

USDA Foreign Agricultural Service

GAIN Report

Global Agricultural Information Network

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POLICY

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Venezuela

Sugar Annual

2016

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Report Highlights:

Post forecasts domestic sugar production to fall in marketing year (MY) 2016/2017 to 430,000 metric tons (MT), constrained by El Niño drought conditions, price controls, and limited foreign exchange to import critical agricultural inputs. In MY 2016/2017, total imports are forecast to remain unchanged at 850,000 MT.

Executive Summary:

Over the past several years, the combination of price controls, rising production costs, lack of foreign exchange, restrictive labor laws, and a lack of basic inputs have resulted in a drop of sugar cane production due to fewer planted hectares and lower yields. Farmers continue to farm under poor overall economic conditions and declining profitability. Many smaller farmers have turned to other crops that are not price controlled and thus provide greater net income.

To cover the gap between sugar production and consumption, imports have had to increase over the past several years, but will remain flat in MY 2016/2017 due to foreign exchange limitations. This trend is expected to continue over the near term, as foreign exchange is diverted from other uses to make the necessary purchases. Sugar is one of several basic food items considered politically sensitive.

Commodities:

Sugar, Centrifugal

Production:

Post forecasts domestic sugar production to fall in marketing year (MY) 2016/2017 to 430,000 metric tons (MT), constrained by El Niño drought conditions, price controls, and limited foreign exchange to import critical agricultural inputs. The Government of the Bolivarian Republic of Venezuela (GBRV) no longer publishes statistical agricultural information and so Post uses various private sector sources to determine the best numbers. The Venezuela Sugar Producers Association (VENAZUCAR) reports that government owned sugar mills continue to underperform, while private sector mills have delayed any additional investment in their mills because of worsening economic conditions. After three years of sporadic growth, sugar production is expected to fall significantly in the coming years as economic conditions worsen and lower oil prices further reduce Venezuela's foreign exchange cash flow. Like all agricultural industries and food processors, the sugar industry desperately needs foreign exchange to import new equipment and repair parts for aging mills.

There are 16 operating sugar mills in the country, 10 of them are managed by the GBRV. Most of them were either occupied or expropriated by the government between 2005 and 2010. After expropriations, total sugar production began a steady decline starting in MY 2007/2008. According to VENAZUCAR, eight of the 10 government-owned sugar mills are working below capacity. These mills have resorted to producing more molasses than sugar to maintain operations. It is expected that they will continue to reduce sugar production and could eventually close in the near term.

There are a few private sugar mills that have maintained, even increased, milling operations, but not enough to offset losses from the GBRV mills. VENAZUCAR reports that the GBRV mills only account for approximately 20 percent of total sugar produced in the country, but there are no hard numbers. If the state-owned mills do eventually close, the private mills can compensate for that loss; however, most of that gap in production must be satisfied with increased imports to satisfy market demand.

Consumption:

VENAZUCAR reports that consumption has steadily increased over the past several years with imports making up for reductions in local production and rising population growth. However, over the past three years, consumption of sugar has grown at a reduced rate, as the government struggles to prioritize limited foreign exchange. In MY 2016/2017, consumption is forecast to remain unchanged at 1.33 million MT of sugar. In January 2013, the GBRV published Official Gazette No 40.085 that directs sugar mills to supply 70 percent of production to individual consumers and 30 percent to food and beverage manufactures. Given that the majority of sugar production is produced in six mills, and the GBRV controls trucking movements and distribution locations, enforcement of the decree should not be an issue. Nevertheless, there continues to be sporadic shortages of sugar for household consumption. Controlled retail prices and inflation for basic food items has created an informal market of organized groups buying low-priced sugar and then selling it at two and three times the price to consumers in sanctioned retail markets. The sugar industry estimates that the actual sugar usage between industry and household is closer to 50-50 as some food manufacturers are able and willing to pay more than the controlled price.

All alternative sweeteners, such as high fructose corn syrup, are imported, which are subject to the same limited foreign exchange problem. According to VENAZUCAR, the consumption of these sweeteners is growing, but they still only represent about 1 percent of total sugar consumption in the country.

Trade:

Post forecasts MY 2016/2017 imports of raw sugar at 750,000 MT, plus another 100,000 MT of refined sugar (raw-sugar equivalent). Estimated imports volumes are unchanged from the previous year. The GBRV imports all Venezuelan sugar through its food purchasing entity, the Corporation of Agricultural Storage and Services (CASA). CASA imports sugar at a preferential exchange rate that is 10 times cheaper than the estimated real value of the bolivar, making the sugar significantly cheaper than locally produced sugar. Availability of foreign exchange will be a primary factor to determine if any imports can be realized. Venezuela has significant debt payments and the GBRV has prioritized financing sovereign debt over other macroeconomic needs with limited foreign exchange.

Contraband sugar trade to Colombia is likely occurring due to the significant distortion in Venezuela's exchange rate markets and domestic price controls. An unofficial estimate of illegally trade to Colombia is around 80,000 tons, in raw-sugar equivalent, a 60 percent increase in just over a couple of years.

Venezuela joined the Southern Common Market (MERCOSUR) on July 31, 2012 and duties are drawing down and will be eliminated for most goods by 2017. Brazil is the primary supplier of raw sugar to Venezuela, even though there is a small import duty. Nicaragua is the second largest supplier of raw sugar to Venezuela and growing in importance due to a bilateral agreement which allows duty free access of Nicaraguan sugar.

Policy:

Price controls, land/farm expropriations, lack of foreign exchange, security concerns, lack of spare parts for agricultural inputs, machinery and packaging materials, and even labor problems, are all major issues negatively impacting the market for sugar production and consumption. It is evident to the private sector that the GBRV may rather import sugar than invest in areas to increase local production. Unfortunately, the GBRV finds itself with further dwindling foreign exchange available to purchase

imported sugar. The economic situation is expected to worsen in 2016 and some government sugar mills may have to shut down operations.

Marketing:

Both the government and the private sector currently sell refined sugar. Sugar millers continue to offer refined sugar under their brands through Venezuela's traditional retail sector. The GBRV has a network of supermarkets, (MERCAL, PDVAL and BICENTENARIO) where the government provides food products at fixed, subsidized prices. The Venezuelan consumer prefers refined cane sugar, but continued shortages force consumers to find other alternatives. Availability of brown sugar and fructose products has increased over the past year, but supply of these alternatives accounts for no more than one percent.

Production, Supply and Demand Data Statistics:

Sugar, Centrifugal Market Begin Year Venezuela	2014/2015		2015/2016		2016/2017	
	Oct 2014		Oct 2015		Oct 2016	
	USDA Official	New post	USDA Official	New post	USDA Official	New post
Beginning Stocks	331	331	256	256		141
Beet Sugar Production	0	0	0	0		0
Cane Sugar Production	470	470	450	450		430
Total Sugar Production	470	470	450	450		430
Raw Imports	770	770	750	750		750
Refined Imp.(Raw Val)	100	100	100	100		100
Total Imports	870	870	850	850		850
Total Supply	1,671	1,671	1,556	1,556		1,421
Raw Exports	0	0	0	0		0
Refined Exp.(Raw Val)	0	80	80	80		80
Total Exports	0	80	80	80		80
Human Dom. Consumption	1,330	1,330	1,330	1,330		1,330
Other Disappearance	5	5	5	5		5
Total Use	1,335	1,333	1,335	1,335		1,335
Ending Stocks	256	256	141	141		6
Total Distribution	1,671	1,671	1,556	1,556		1,421

1000 MT