



Agri-Food Past, Present & Future Report

Venezuela

July 2006



The Government of Canada has prepared this report based on primary and secondary sources of information. Readers should take note that the Government of Canada does not guarantee the accuracy of any of the information contained in this report, nor does it necessarily endorse the organizations listed herein. Readers should independently verify the accuracy and

reliability of the information. This report is intended as a concise overview of the market for those interested in its potential and is not intended to provide in-depth analysis which may be required by the individual exporter. Although every effort has been made to ensure that the information is correct, Agriculture and Agri-Food Canada assumes no responsibility for its accuracy, reliability, or for any decisions arising from the information contained herein.

Please address any comments or suggestions you have on this report to:

Ben Berry - berryb@agr.gc.ca

Venezuela

Past Present & Future Report July 2006

Overview

Home to over 26 million, Venezuela has vast natural resources and is one of the world's top oil producers. Venezuela is ideally located on major sea and air routes in the northernmost point of South America, providing access to markets in Latin America, the Caribbean and North America. Venezuela has strong economic and political ties with its South American neighbours. In 2006, Venezuela joined the Mercosur trading bloc, which includes Brazil, Argentina, Uruguay and Paraguay

Venezuela experienced economic depression in 2002 and 2003, and has suffered from continuing political instability; however, high oil prices have boosted the Venezuelan economy and strong GDP growth has been experienced since 2004. Despite some uncertainty in the country, significant opportunities exist for the dedicated Canadian exporter or investor.

Canada - Venezuela Relations

Canada and Venezuela have longstanding diplomatic relations. The Canadian Embassy in Venezuela was established more than fifty years ago. Since 2002, when political tensions in Venezuela increased, Canada has supported initiatives by the Organization of American States (OAS) and the Carter Centre to promote a peaceful and democratic resolution to problems in the country. The Canadian International Development Agency (CIDA) also provides assistance to Venezuela, but support is limited in scope and does not include any long term projects.

Canada and Venezuela have a well-established trade and investment relationship. Canada holds a trade deficit with Venezuela, importing more products from Venezuela than it exports. This trade deficit is due primarily to the large quantity of oil Canada imports from Venezuela. In 2005, the value of imports from Venezuela peaked at \$1.8 billion, an increase of over 150% from 1996. Canadian exports of goods to Venezuela have fluctuated during the last ten years, averaging \$633 million but ranging from a low of \$308 million in 2003 to a high of \$954 million in 1997. In 2005, Canadian exports to Venezuela were valued at \$686 million.

Canadian direct investment in Venezuela was valued at \$314 million in 2005. Although this was a decrease from the \$338 million invested in 2004, it was above the five year average of \$277 million. Canadian investment in Venezuela is primarily focused in the telecommunications, banking, legal services, mining and oil and gas sectors.

Canada- Venezuela Bilateral Trade (2005)	
Venezuela Total Trade	\$41.2 billion
Exports	\$14.7 billion
Imports	\$26.5 billion
Trade balance	(\$11.8 billion)
Canada-Venezuela Trade	\$2.5 billion
Exports	\$686 million
Imports	\$1.8 billion
Trade balance	(\$1.1 billion)
Canada-Venezuela Ag Trade	\$175.4 million
Exports	\$174.7 million
Imports	\$782,000
Trade balance	\$173.9 million

- In 2005, Canada's top exports to Venezuela were motor vehicle parts valued at \$208 million, wheat valued at \$115.6 million and newsprint valued at \$67.4 million.
- In 2005, Canada's top imports from Venezuela were crude oil valued at \$1.1 billion, preparations of non-crude oil valued at \$335.2 million and semi-finished iron and non-alloy steel products valued at \$112.3 million.

Agricultural Trade

Venezuela imports a large portion of its food requirements and runs a significant food trade deficit. In 2005, Venezuela imported \$2.6 billion in agri-food products and \$64.3 million in fish and seafood products. The top agri-food and seafood exporters to Venezuela were Columbia (22%), United States (19%), Bolivia (9%), Chile (6%) and Canada (5%).

Venezuela also exported \$317.8 million in agri-food and seafood products in 2005. Top exports included \$73.6 million in fish and seafood, \$43.7 million in beverages, spirits and vinegar, as well as \$29.8 million in tobacco products. United States (23%), Columbia (19%) and Spain (12%) were the top markets for Venezuelan agri-food and seafood products.

Canada has a large agricultural trade surplus with Venezuela, exporting significantly larger amounts of food to Venezuela than it imports from the country. Canada has a relatively large share of the Venezuelan commodities market (wheat, pulses and potatoes) but a limited share of the processed food market.

- Canada's total agri-food exports to Venezuela exceeded \$175.2 million in 2005. These exports included \$121.3 million or 69% in bulk goods, \$30.8 million or 18% in intermediate goods and \$23.1 million or 13% in consumer goods.
- In 2005, Canada was the second largest exporter of wheat and potatoes to Venezuela. Canada was also the largest exporter of buckwheat, millet and canary seed to Venezuela.
- Canadian fish and seafood exports to Venezuela were valued at \$17,000 in 2005 and consisted primarily of frozen sea fish and frozen coho salmon.
- In 2005, Canada's total agri-food imports from Venezuela were valued at \$782,000; these imports included \$413,000 in sesame seeds, \$100,000 in animal products unfit for human consumption and \$65,000 in coffee.

Canada's Top 5 Agricultural Exports to Venezuela (2005)	
Durum wheat	\$81 million
Non-durum wheat	\$34 million
Frozen fries	\$15.5 million
Lentils, dried, shelled	\$14.2 million
Peas, dried, shelled	\$5.6 million

Complete Statistical Summary Available:
http://ats.agr.gc.ca/stats/venezuela_e.pdf

Economy

Venezuela has a free market economy that is heavily dependent on oil for revenue. Venezuela is an important source of crude oil, being one of the top ten producers of oil worldwide. The country also possesses large reserves of natural gases and coal. Oil contributes about 25% of Venezuelan GDP and over 80% of export revenues; however, the oil sector employs less than 1% of the total work force. Dependence on oil has made the economy vulnerable to fluctuations in oil prices and the international economy.

In addition to fluctuations in world commodity prices, political instability has impacted the performance of the Venezuelan economy in recent years. The current president, Hugo Chávez, was elected in 1998 and has undertaken a number of controversial reforms and constitutional changes. Chávez's opponents accuse the government of increasingly authoritarian practices and of undermining the private sector. In 2001, there were marches by hundreds of thousands protestors, which culminated in Chávez's temporary removal from power by the military during April 2002. This was followed, in December 2002, by a two-month national strike which interrupted oil production. This strike contributed to economic depression in the country and GDP decreases of 8.9% and 7.7% were experienced in 2002 and 2003. Beginning in 2004, high oil prices and increasing domestic consumption resulted in economic recovery. GDP growth of 17.9% was seen in 2004 and 9.3% in 2005. Continued economic growth is expected in 2006 and 2007.

While GDP and consumption are increasing, private investment remains sluggish and unemployment and inflation are high. Political tensions and instability, as well as structural deficiencies have resulted in low private investor confidence. Policy changes under President Chávez have raised business concerns over contract and property rights. Among these changes include a controversial land reform program that allows the government to seize unproductive land. There is also a general trend towards the nationalization of the Venezuelan oil industry, with foreign oil firms being forced to give up majority control of their operations and pay increasingly high royalty rates and taxes. Chávez has also made a number of controversial statements about American foreign policy and perceived western imperialism. He has combined these policy statements with active searches for trade and political allies who support his stance. The international view of the political situation has hampered trade and investment in Venezuela.

Gross Domestic Product (2005)	
GDP	US\$132.8 billion
GDP growth	(2005) 9.3% (2006e) 6.0%
GDP/ capita	US\$5,026
GDP/ capita (PPP)	US\$6,186

Current

- Agriculture accounts for about 5% of GDP, industry for 48% and services for 47%.
- Inflation has been high in the past 5 years, peaking in 2003 at 31.1%. The inflation rate declined to 16% in 2005.
- The unemployment rate was estimated at 12.3% in 2005.
- Top Venezuelan industries include petroleum, construction materials, food processing, textiles, mining, steel, aluminum and motor vehicle assembly.
- Top Venezuelan exports include petroleum, bauxite and aluminum, steel, chemicals, agricultural products and basic manufactured goods.
- Top Venezuelan imports include raw materials, machinery and equipment, transport equipment and construction materials.

Forecast

- Inflation is forecasted at 12.5% in 2006 and 15% in 2007.
- Strong GDP growth is forecasted to continue, with GDP growth predicted at 6% in 2006 and 4.3% in 2007.
- Presidential elections are planned for December 2006. If President Chávez achieves a victory in this election, greater state involvement in the economy is predicted. This may have a negative impact on the private sector.

Consumer Market

General

Venezuela is a highly urbanized country with strong consumer demand for imported goods. Underdeveloped domestic production of consumer goods has left the market open to imported products. Nonetheless, in recent years changes in government policies and the devaluation of the currency have resulted in a shift in imports from high-value food products to basic grains and products requiring further processing. Economic difficulties in the country have also made consumers relatively price sensitive. However, demand for food is predicted to increase as domestic consumption expands due to stronger consumer purchasing power and increasing government expenditures on social food programs.

The capital, Caracas, is home to over 3 million people and is the cultural and business centre in the country. The Venezuelan population is relatively young, with an average age of 26 years and about two-thirds of the population under 30. Youth-oriented marketing strategies may be particularly effective in Venezuela, with attractive packaging and new and trendy products particularly popular among the younger segment of the population.

Consumption and Trends

Convenient foods that require little preparation time are increasingly popular among Venezuelan consumers. The growing availability of microwaves has contributed to this trend, making processed and ready-to-eat products more popular. Despite evolving trends, the growth of imported consumer-ready products has been hindered by import restrictions.

Venezuelans are large consumers of bread and pasta. Based on per capita consumption, Venezuela is the world's second largest consumer of pasta, after Italy. As Venezuela produces little wheat, large amounts are imported, primarily from the United States and Canada. The government is attempting to decrease dependency on wheat imports by encouraging rice consumption. Rice currently represents 21% of the typical Venezuelan's diet, while wheat accounts for 53%. Venezuela is generally self-sufficient in rice production.

- White corn and precooked corn flour is a staple of the Venezuelan diet. Domestic production meets the needs of the consumer population; however, Venezuela has traditionally been an importer of yellow corn for use in its feed industry. Imports of yellow corn are on the decline due in part to decreases in hog and poultry production.
- Soybean oil and soybean meal are commonly used in the food industry, animal feed processor sectors and soap and detergent industries. Increasing demand for soybean meal and soybean oil is expected.
- Beer is the most popular alcoholic beverage in this market. According to Euromonitor, beer sales accounted for almost 77% of drink purchases (by value) in 2004.
- There is a growing market for low-calorie products.
- The functional food market is a new developing market; however, currently only high-income consumers are able afford these new products.
- Awareness of organic food is low and these products are yet to become an important part of the Venezuelan food industry.
- Restaurant food sales have been increasing, with fast food franchises particularly popular.
- Internet food sales are in the early stages and could be promising area for growth.
- There is a small market for kosher products. Venezuela has the third largest Jewish community in South America with about 30,000 people.

Distribution

Food is sold at small stores called "bodegas", as well as large supermarkets. The major supermarkets are members of the National Supermarket Association and are serviced by a large number of importers and distributors. The government also provides subsidized food to lower-income groups through government-owned stores called MERCAL. MERCAL accounts for about 20-30% of food sales in Venezuela and about two thirds of the population visit MERCAL stores regularly (Euromonitor, 2006). MERCAL's prices average 30% less than standard supermarkets (Euromonitor, 2006).

Opportunities

Venezuela is large importer of agri-food products and a number of opportunities exist for Canadian companies. The following agri-food products have good potential:

- Dairy products
- Refrigerated, frozen and canned meat products
- Frozen, canned and salted fish products
- Fresh, frozen and canned vegetables
- Cereals, pulses and dry beans/seeds
- Canned and bottled beverages
- Confectionery
- Animal feed and pet foods
- Agricultural and food processing equipment and machinery

Competitors

The top agri-food exporters to Venezuela include Columbia, United States, Bolivia and Chile. Many South American countries are strong competitors in Venezuela due in part to tariff preferences and exemption from foreign exchange restrictions. With Venezuela joining the Mercosur trade bloc in 2006; increasingly tough trade competition from Mercosur members (Argentina, Brazil, Paraguay and Uruguay is anticipated.

Access Issues

While the overall economic situation in Venezuela is currently improving due in part to high oil prices, the business climate is still somewhat uncertain as political instability persists. Although Venezuela is an important commercial partner with Canada, a number of barriers exist to investment and trade. Venezuela's membership in the World Trade Organization (WTO) will hopefully lead to a reduction in these barriers, as Venezuela reduces import duties and restrictions as a result of its international trade commitments.

The lack of transparency and the discretionary application of import procedures is a barrier to trade with Venezuela. Trade is also impeded by the restrictive use of licenses and permits. Furthermore, Canadian suppliers are impacted by foreign exchange controls that are imposed on imports of non-essential food items. Importers wishing to do foreign currency transactions must register with the Exchange Control Administration Committee (CADIVI). A list of agricultural products that can be imported at the official foreign exchange rate can be found at <http://www.cadivi.gov.ve> (Spanish only)

Agricultural products must have sanitary import certificates as issued by the Ministry of Agriculture. These procedures are not fully transparent and authorities may not respond in a timely fashion to enquiries regarding sanitary issues. Under the import licensing system, domestically produced commodities are purchased before competing imports are allowed entry. Processed food does not face competition barriers.

Tariffs for certain agricultural products may be adjusted upward or downward in accordance with the Andean Pact Price Band System, which was implemented in April 1995. This system tracks the estimated landed price of certain marker commodities

and adjusts ad valorem tariffs for the market product and any related products if the prices fall outside the established price band.

Venezuelan communication and transportation infrastructure is more-developed than in many Latin American countries. Venezuela has about 96,000 km of highway, of which about a third is paved. This road network is the principal means of transport for goods and people. The railway system is small and not an effective transport method. There are 11 international airports, although 90% of international flights enter at Maiquetía in Caracas. Additionally, several domestic airlines exist. Venezuela has 13 major ports and there are plans to expand existing ports and develop new deepwater ports. Telecommunications is a growing sector, with high cellular phone penetration, despite relatively low fixed-line phone service. Venezuela has one of the best electricity networks in Latin America, with service extending to about 90% of the population. Two thirds of the country's electricity is generated from hydropower; however, power facilities are often strained in the dry season (December – April) resulting in disruptions to service.

Overview

- Canada and Venezuela have signed a Foreign Investment Protection Agreement (FIPA) and a double-taxation agreement.
- Venezuelan importers prefer to deal directly with manufacturers. Whenever possible, Canadian exporters that are not manufacturers should partner with a Canadian manufacturer.
- Spanish is the official language. Canadians wishing to do business with the Venezuelan Government should note that correspondence sent to a government agency in English or French will probably not receive a reply.
- A Venezuelan Certificate of Standards Compliance, COVENIN, is required by customs authorities. COVENIN, the Venezuelan standards agency, has over 300 standards that apply to domestic and imported products.
- All processed foods imported into Venezuela must have labels in Spanish that meet the General Regulation for Foods, the Sanitary Defense Law and the COVENIN standards.
- Prior to import, animal and animal products must be registered with the Servicio Autónomo de Sanidad Agropecuaria (SASA) (See website at: <http://www.sasa.gov.ve/inicial.html> - Spanish only)

Business Travel Tips

- Canadians should exercise caution when visiting Venezuela. The security situation is somewhat volatile and violent crime is common.
- Canadian business travelers require a business visa. To obtain a Venezuelan business visa you should contact the nearest Venezuelan Embassy or Consulate. Visitors with business visas are required to pay local income taxes if their stay in the country extends beyond 180 days. Canadian tourists do not require a visa unless arriving overland.
- Canadian dollars are difficult to exchange in Venezuela and therefore it is recommended to carry U.S. cash or U.S. dollar traveler's cheques.
- Credit cards are accepted at major hotels, in stores and at airports.

For more detailed travel information consult the Department of Foreign and International Affairs Travel Report for Venezuela:

<http://www.voyage.gc.ca/dest/report-en.asp?country=313000>

Agriculture Sector & Policies

Agriculture accounts for about 5% of GDP and 10% of employment. Approximately one fourth of the total land area is devoted to agriculture; however, Venezuela is not self-sufficient. Approximately two-thirds of Venezuela's food needs are satisfied via imports. State intervention, underinvestment in technology and an over-valued exchange rate have contributed to the agricultural sectors underdevelopment.

There is good potential for growth in agriculture, as Venezuela has significant natural resources and cultivable land, as well as a coastline that provides excellent conditions for aquaculture. The government has implemented a series of reforms to develop the agricultural sector and diversify the economy. One particularly controversial initiative is the Ley de Tierras (the land law), passed in 2001. This law attempts to achieve agricultural self-sufficiency and correct inequities in land distribution through the transfer of unproductive land to landless peasants. Other reforms include an initiative to boost agricultural credit.

Venezuela's agricultural exports include rice, tobacco, fish, tropical fruits, coffee, cocoa, and processed foods. The government is looking to build on the success of these agricultural exports and move the sector towards a more export oriented focus. Products marked for export growth include: oil palm, sugar cane, corn, leguminous plants, sorghum, cassava, cacao, cotton, potatoes, fruits and vegetables, pork, poultry, and eggs.

Contact Information

Canadian Embassy in Venezuela

Street Address:
Av. Francisco de Miranda
con Altamira Sur.
Altamira.
Caracas 1060

Mailing Address:
Canadian Embassy
Apartado 62302,
Caracas, 1060A
Venezuela

Tel: 58 (212) 600-3000
Fax: 58 (212) 261-8741
E-mail: crcas@international.gc.ca
Website: www.caracas.gc.ca

Embassy of the Bolivarian Republic of Venezuela in Canada

32 Range Rd
Ottawa Ontario K1N 8J4

Canada
Phone: (613) 235-5151
Fax: (613) 235-3205

Email: info.canada@misionvenezuela.org
Website: www.misionvenezuela.org/ingles/index.htm

References:

Agriculture and Agri-food Canada – Venezuela - Agri-Food Country Profile - Statistical Overview - March 2002
<http://ats.agr.gc.ca/latin/e3015.htm>

Agriculture and Agri-food Canada – Venezuela At a Glance
http://ats.agr.gc.ca/stats/venezuela_e.pdf

Australian Government - Department of Foreign Affairs and Trade – Venezuela Fact Sheet
<http://www.dfat.gov.au/geo/fs/venz.pdf>

BBC News – Venezuela takes back oil fields – April 3, 2006
<http://news.bbc.co.uk/2/hi/business/4873202.stm>

BBC News – Venezuela to fully join Mercosur – October 17, 2005
<http://news.bbc.co.uk/2/hi/americas/4348730.stm>

Canadian Agri-food Trade System (data from Statistics Canada)

Canadian International Development Agency - Venezuela
<http://www.acdi-cida.gc.ca/CIDAWEB/acdicida.nsf/En/JUD-217135852-Q9V>

CIA – World Factbook – Venezuela
<http://www.cia.gov/cia/publications/factbook/geos/ve.html>

Department of Foreign Affairs and International Trade - Agri-Food - Profile - Venezuela August 2004
http://ats.agr.gc.ca/latin_pw/3927_e.htm

Department of Foreign Affairs and International Trade Canada – Canada-Venezuela Relations
http://www.dfait-maeci.gc.ca/latin-america/latinamerica/country_info/venezuela_relations-en.asp

Department of Foreign Affairs and International Trade Canada – Import Regulations – Venezuela
<http://www.infoexport.gc.ca/ie-en/DisplayDocument.jsp?did=10916>

Department of Foreign Affairs and International Trade Canada – Opening Doors to the World 2005
http://www.dfait-maeci.gc.ca/tna-nac/2005/6_05-en.asp

Department of Foreign Affairs and International Trade Canada – Opening Doors to the World 2006
http://www.dfait-maeci.gc.ca/tna-nac/2006/6_06-en.asp

Department of Foreign Affairs and International Trade – Travel Report Venezuela
<http://www.voyage.gc.ca/dest/report-en.asp?country=313000>

Department of Foreign Affairs Canada – Country Insights Venezuela
http://www.intercultures.ca/cil-cai/country_overview-en.asp?ISO=VE&lvl=8

Economist – Country Briefings – Venezuela – Factsheet
http://www.economist.com/countries/Venezuela/PrinterFriendly.cfm?Story_ID=6908656

Economist – Country Briefings – Venezuela – Economic Structure
http://www.economist.com/countries/Venezuela/PrinterFriendly.cfm?Story_ID=2399482

Economist Intelligence Unit – Venezuela Country Profile 2005
www.eiu.com

Economist – Mercosur and Venezuela – December 8, 2005

http://www.economist.com/displaystory.cfm?story_id=E1_VNSJVGG

EDC – Venezuela Country Overview

<http://www.infoexport.gc.ca/ie-en/DisplayDocument.jsp?did=10916>

Energy Information Administration – Country Analysis Briefs - Venezuela - Oil

<http://www.eia.doe.gov/emeu/cabs/Venezuela/Oil.html>

Euromonitor – Alcoholic Drinks in Venezuela – July 25, 2005

Euromonitor – Packaged Food in Venezuela – March 8, 2006

Euromonitor – Soft Drinks in Venezuela – July 11, 2006

Hugo Chávez's Venezuela – May 12, 2005

http://www.economist.com/displaystory.cfm?story_id=E1_PJGDGNR

Global Trade Atlas

<http://www.globaltradestatistics.com/>

Industry Canada – Strategis – Trade Data Online

http://www.strategis.gc.ca/sc_mrkti/tdst/engdoc/tr_homep.html

Statistics Canada – CANSIM Table 376-0051

http://estat.statcan.ca/cgi-win/CNSMCGI.EXE?CANSIMFILE=EStat%5CEnglish%5CCII_1_E.htm

US Commercial Service – Doing Business in Venezuela

http://www.buyusainfo.net/docs/x_5161981.pdf

US Commercial Service – Venezuela Country Commercial Guide FY 2004

<http://www.buyusainfo.net/info.cfm?id=121187&keyx=04727579AD391BD53C7C1131250E9E91&dbf=ccg1&loadnav=no>

USDA Foreign Agricultural Service – Venezuela Food and Agricultural Import Regulations and Standards 2005 – GAIN Report Number VE5015

<http://www.fas.usda.gov/gainfiles/200508/146130447.pdf>

USDA Foreign Agricultural Service – Venezuela Exporter Guide Annual 2005 – GAIN Report Number VE5017

www.fas.usda.gov/gainfiles/200509/146130812.pdf

USDA Foreign Agricultural Service – Venezuela Kosher Foods 2004 - GAIN Report Number VE4009

<http://www.fas.usda.gov/gainfiles/200409/146107611.doc>