugar cane at 90,000 hectares for 2010, 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. Sugar 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. Recently, the Venezuelan government increased the regulated price of sugar for the domestic market at Bs. 3.73 per kilogram, less than the cane producers' request to move up to Bs. 4.40 per kilogram. Cane producers were receiving only Bs. 1.20 per kilogram delivered to the processor, and their costs are reportedly Bs. 2.60 per kilogram.

### **Consumption:**

The sugar industry forecasts that consumption will not increase in the short term. Demand for 2010 is estimated at 1.2 million tons of refined sugar. At present the industrial sector receives 60 percent of sugar production while 40 percent is destined for domestic/home consumption. Annual per capita consumption fluctuates between 35 and 41.6 kilograms. Recently, the soft drink processing industry has been receiving less sugar because the government directed a greater share of product to domestic/home consumption, and then increased sugar imports to avoid a national sugar shortage. The industrial food sector is composed of soft drinks and snacks such as cookies, crackers, and confectionary. The Venezuelan soft drink industry uses 100 percent sugar without any fructose or other sweetener for its non-diet beverages.

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.

The Venezuelan Government says that the market has been facing severe sugar shortages for many months, and attributes them to a series of irregular activities being carried out by sugar producers seeking to increase profit margins. They claim that producers try to avoid the regulated price through illegal exports to Colombia, selling unrefined sugar to producers of chocolate products and other sweets, and keeping large stocks off the domestic market. Additionally, they believe that by creating an artificial shortage, an informal market is created which some producers and middlemen exploit in order to maximize profits. Sugar on the informal market can sell at more than double the regulated price.

### **Trade:**

#### **Imports:**

FESOCA estimates imports of raw sugar at 700,000 metric tons, nearly all from Brazil. The industry is well aware that given higher international prices and the controlled prices at the domestic level, it will be difficult to source imports, because availability and profitability. VENZAUCAR estimates the cif value of imports at around USD 300 million. Puerto Cabello, Venezuela's main seaport responsible for 80 percent of all Venezuela's imports, has logistical problems, and VENZAUCAR believes that there will be difficulties in contracting shipping. All of these factors will lead to a higher level of scarcity by the end of the year.

The adjustment of the official exchange rate, from Bs 2.15 to 2.6 per dollar, has led to delays in the authorization of foreign exchange purchases (AAD) by the Foreign Exchange Administration Commission (CADIVI), causing occasional failures in the supply of products whose raw materials, such as sugar, are imported. In January, CADIVI did not process any AAD request from Venezuelan

sugar industry. As a result, there have been delays in inventory restocking. FESOCA reports that due to the paperwork related to import permits (licenses, AAD requests, and processing, reimbursement codes by the Central Bank of Venezuela), imports of sugar have been delayed by more than 45 days. The situation has become worrisome for the food industry because the government can sanction the industry if there is a shortage of basic foodstuffs.

### **Tariff Rate Quotas 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. The TRQ for sugar is allocated through an import license regime specified in an Official 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 the Ministry of Food a monthly list of actual imports, 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, in Spanish, through the following web address: <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 give sugar from these countries duty free entry.

The present base tariff on sugar is 15 percent ad valorem calculated on a 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 N° 38,625, dated 02/13/07). This measure had been renewed every six-months until this year, when the government changed it for a one year period.

### **Non-Production Certificates**

Since January 2003, importing basic commodities as well as some horticultural products and agricultural inputs, requires a "certificate of non-production" or a "certificate of insufficient production" from the Ministry of Commerce. These certificates state that a certain product is not domestically produced or there is not enough domestic production. These rules were implemented 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 N°38,577, dated 12/05/06).

## **Policy:**

### **Land Expropriation:**

During 2009 a significant amount of land appropriate for sugar production was taken over by the government because it was said to be out of production. More land expropriations are expected during 2010.

The intervention of lands initiated during 2008-2009 in Carabobo and Aragua put at risk the production of 120,000 tons of sugar. The operation called "Tierra y Hombres Libres" (Land and Free Men), initiated by the government to "rescue" lands in Aragua and Carabobo, puts at risk the farms around the Lake of Valencia and threatens thousands of jobs generated in the zone.

### **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 (Junta Nacional del Azucar). Initiated by the Government of Venezuela in mid-2003, though long inactive, the National Sugar Board is responsible for reviewing 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.

Recently, the Venezuelan government has regulated the price of sugar for the domestic market at Bs. 3.73 per kilogram. Cane producers receive Bs. 1.20 per kilogram.

### **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 N°38,626, 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.

**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, (Corporación de Abastecimiento y Servicios Agrícolas) 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.