

USDA Foreign Agricultural Service

GAIN Report

Global Agricultural Information Network

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Exporter Guide

2017

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Office of Agricultural Affairs

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Report Highlights:

U.S. agricultural product exports to Venezuela averaged a notable \$1.4 billion per year from 2010-2014. Nevertheless, Venezuela's economy is dependent on oil, which accounts for about 95% of export revenues. The precipitous fall in oil prices since 2015 has significantly diminished foreign exchange, challenging Venezuela's financial capability to import goods. As a result, the value of U.S. agricultural exports in calendar year (CY) 2017 plummeted 42% to \$ 376 million (January to October) compared to the same time period a year before.

Post:
Caracas

Author Defined:

I. MARKET OVERVIEW

U.S. agricultural product exports to Venezuela averaged a notable \$1.4 billion per year from 2010-2014. In 2013, Venezuela was the second most important destination for U.S. agricultural product exports to Latin America with trade values reaching \$1.5 billion. In 2017, however, the value of U.S. agricultural product exports plummeted almost 42% to \$376 million (January to October) compared to the same time period a year before. The precipitous fall in oil prices since 2015 that significantly diminished foreign reserves, coupled with strict foreign exchange controls, have challenged Venezuela's financial capability to import goods. Despite ongoing economic challenges in Venezuela, food and beverage demand continues to grow, driven by a population of 32 million with two-thirds under the age of 30. The United States is a historical commercial ally and partner with Venezuela and remains as a key source of agricultural product imports.

In CY 2017, U.S. agricultural product exports fell 42% to 376 million (January through October) compared to the same time period a year before. This will be the third straight year with the value of U.S. agricultural products exports falling below \$1 billion. Venezuelan agricultural product importers are severely challenged by a Venezuelan economy in crisis with hyperinflation and extreme restrictions on access to foreign currency. Despite no official figures from the Central Bank on inflation, the International Monetary Fund estimates 2017 end-of-year inflation hit 720%, although some Venezuelan analysts estimate inflation beyond 1000%. In addition, the value of the Venezuelan bolivar (Bs.) currency plummeted in 2017, falling over 400% year-to-date. Economic challenges notwithstanding, the Government of the Bolivarian Republic of Venezuela (GBRV) maintains a stringent, prohibitively extensive bureaucracy to obtain permits to import agricultural products and for citizens to access foreign currency. Despite these challenges, there were U.S. agricultural products that experienced growth in 2017, such as soybeans, meat products, sweeteners, snack foods, and animal fats.

U.S. bulk commodity exports were \$220 million (January through October) in CY 2017. Wheat represented about 36% of U.S. bulk commodity product trade at \$79 million. Also in CY 2017 (January through October), total exports of U.S. intermediate agricultural products were \$134 million, while U.S. consumer-oriented products were about \$12 million.

Agricultural trade competition is primarily from Brazil and Argentina, although Mexico surged in 2017 to lead all agricultural product trading partners at \$671 million (through September). Venezuela still benefits from trade preferences as a member of the Southern Common Market (MERCOSUR), which includes Argentina, Brazil, Paraguay, and Uruguay. On December 7, 2016, however, in a unanimous decision by all MERCOSUR members, Venezuela's representation in the trade group was suspended indefinitely as a result of failing to implement key member provisions for democracy and human rights.

Table 1. Advantages and Challenges for U.S. Exporters

Advantages	Challenges
<ul style="list-style-type: none"> • Local products unavailable or insufficient, while U.S. food products are seen by importers as readily available. • Fast food chains that require U.S. food ingredients are having success in Caracas and in major cities. • U.S. suppliers are seen by importers as a reliable source, in terms of volume, standards, and quality. • Two thirds of the population are below 30 years of age and are heavily influenced by U.S. culture and are observed to be very open to U.S. prepared foods and ready-to-cook, ready-to-eat food products. • Operations by multi-nationals requiring world standard ingredients. • Historical commercial relationships with the United States are valued and remain strong despite the economic crisis. 	<ul style="list-style-type: none"> • Government-imposed price controls on several products. • MERCOSUR and other South American countries, as well as Russia, have trade agreements with Venezuela giving them preferential duties for some products. • High tariffs applied to most specialty food imports and increased difficulty in obtaining import permits. • Government-imposed exchange controls resulting in difficulties for importers to obtain dollars. • Parallel (black market) exchange rate, resulting in U.S. products becoming very expensive, can shift buyers' purchases to source cheaper alternatives to keep current market prices in a very price sensitive market. • U.S. exporters could experience delayed payment by Venezuelan importers who face long delays in obtaining foreign exchange. The risks the regime poses may be less applicable in the case of government entities contracting to buy goods and services directly, but they still merit careful consideration.

II. EXPORTER BUSINESS TIPS

Import Procedures:

The GBRV implemented the United Nations Custom Computerized System (SIDUNEA) in the majority of Venezuelan ports of entry. With this system, clearing customs takes approximately five to eight working days. However, importers have reported delays in this process. By law, only nationals and

private custom agencies with Venezuelan local staff are entitled to clearing shipments through customs. A custom agent assesses customs, port charges, and taxes as well as fills out paperwork forms. Generally, the custom agent's fee is one percent of the CIF value, plus any other charges accrued during offloading.

All imported goods presented at the ports of entry must be officially declared to the National Integrated Tax Administration Service (Spanish acronym: SENIAT) authorities within five days of arrival. Fines may be levied and applied to any shipment when the customs entry is made later than five days after the date of arrival. When an importer either delays or refuses to claim a product arriving in Venezuelan ports, SENIAT will impound the goods not claimed, and if steep fines and storage fees are not promptly paid, it will sell the goods at auctions.

All shipments must be made on a direct consignment basis. Customs regulations stipulate that the consignee is the owner of the shipment and is responsible for all customs payments. Importers must register all of their products with the Ministry of Health Food Comptroller Division prior to placing the product on the Venezuelan market.

Exchange Rate Policy

Since early 2003, strict governmental controls limit foreign exchange transactions in the country. The lack of access to U.S. dollars is arguably the most significant obstacle to trade for importers. In early 2014, the GBRV created the National Center for Foreign Trade (Spanish acronym: CENCOEX) responsible of foreign exchange administration. In previous years Venezuela managed multiple official exchange rates depending on the circumstance, but was simplified to two, DIPRO and DICOM, on March 9, 2016 (Official Gazette No. 40.865). The DIPRO exchange rate, about Bs.10.00 per \$1.00, is primarily reserved for government procured imports of critically scarce items, such as food and medicine. The other, DICOM, is a subsidized exchange rate for all other dollar transactions and sales by the Venezuelan Central Bank to the private sector for imports of scarce, critical items, valued at around Bs. 3,345.00 per \$1.00. The Central Bank has adjusted the DICOM rate measurably since its inception mostly due to monetary policy pressures to address inflation. Beginning in June 2017, the domestic food manufacturing sector was receiving dollars for imports at the DICOM rate of exchange, providing a maximum amount of \$400,000 per month. The dollar distributions abruptly ended on/around September 2017, a likely factor of rapidly climbing inflation and limited Central Bank dollar reserves.

There is also the unofficial, or parallel, exchange rate that attempts to reflect the market value of the Bolivar currency and as of December 26, 2017 was at Bs.112,258 per \$1.00, or 33 times the official DICOM rate of exchange. The parallel rate fluctuates almost daily and has seen exponential depreciation since July 2017 when the exchange rate was about Bs. 8,000 per \$1.00. Purchasing dollars from black market brokers at the parallel rate is prohibited, but occurs.

Price Controls

Since January 2003, the GBRV has imposed price control policies on basic foodstuffs and processed food products. The Ministry of Agriculture and Lands (Spanish acronym: MAT), Ministry of Food

(Spanish acronym: MINPAL), Ministry of Commerce (Spanish acronym: MINCOMERCIO), and the Ministry of Finance (Spanish acronym: MINFINANZAS) are responsible for recommending changes to the controlled-price list. For a list of products subject to price controls, please review the GAIN Report *Food and Agricultural Import Regulation and Standards - Narrative (FAIRS)*.

III. MARKET SECTOR STRUCTURE AND TRENDS

Hotel, Restaurant, and Institution (HRI) Food Service Sector

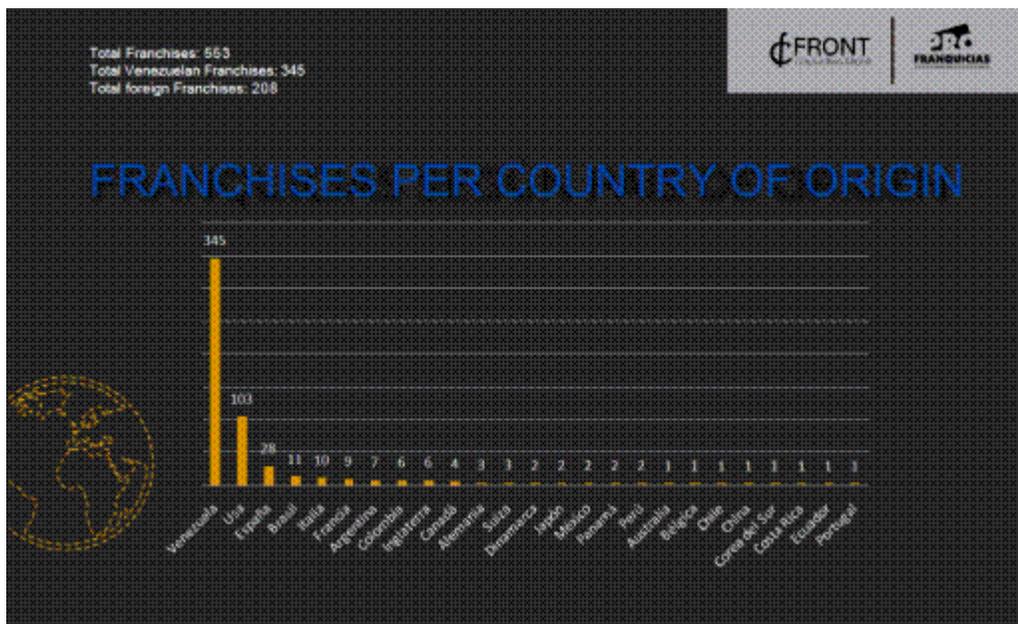
The Venezuelan National Restaurant Association (Spanish acronym: CANARES) is the primary association of restaurants with more than 300 members throughout the country. CANARES reports its members generate more than 9,000 jobs in the foodservice sector.

Additionally, the Venezuelan Chamber of Franchises (in Spanish: Profranquicia) is a private sector, 115 member chamber that develops and implements HRI policy strategies and is led by a proactive team of young executives. Founded in 1998, Profranquicia reports that there are more than 553 franchises currently operating in the country with a total of over 12,500 outlets/stores. According to Profranquicia, 29% of all franchises are food related. This includes the categories: Fast Foods; Coffee Shops and Desserts; Bakeries; Restaurants and Bars. In addition, about 19% of all franchises are U.S. origin representing a majority of the foreign country franchises in Venezuela. Moreover, Profranquicia reports that its members generate more than 97,962 jobs in the foodservice sector, of which 26,859 are specifically from U.S. franchises.

According to Profranquicia, Venezuela provided a stable market for franchises with considerable opportunity. Even under the current economic crisis, traditional franchises continue operations, while new concepts in franchising have appeared. Profranquicia highlights the new concepts in franchising as an indicator that the market continues to believe in the potential of the sector. Nevertheless, the arrival of new foreign franchises has fallen dramatically and moderate cost Venezuelan franchises are beginning to expand and prevail under the ongoing economic crisis. Furthermore, even though restaurants franchises are more dependent on imported inputs, menus can be adjusted to address the unpredictable supply chain of imported and domestic food ingredients.

Per the illustration below, the main exporter of foreign franchises to Venezuela continues to be the United States, with almost 50% of total foreign franchise brands (equivalent to about 19% of total franchises) in Venezuela.

Table 2. Franchises per Country of Origin



Source: Profranquicia

Private Sector Retail

Major supermarkets include varying types of chains that offer a comparable standard to U.S. supermarket retailers. The Venezuelan private sector retailers include Central Madeirense, Excelsior Gama, Plazas, Sigo, Makro, Flor, Frontera, Unicasa, Luvebras, El Patio and Garzon. Most of the major domestic supermarket chains belong to the Venezuelan National Supermarket Association (Spanish acronym: ANSA).

In 2017, there were about 6,363 supermarkets, or points of sale, in Venezuela selling foods and beverages. In addition, there are 136, 906 traditional *abastos* or *bodegas*, similar to corner stores. Corner stores dominate retail sales in the predominantly middle and low-income neighborhoods throughout Venezuelan cities and towns.

Pharmacies that offer foods and beverages had also been growing rapidly in the last decade. The store layouts now include aisles dedicated to food and beverages. The four major pharmacies are SAAS (208 stores in 2016), Farmatodo (170 stores), Farmahorro (114 stores) and Locatel (66 stores). These pharmacies are members of ANSA.

Public Sector Retail & Food Distribution

Venezuela's retail food sector is serviced by both the public and private sectors. However, the system for the GBRV to distribute retail food products is winding down from the closure of the GBRV operated Mercado de Alimentos C.A. (Spanish acronym: MERCAL) that includes the retail chain Abastos

Bicentenario.

In May 2016, the GBRV launched the Local Committees for Supply and Production (CLAP). The Committees exist in hundreds of urban and rural low-income communities managing the distribution of basic food goods at significantly subsidized prices. The Committees distribute CLAP bags or boxes, whose contents make up a portion of the monthly basic food basket, but are sold to recipients at a small fraction of the actual cost. The CLAP bag is comprised primarily of locally produced goods, whereas the CLAP box is primarily imported goods.

The GBRV is deeply involved in the food supply chain, stemming from a food shortage crisis in 2008 that led the government to co-opt the Venezuelan state oil company, Petroleum of Venezuela (in Spanish: *Petróleos de Venezuela, S.A.*, or PDVSA) to create the Venezuelan Food Producer and Distributor, S.A. (in Spanish: *Productora y Distribuidora Venezolana de Alimentos, S.A.* or PDVAL), to produce and distribute food in Venezuela. In January 2010, the government announced the expropriation of the supermarket chain, Supermercados Exito, after several months of negotiations with the owner, French mass retailer Groupe Casino, and their Colombian subsidiary Almacenes Exito. In November 2010, the GBRV took over 81% of the CATIVEN supermarket chain, also owned by Groupe Casino. After the expropriation of this food distribution network of supermarkets, the GBRV owned a total of 36 retail stores, renamed Abastos Bicentenario, with eight distribution centers and a fleet of delivery trucks. As mentioned, the GBRV is closing this retail network.

In September 2017, the GBRV created the consortium AGROSUR (in Spanish: *Consortio Agrosur*) as a business unit dependent on the Ministry of Agriculture and Lands (MAT). This unit will manage all public food production and distribution networks, including what remains of Abastos Bicentenario. Additionally, certain commodities are expected to be produced within the consortium: coffee, sugar, cocoa, cereals and meat products. Also, AGROSUR will manage the sale and distribution of agricultural inputs, silos and storage equipment.

IV. BEST PRODUCT PROSPECTS

Table 3. Best Product Prospects

Top U.S. Consumer Oriented Product Exports to Venezuela (Thousands of U.S. Dollars)			
Product Description	2016	2017	January-October % Change
Meat products NESOI	225	944	319
Fruit & Vegetable Juices	131	396	202
Snack foods NESOI	681	623	5
Beef & Beef Products	12	35	196
Chocolate & Cocoa Products	469	522	11

Source: GATS

V. KEY CONTACTS AND FURTHER INFORMATION

MAT

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Venezuelan-American Chamber of Industry & Commerce (Spanish acronym: VENAMCHAM)
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Caracas 1060, Venezuela
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<http://www.venamcham.org.ve>

ANSA

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Centro Empresarial Los Ruices, Piso 1, Ofic. 116
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Fax: (58-212) 238-0308
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Venezuelan Food Industry Chamber (Spanish acronym: CAVIDEA).

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Venezuelan Hotel Federation (Spanish acronym: FENAHOVEN)

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Table 4. KEY TRADE AND DEMOGRAPHIC INFORMATION

2016 Agricultural Imports (All Countries)	\$1.1 billion
2016 U.S. Agricultural Product Import Market Share	33%
2016 Estimated Total Population	32 million
Number of Major Metropolitan Areas	6
Size of the Middle Class	19% of population
2017 Projected Real GDP Growth (% Change)	-12.0
Unemployment Rate (July 2017)	21%
Exchange Rate	DIPRO Bs. 10.00 = \$1.00
	DICOM Bs. 3,345 = \$1.00
	Parallel Bs. ~120,000 = \$1.00

Source: GATS, GTA, GBRV, IMF