USDA Foreign Agricultural Service

GAIN Report

Global Agricultural Information

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Required Report - public distribution

Date: 4/17/2015

GAIN Report Number: VE1505

Venezuela

Sugar Annual

Sugar Annual Report

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Report Highlights:
The Venezuelan sugar industry expects domestic sugar production to drop in MY 2015/2016, constrained by price controls and limited foreign exchange to import raw sugar. Imports are estimated to rise marginally to approximately 890,000 tons, pending availability of foreign exchange.

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. Sugar production from local cane is estimated to fall in MY 2014/2015 and again in MY 2015/2016 to the lowest level in the past five years.

To cover total consumer sugar needs, imports have had to increase over the past several years. This trend is expected to continue over the near term, but only if limited foreign exchange is diverted from other uses to make the necessary purchases. Sugar is one of several basic food items considered politically sensitive. The government has promised provide ample food supplies in 2015, an important election year in the Venezuelan General Assembly.

Commodities:

Sugar, Centrifugal

Production:

Production and Milling:

The GBRV no longer publishes statistical agricultural information and so Post uses various private sector sources to determine the best numbers. VENAZUCAR, Venezuela's Sugar Producers' Association, reported 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. Post adjusted MY 2012/2013 sugar production upward based on updated information from VENAZUCAR, showing a marginal increase from Post's previous estimate and USDA's number, due to better than expected yields. After three years of sporadic growth, sugar production is expected to fall significantly in the coming years as economic conditions worsen and low 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 at minimum capacity. These mills have resorted to producing more molasses than sugar to try and keep the mills operating. It is expected that they will continue to reduce sugar production and could eventually close in the near term. In MY 2014/2015 and MY 2015/2016, sugar production from local sugar cane is estimated to decline to 470,000 tons and then again to 450,000 tons respectively.

Some private mills actually experienced a slight increase in sugar production in MY 2013/2014, but not enough to offset losses from government 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 will be able to make up some of the lost production, but more of the lost production will have to be met with increased imports if total demand is to be met.

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. Consumption in MY 2013/2014 has been increased from the last estimate to reflect the updated information from millers. In MY 2014/2015 consumption is estimated unchanged at 1.33 million tons of sugar, higher than USDA's estimate due to Post's higher import numbers. 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 surpassing 100 percent, 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 open markets and across the border into Colombia. 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.

Consumption for MY 2015/2016 is left unchanged from this year as it is unclear if enough foreign exchange will be made available to increase sugar imports. Given the expected significant reduction in sugar production due to a decline in production capacity, the government will likely be forced to import more refined sugar. Overall, given the forecast in the reduction in production in MY 2015/2016, Venezuela is looking at a decline in total sugar supply and a decrease in per capita consumption.

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:
VENAZUCAR estimates imports of raw sugar at 770,000 tons and 100,000 tons of refined sugar, raw-sugar equivalent, in MY 2014/2015. These imports represent an increase from the previous year, as the government continues to import food items to supplement reductions in production. The GBRV imports all Venezuelan sugar through its food purchasing entity, CASA, (Corporation of Agricultural Storage and Services). This sugar is imported 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. In MY 2015/2016, Post forecasts sugar imports to increase, but for refined sugar due to a reduction in milling capacity from state-owned mills. Availability of foreign exchange will be a primary factor to determine if these imports can be realized. Venezuela has significant debt payments to make that historically have taken precedence.

Due to the significant distortion in Venezuela's exchange rate markets and low relative prices, illegal exports of refined sugar to Colombia have increased. 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. If the GBRV were to devalue the currency, increase controlled sugar cane and sugar prices, much of the illegal trade would stop.

Brazil is the primary supplier of raw sugar to Venezuela even though there is an 8 percent import duty imposed on Brazilian sugar imports. Venezuela joined Mercosur (The South American Common Market) on July 31, 2012 and duties are drawing down before being eliminated in 2017. 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 to Venezuela.

Policy:

Current Issues:

Price controls; land expropriations; lack of foreign exchange; security concerns; lack of spare parts for machinery and packaging materials; fertilizers; and even labor force problems; all are major issues negatively impacting sugar supply and demand. Although the GBRV announced in MY 2012/2013 and MY 2013/2014 that production would increase in all government mills, this has not materialized. It is becoming painfully clearer to the sugar industry that the government would rather import sugar than invest in areas to increase local production. Unfortunately, the government finds itself with further dwindling foreign exchange available to purchase food products. The economic situation is expected to worsen in 2015, which is expected to force the government to have to close several of its sugar mills permanently.

Prices:

Refined sugar continues to be subject to retail price control policies established by the government in 2003. In February 2015, the GBRV increased the regulated consumer price to 26.57 bolivars/kilo, or $4.21/kilo at $1.00 = 6.3 bolivars; the exchange rate used to buy sugar imports. However, the price of one kilo of sugar in the informal market can reach as high as 50 bolivars, or $8.00/kilo using the official exchange rate. This disparity in price creates incentives for contraband and the creation of informal markets.

In February 2015, representatives of the National Federation of Associations of Venezuelan Cane Producers (FESOCA) met with representatives of the Ministry of Agriculture and Lands to request a price increase of the controlled farm-gate sugar cane price of 10.00 bolivars/kilo to 24.00 bolivars/kilo. Producers argued that future production is in jeopardy if the farm-gate price is not raised. To date, the government has not responded.

The list of regulated consumer prices published in February 2015 in the Administrative Providence No. 34 shows:

Exchange Rate (Bs6.3 to $1.00)		US $
• 1 kilo refined sugar	Bs26.57	$4.21
• 900 grams of refined sugar	Bs24.33	$3.86
• 1 kilo brown sugar	Bs22.15	$3.51
• 900 grams of brown sugar	Bs20.35	$3.23

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 subsidized prices to the already low controlled price. One kilo of refined sugar is priced at Bs18.60 ($2.9) in these stores. The current difference between the official exchange rate and the parallel rate at the Colombia/Venezuela border is 6.3 bolivars/$1.00 and 260 bolivars/$1.00 respectively. Price differences combined with the exchange rate disparity are the primary reasons contraband exports to Colombia are on the rise. The Venezuelan consumer prefers refined cane sugar; but continued shortages opened the market for different sugar products. Availability of brown sugar and fructose products has increased over the past year, but supply accounts for no more than one percent.

Sugar, Centrifugal	2013/2014		2014/2015		2015/2016	
Market Begin Year	**Oct 2013**		**Oct 2014**		**Oct 2016**	
Venezuela	**USDA Official**	**New post**	**USDA Official**	**New post**	**USDA Official**	**New post**
Beginning Stocks	312	312	281	331	0	256
Beet Sugar Production	0	0	0	0	0	0
Cane Sugar Production	492	514	490	470	0	450
Total Sugar Production	492	514	490	470	0	450
Raw Imports	750	740	750	770	0	750
Refined Imp.(Raw Val)	100	100	100	100	0	100
Total Imports	850	840	850	870	0	850
Total Supply	1,654	1,666	1,621	1,671	0	1,556
Raw Exports	0	0	0	0	0	0
Refined Exp.(Raw Val)	48	0	48	80	0	80
Total Exports	48	0	48	80	0	80
Human Dom. Consumption	1,320	1,330	1,320	1,330	0	1,330
Other Disappearance	5	5	5	5	0	5
Total Use	1,325	1,335	1,325	1,333	0	1,335
Ending Stocks	281	331	248	256	0	141
Total Distribution	1,654	1,666	1,621	1,671	0	1,556
1000 MT						