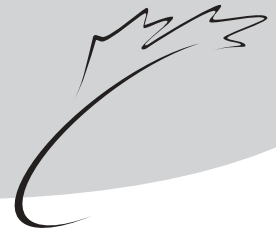




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VENEZUELA

The total value of exports of Canadian grains and special crops, mostly wheat and durum, to Venezuela was over \$400 million (M) in 2000-2001. Canadian exports of grains and special crops to Venezuela are expected to increase in 2001-2002 and remain strong for 2002-2003. Venezuela is one of the countries with which Canada hopes to increase trade through the Free Trade Area of the Americas (FTAA) negotiations. This issue of the *Bi-weekly Bulletin* examines the situation and outlook for Canada's exports of grains and special crops to Venezuela.

AGRICULTURAL POLICY DEVELOPMENT

The Venezuelan agricultural industry is competitive domestically in a number of areas, however, problems have arisen in recent years with the industry's ability to supply its domestic requirements.

Traditionally, agriculture has been heavily subsidized, with a number of price protection policies in place to ensure the security of the small farmer. Since 1993, the industry has been forced to become more competitive due to cheaper, quality imports as the government pushed to meet the demands of the World Trade Organization (WTO).

The government of Venezuela announced a Special Agricultural Production Loan Program (*Programa Especial de Financiamiento Agrícola – PEFA*) in 1996, to benefit small and medium size producers. The program covers the country's two crop seasons (winter crop: May to September and summer crop: October to December). The PEFA includes all commodities except livestock and poultry.

The Venezuelan government announced its National Agricultural Development Plan on February 8, 2000. The plan has attempted to turn around the country's current status as a net food importer, increase arable area and generate employment. It is expected to diversify the Venezuelan economy, which has been

VENEZUELA: ECONOMIC STATISTICS						
	1997	1998	1999	2000	2001e	2002f
Population (mln)	22.8	23.2	23.7	24.2	24.7	25.0
Real GDP (% change)	6.5	-0.7	-6.1	3.2	2.7	1.8
Exchange Rate (Bolivars/US\$)	488	547	606	680	724	

e: estimate and f: forecast, AAFC, May 2002
Source: FAO, IMF, USDA

highly oil dependant. The budget for this policy was 731 billion Bolivars (US\$1.1 billion) and has focussed on three specific areas, food processing, rural development and food security.

TRADE AGREEMENTS

Venezuela joined the General Agreement on Tariffs and Trade (GATT) in 1990, and is a founding member of the WTO. The country's trade diversification efforts have been helped by its membership in a number of Latin American and Caribbean trade

associations that provide tariff free or reduced tariff access to member countries' markets.

Venezuela is a member of *The Andean Pact* consisting of Bolivia, Columbia, Ecuador, and Peru. Venezuela joined in 1973 and participates in the group's free trade zone. Venezuela adopted the Andean Community agricultural price band system in May 1995. This is a system of variable *ad valorem* tariffs that are applied to bulk commodity imports from countries other than those of the

FREE TRADE AREA OF THE AMERICAS (FTAA)

The FTAA negotiations envisage the creation of a comprehensive hemispheric free trade area, made up of the 34 democratic countries of North, Central and South America and the Caribbean. Canada's position is to work to achieve access for Canadian Agri-food products to markets of the other FTAA participants, including Venezuela, on terms more favorable than is likely to be possible in the WTO. Tariff negotiations have not yet begun, as parties have yet to agree on the Methods and Modalities for these negotiations. As is consistent with Canada's position in the WTO, Canada remains committed to maintaining the ability to choose how to market agricultural products, including through orderly marketing systems such as supply management and the CWB.

The FTAA Trade Negotiation Committee is meeting May 12-14, 2002 to attempt to reach a consensus on the Methods and Modalities for tariff negotiations in the FTAA.

Andean Community. This system tracks the estimated landed price of specific "marker" commodities. If marker prices fall outside the established price band, the *ad valorem* tariff for the commodity and the related products is adjusted upward or downward. The in quota duty for oilseeds and products is 40% and is 30% for all wheat. Once the quota is exceeded, the product is subject to the tariff established by the Andean price band system, and may be changed every two weeks.

In addition to being a member of *The Andean Pact*, Venezuela has bilateral agreements with Argentina, signed in 2000, and Brazil, signed in 1999, as part of the Partial Scope Economic Complementation Agreements. These agreements provide preferential tariffs for vegetable oils and oilseeds. Preferential tariffs are applied as discounts to tariffs on imports that exceed the tariff rate quota (TRQ). Brazil and Argentina have discounts of 50% and 60%, respectively off all oilseeds and oil products tariffs.

SITUATION AND OUTLOOK

WHEAT

Wheat production in Venezuela is very small, largely due to the climate and topography. Weather conditions and returns per acre are more suitable for corn, rice, and sorghum. Wheat consumption has been between 0.9-1.1 million tonnes (Mt) for the past 10 years which, given the annual population growth of about 1.0%, reflects a decline in per capita bread consumption. For 2001-2002, wheat consumption is forecast to remain unchanged from 2000-2001, at 1.0 Mt, and will be met by imports.

Venezuelan millers traditionally buy high quality, high protein wheat which has given Canada an advantage over other suppliers. However, the composition of the other imported wheat has varied over the last three years. In order to produce a lower cost flour, millers have been forced to shift wheat imports toward Hard Red Winter Wheat (HRW) and blend cheaper, lower quality wheat from other sources with higher quality wheat from Canada. With the Venezuelan milling industry's shift to lower protein bread wheats, Canada has increased sales of Canada Prairie Spring Wheat (CPS) wheat varieties to compete with United States (US) exports of HRW wheat. For 2001-2002, Canadian wheat exports to Venezuela are forecast to rise to 0.65 Mt.

Traditionally, Argentina had a small market share in Venezuela, due to the lower quality wheat they produce and competition from US Gulf prices, with annual exports of between 30,000-50,000 tonnes (t). The TRQ for all wheat is 1.27 Mt paying a 30% tariff, and most wheat enters under the TRQ.

Currently, per capita wheat consumption in Venezuela is about 47 kilograms (kg) versus 90 kg in North America. An increase in consumption to 50 kg per capita would require an additional 0.1 Mt of wheat. However, since 1999, the government of Venezuela has encouraged consumption of domestically produced rice instead of imported wheat. Among the alternatives that have been considered to achieve this goal are to put an additional tariff on wheat imports or to reduce the import quota.

Venezuela has about 15 flour mills concentrated around Caracas. There are 3 major milling companies accounting for 75% of the wheat processing.

About 50% of wheat consumed annually is used to make bread, rolls and other wheat products, while the other 50% is used to make pasta.

For 2002-2003, wheat consumption is forecast to remain similar to 2001-2002 and as a result, imports (July/June) are expected to remain unchanged at 1.1 Mt. Canadian wheat exports (August/July) are expected to remain high at 0.65 Mt, unchanged from 2001-2002.

DURUM

For 2001-2002, durum consumption is forecast at 0.4 Mt, up marginally from 2000-2001 due to the low cost and nutritional value of durum compared to other grains. Venezuela's per capita consumption of pasta is second only to Italy at 14 kg. However, it is important to note that the combination of a stagnant economy and a loss of consumer purchasing power has meant that companies involved in pasta production as well as

VENEZUELA: CROPS

Oct.-Sept. crop year**	1999 -2000	2000 -2001	2001 -2002f	2002 -2003f
.....thousand tonnes.....				
Wheat				
Consumption	846	1,000	1,000	1,000
Imports	996	1,044	1,045*	1,045*
Exports	50	50	30	30
Durum				
Consumption	390	350	355	355
Imports	390	350	355*	355*
Dry Beans				
Production	33	33	33	33
Soybeans				
Production	10	7	10	10
Imports	400	209	220*	230*
Crush	405	215	230	238
Corn				
Production	1,300	1,450	1,500	1,500
Consumption	2,500	2,600	2,530	2,530
Imports	1,300	1,207	900*	900*

**except wheat (July-June)

* f: forecast, USDA, May 2002

f: forecast, AAFC, May 2002, except where specified

Source: USDA, FAO

millers supplying bakery flour have been forced to shift their wheat imports away from durum toward HRW and CPS wheat in order to reduce costs. Millers are expected to continue to lower raw material costs to be able to provide affordable food products to domestic consumers. As a result, durum imports (July/June) are expected to remain relatively flat for 2001-2002 at 0.36 Mt, the majority from Canada.

For 2002-2003, durum consumption and imports are expected to remain unchanged. Canada is expected to maintain its market share by providing clean, high quality durum. Major pasta manufacturers prefer low dockage durum because it gives them a more efficient grind and less waste. Canadian durum is often cleaned twice, as part of the normal export process at the country elevator and at the port, which removes the small, shrunken and broken kernels, and

CANADIAN EXPORTS TO VENEZUELA

Aug. - July crop year	1998 -1999	1999 -2000	2000 -2001	2001 -2002f	2002 -2003f
.....thousand tonnes.....					
Wheat	410	482	473	650	650
Durum	248	359	313	320	320
Oat & oat products*	29	9	12	13	14
Canary seed	3	5	7	6	7
Dry beans	3	3	7	7	8
Lentils	13	15	17	17	19
Dry peas	14	14	14	16	17
Sunflower seed	1	1	1	2	2

*converted to grain equivalent tonnes

f: forecast, AAFC, May 2002

Source: Statistics Canada

eliminates the cleaning process for the Venezuelan millers.

Given the large demand for pasta, the variety and number of brands have increased to a point that pasta is perhaps the item with the largest food retailer shelf space. Venezuelan consumers are attracted by novelty and diversity. The pasta sector has been very creative at satisfying this need. Although the population is relatively small, about 25 M, there are more than 40 types of dry pasta and a growing variety of fresh and frozen pasta products on the market today.

CORN

The two distinct types of corn produced in Venezuela are white corn, used mostly for human consumption and yellow corn, used for feed. Most white corn is milled to produce a pre-cooked corn flour to make a kind of corn bread called "arepas," which has been a traditional staple in the Venezuelan diet. In general, total corn flour consumption has been increasing due to declining incomes and its cheaper price relative to other foods. For 2001-2002, consumption is forecast at 2.5 Mt, down marginally from 2000-2001. Per capita consumption of corn is 36 kg versus 13 kg in North America. Feed consumption has been based on imported yellow corn, largely for pork and poultry as most cattle are grass fed.

For 2001-2002, corn production is forecast to rise marginally from last year to 1.5 Mt due to an increase in harvested area. Venezuela had a bumper crop in 1999-2000 which created a surplus. To reduce the surplus the government reached an understanding with the industry. On condition that the industry purchased the excess corn, the government later bought the resulting flour for the Strategic Food Program. This ensured that the flour was distributed among the lower income consumers at a subsidized price.

Traditionally Venezuela imports yellow corn from the US and a small amount from Argentina to meet its domestic demand for feed. The tariff rate for yellow corn is 20% with a TRQ of 583,459 t. For 2001-2002, imports are forecast at 0.9 Mt, down 25% from last year due to the restriction placed on yellow corn imports in September 2001. The restriction comes on top of an agreement the government has with the feed industry to buy any surplus white corn stocks that the flour industry cannot use.

BIOTECHNOLOGY

The government of Venezuela has established a resolution that establishes guidelines for the registry of genetically modified organisms (GMO), which went into effect on January 11, 1999. The Ministry of Production and Commerce through SAPI (Servicio Autonomo de Propiedad Intelectual) is in charge of the research and registration of GMOs in Venezuela. This Ministry, through SENASEM (National Seed Service) is in charge of all testing related to the approval of GMO copyrights. At this time there are no GMOs approved for use in Venezuela.

For 2002-2003, corn production is expected to remain unchanged at 1.5 Mt. Domestic consumption and imports are expected to remain similar to 2001-2002, assuming the ban on corn imports remains.

OATS AND OAT PRODUCTS

Venezuela continues to provide market opportunities for Canadian oat products, which consisted largely of groats and meal prior to 1999-2000. However, Canadian exports of rolled and flaked oats have tripled in the last five years, and in 2000-2001, total Canadian oats and oat product exports to Venezuela totalled 12,000 t (grain equivalent), partly due to the relatively low tariff rate compared to other cereal grains. The tariff rate for oats and oat products is 5%. Venezuela imports oat products for further processing for human consumption. Canada's main competitor is the US, which exports mainly oat groats and meal.

For the next two years, Canadian oat product exports are expected to continue to increase, reaching a projected 14,000 t in 2002-2003.

OILSEEDS

Venezuela is an importer of oilseed and oilseed products, which are all subject to a 40% in-quota duty. Once the quota is exceeded, the product is subject to an over-quota tariff established by the Andean countries. For 2000-2001, the average over-quota tariff for soybeans was about 45%, after the TRQ of 168,963 t was exceeded.

To satisfy its meal and oil requirements, Venezuela imports soybeans and soymeal. For 2001-2002, soybean production is forecast to increase slightly to 10,000 t due to a rise in harvested area. Since 1999-2000, the Venezuelan government has encouraged soybean production, but has not been able to support this with financing or incentives sufficient to persuade producers to shift out of more profitable corn or sorghum production. Considering the higher costs of soybean production, it is more cost

effective to import soymeal than to crush it domestically. Annual soybean crush has decreased nearly 50% to about 0.2 Mt the last two years, which makes up nearly all of the total domestic consumption.

For 2001-2002, Venezuelan soybean imports are forecast at 0.22 Mt, up slightly from last year. Due to tariffs and constraints on the issuing of import licences to end users, imports from South American countries with preferential trade agreements with Venezuela are increasing. The US and Brazil are the largest suppliers of soybeans, but Bolivia has become a major source since the country is not subject to a duty and end users of Bolivian soybeans do not need an import license. US soybean imports are subject to an over-quota tariff of 48%, while Brazilian imports have a 24% over-quota tariff. There is one major crushing facility in Venezuela, and imports are required to continue in order to keep the facility operating.

For 2002-2003, soybean production is forecast to remain unchanged at 10,000 t, however, soybean imports are expected to rise slightly to 0.23 Mt due to an expected increase in animal feed demand.

OILMEAL

For 2001-2002, supplies of soymeal are forecast to fall slightly to 0.83 Mt, due to a decline in imports, while production is expected to remain relatively unchanged at 0.16 Mt. While the volume of soymeal imports have risen steadily since 1996, they are expected to fall by 10%, to 0.6 Mt in 2001-2002, due to a decision by industry to reduce carry-out stocks of soymeal.

The TRQ for soymeal is 696,880 t. While soymeal imports from the US remain low due to the 48% over-quota tariff rate, imports from Bolivia have increased as a result of the 0% duty on soymeal. Soymeal provides one of the primary sources of feed for the pork and poultry industry.

For 2002-2003, supplies of soymeal are forecast to increase marginally to 0.86 Mt, due to an expected rise in production and imports to 0.17 Mt and 0.66 Mt, respectively.

VEGOIL

Venezuelan supplies of vegetable oils are based on soyoil imported mainly from South American countries. Domestic production is mainly composed of African palm oil and limited crushing of soybeans, sunflowerseed and sesame seeds. The African palm trees are not yet mature and are not expected to reach full production capacity until 2006. Annual palm oil and soyoil production is about 60,000 t and 35,000 t, respectively. The domestic industry uses about 60% soyoil which it blends with sunflowerseed oil, sesame and palm oil to produce various local brands.

For 2001-2002, soyoil supplies are forecast to be similar to last year at 0.24 Mt, with imports unchanged at 0.2 Mt. Argentina, Bolivia, and Paraguay are the major suppliers of soyoil due to lower over-quota tariff rates. Soyoil over-quota tariff rates for Argentina and Paraguay are 28% and 2.4%, respectively. North American exports of soyoil are very small due to an over-quota tariff rate of 70%. The TRQ for soyoil is 130,000 t.

For 2002-2003, soyoil supplies are forecast to increase marginally to 0.25 Mt, due to an expected marginal increase in imports, in support of firm domestic demand. Domestic production is not expected to increase in the near future and South American countries will continue to rely on tariff advantages to maintain their market share.

PULSE AND SPECIAL CROPS

Canada is one of the largest suppliers of pulses and special crops to Venezuela, with its main competitors being other South American countries. While competitors enjoy a geographical advantage in delivering commodities to Venezuela, Canada's pulse and special crops industry has developed on the strength of being internationally competitive in terms of product, quality, service and price. The other factor is Venezuela's 5% tariff for all pulse and special crops, with the exception of canary seed, which is subject to a 15% tariff.

The only significant pulse crop production in Venezuela, is **dry beans**. For 2001-2002, dry bean production is forecast at 33,000 t, unchanged over the last 5 years, with imports largely from Argentina, Canada and the US. Dry beans are an alternative source of protein and are widely consumed at meals. Canadian exports are forecast to remain unchanged at 7,000 t for 2001-2002, but are expected to increase slightly in 2002-2003 to 8,000 t.

Venezuelan **lentil** imports for 2001-2002 are expected to remain unchanged from last year, at 17,000 t, and are expected to increase to 19,000 t in 2002-2003. Green lentils are mainly imported and are consumed with meals. Canada is the dominant exporter of lentils to Venezuela.

For 2001-2002, **dry pea** imports are forecast at 16,000 t, up slightly from 2000-2001. Dry peas are consumed at meals and for making snacks. Canadian dry pea exports to Venezuela are largely green type varieties. This is a well established Canadian market as exports of dry peas have been trending upwards in recent years, with exports forecast at 17,000 t for 2002-2003.

Canadian **canary seed** exports to Venezuela have more than doubled in the past 3 years and are forecast at 6,000 t in 2001-2002. Canary seed is a major component in birdseed and is mixed with millet, sunflower seed, cereal grains and other oilseeds. It is expected that canary seed export growth will continue with Canadian exports forecast to rise to 7,000 t in 2002-2003, despite a tariff rate of 15%.

Sunflower seed production has been stable in Venezuela for the past 6 years, with annual production at 15,000 t. Most of the production is used for confectionary purposes and crushed for oil. Sunflower seed oil production is about 2,000 t annually. For 2001-2002, Canadian sunflower seed exports to Venezuela are forecast to increase to 1,500 t and this is expected to remain unchanged for 2002-2003. Argentina is the other significant supplier of sunflower seed to Venezuela.

SUMMARY

While there may be long-term potential for growth in Venezuela's wheat consumption, short-term consumption will likely be flat. Bread and pasta are consumed as staple foods, but due to import barriers and high floor prices, Venezuela has promoted

self-sufficiency in production of competing staples, especially rice and white corn. At the same time, *The Andean Pact* price band system ensures that wheat cannot enter cheaply enough to change the price relationship between wheat products, especially pasta, and locally produced grains. Any long-term growth in consumption likely depends on the lowering of wheat import duties.

Over the medium term, Venezuela is expected to increase its reliance on imports of bulk commodities as demand increases. Canada is expected to be well positioned to continue to service the Venezuelan import market for wheat, durum, oat products, pulses and special crops.

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