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Venezuela

Grain and Feed Update

Difficulties Continue for Grain Production

2018

Approved By:
Michael Conlon, Agricultural Counselor

Prepared By:
Office of Agricultural Affairs , Caracas

Report Highlights:
The Government of the Bolivarian Republic of Venezuela (GBRV) continues to monopolize foreign exchange, imports of food, agricultural inputs, and distribution of those goods, creating profound challenges for grain production, consumption and trade. In addition, hyperinflation is reducing the purchasing power of Venezuelan consumers. Corn and sorghum production and feed use is declining because of dwindling poultry production. Corn for human consumption is down as consumers shift towards more affordable grain and starch staples. Rice and wheat imports are forecast to remain relatively steady, reflecting continued consumption of these basic staples. The suppliers of the grain imports have been shifting to adapt to the difficult economic environment.

Changes in Venezuelan Policy
On August 17, 2018, the Government of the Bolivarian Republic of Venezuela (GBRV) announced a series of economic policy changes, including raising the minimum wage and changes to the country's money. The GBRV dropped five zeroes from the Venezuelan currency known as the Bolivar Fuerte and replaced it with a new currency called the Sovereign Bolivar (BsS). The government is implementing these actions to increase the value of its currency in order to buy scarce production and control inflation.

Commodities:

Corn

Production
The growing cycle for corn in Venezuela is 120 days with planting starting at the end of April and the harvest towards the end of September. Historically, slightly over half the corn produced in Venezuela was white corn for human consumption and the remainder, yellow corn for both human consumption and animal feed. Currently, the situation has changed, now 60 percent is yellow corn production versus 40 percent of white corn production. The GBRV's price control induced producers to plant more yellow corn, a non-regulated, better-paying commodity that goes almost entirely to the feed industry, despite the recent decrease in the poultry and pork industry.

Post forecasts corn production for MY 2018/19 at 700,000 MT on 220,000 hectares (ha.) of area harvested. The area harvested is significantly lower than the initial estimate, since producers switched to other crops that are not under price controls such as soybeans, vegetables and even cattle since producers can get a better domestic market price. On the other hand, despite challenges accessing the required inputs, agrochemicals and seeds, the yield estimate is higher than the prior year, due to favorable weather conditions and precipitation especially in Portuguesa state, a major producing region.

Consumption
Because of the challenging economic context, Post is revising the forecast for MY 2018/19 total consumption to fall to 2.1 million tons. Imported and domestically produced yellow corn is primarily destined to support poultry and swine feed and white corn flour is used to make the Venezuelan corn cake "arepa," a critical staple for millions of families across the country. Venezuelan consumption of arepas has decreased, not only because of shortages of corn flour in the domestic market but also, because of the poor purchasing power of the Venezuelan consumer. Furthermore, the government is importing white corn as a final product (packed corn flour) to be used for social programs such as the "Local Supply and Production Committee" (CLAP) box for the poor. The CLAP program reaches only 40 percent of the population, the rest remains in the hands of informal vendors.

This situation also represents a big challenge for an industry that is operating at 60 percent of its capacity because of a lack of raw materials. Since the GBRV has control over all imports, they prefer to import final product (packed flour) to the detriment of the industry. Equally important,

the poultry and swine sectors continue to suffer from relatively expensive feed and they are adjusting operations and production capacity to respond to shrinking feed inventories. The feed and residual consumption forecast is reduced to 1.0 million MT in MY 2018/19. The key reason is a lower demand from the animal feed industry. The poultry industry in Venezuela is part of the overall economic decline as it struggles to maintain operations with production and consumption reaching historic lows. Broiler meat production has fallen dramatically at 64 per cent since 2013, when it hit peak production.

Likewise, the decline in production was exacerbated by a drastic reduction in imports of agricultural inputs and raw materials (i.e. less volume of subsidized soybean meal and corn), and the decline of domestic production of coarse grains (i.e. sorghum). The recent hyperinflation destroyed purchasing power (people in general cannot afford to pay for the scarce and expensive chicken). The combination of hyperinflation and price controls have diminished the poultry industry to the point that analysts anticipate more than a 50 percent decrease in chicken production and a 25 percent decrease in egg production in the coming year. Pork production is also in critical condition. In 2014, there were 160,000 sows compared to 55,000 in 2018. Industry Contacts informed Post that the main sow slaughtering occurred in MY2016/17, but industry reports none so far in 2018.

Trade

Post is revising downward the forecast for total corn imports in MY 2018/19 to 1.4 million MT because of the prolonged economic crisis and limited foreign exchange available to buy imports. Domestic production falls significantly below market demand necessitating imports; however, the GBRV's ability to procure imports is challenged by limited foreign exchange reserves. Almost all yellow corn is imported from the United States and white corn from Mexico, with very little coming from Brazil, and negligible quantities from other Latin American countries.

PSD TABLE

Corn	2016/2017		2017/2018		2018/2019	
Market Begin Year	Oct 2016		Oct 2017		Oct 2018	
Venezuela	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Harvested	400	400	350	350	220	220
Beginning Stocks	221	221	109	109	109	109
Production	1000	1000	600	600	700	700
MY Imports	1238	1238	1600	1600	1600	1400
TY Imports	1238	1238	1600	1600	1600	1400
TY Imp. from U.S.	384	384	0	0	0	0
Total Supply	2459	2459	2309	2309	2409	2209
MY Exports	0	0	0	0	0	0
TY Exports	0	0	0	0	0	0

Feed and Residual	1200	1200	1100	1100	1100	1000
FSI Consumption	1150	1150	1100	1100	1220	1100
Total Consumption	2350	2350	2200	2200	2320	2100
Ending Stocks	109	109	109	109	89	109
Total Distribution	2459	2459	2309	2309	2409	2209
Yield	2.5	2.5	1.7143	1.7143	3.1818	3.1818

Commodities:

Rice, Milled

Production

In MY 2018/19, milled rice production is forecast at 170,000 MT, which is slightly higher than the previous forecast but still is significantly lower production compared to MY 2017/18. Post forecasts harvested area to reach 86,000 ha in MY2018/19. This estimate includes 68,000 ha harvested this past summer cycle, and local sources' estimate an additional 18,000 ha for the winter cycle 2018/19. Production area declined, specifically in Portuguesa, Guárico and Cojedes States, which are the major producing regions. However, new rice developments are occurring in Barinas State with less than 10,000 ha planted. The panicle blight disease that affected the major rice growing regions of Venezuela, specifically the States of Portuguesa and Guárico, is now under control because of the efforts that the Venezuelan rice association made before the winter cycle. There are some farmers in Venezuela that have micro-leveled lands, with a slope of approximately 5 millimeters. These farms comprise around 15 percent of the total rice land and may rotate to legumes in late winter cycle around November when rains are weak, because these crops do not require high moisture.

Farmers are getting ready to plant black-eyed beans, mung beans (also called Chinese beans), black beans and sunflowers, which are crops that demand little fertilization and/or agrochemicals. The key factor affecting planting and production is the shortage of chemical inputs to control or mitigate the impact of diseases. These inputs are hard to import because of the lack of hard currency. Post expects yields for the winter to maintain around 2.9 MT/ha., slightly lower from last year's estimate and with negligible variations between crops due to two main factors, a lack of inputs and the panicle blight disease that was very strong during the summer cycle and persists today.

Major Rice growing regions of Venezuela

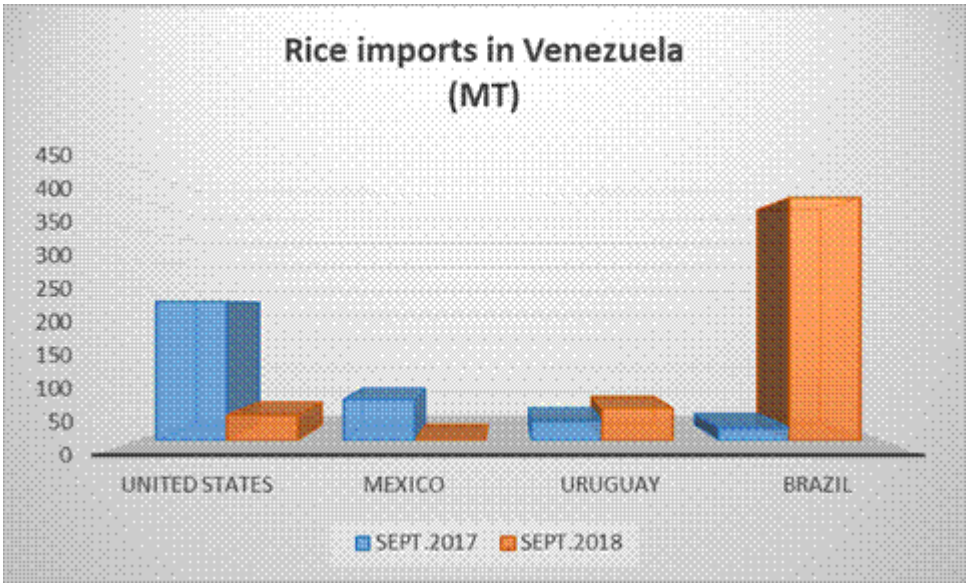
Barinas state , 2018 (new developments of rice)

Consumption

Almost all rice production in Venezuela is destined for human consumption. We are forecasting that total domestic consumption will remain the same in MY 2018/2019 at 620,000 MT, since product shortages and declining purchasing power from hyperinflation are key restraints to increased consumption. Low purchasing power persists as well as product scarcity and hyperinflation, pushing consumers to switch to cheaper carbohydrate substitutes, such as plantain, yucca, potatoes and others. However, rice is a staple product in Venezuela, so consumers are willing to struggle to find their rice in the market despite adversity.

Trade

Post forecasts imports at 450,000 MT in MY 2018/19. Despite the economic crisis and foreign exchange limitations negatively affecting imports of all agricultural raw materials, the GBRV is using extra money from unpaid debts (default debt) and money printed by the Central Bank to purchase rice imports. Rice is a politically sensitive staple food that goes into subsidized CLAP program bags of food for the poor. The historically dominant U.S. market share for paddy rice in Venezuela is now facing competition from Brazil. According to private sector contacts, the shift to Brazilian paddy rice is market driven and price-based. The graphic below shows rice imports in Venezuela from January through September 2018 compared to the same period last year.



Approximately 400,000 MT of Brazilian paddy rice and 95,675 MT of paddy rice from the United States have arrived in Venezuela since the beginning of the year. The GBRV is still the sole importer of all commodities through recognized international brokers.

Policy

Milled, white rice is a product subject to GBRV regulated price controls, providing little market incentive for the growers to consider investing, expanding, or enhancing operations. In August 2018, the regulated price paid to growers was BsS 12.50/kg, approximately US $0.06, using the current non-official exchange rate of 217 BsS /$1. This price is significantly below the break-even point, estimated to be about BsS 70/kg the equivalent to US $0.32. The GRBV is also directly involved in allocating imported paddy rice to the millers. Even though the GBRV subsidizes the allocated paddy rice for domestic millers, insufficient volumes of imports leave milling operations frequently idle during the gap time between domestic harvests. Moreover, Venezuelan millers must sell about 50-60 percent of the milled white rice production to the GBRV at the regulated price 40 BsS (equivalent to US $0.18). This sale is mandatory and the millers who have received any type of financing from state banks or other governmental institutions are forced to give 60 percent of the production, while the millers who self-finance are required to give 50 percent of the production for the government's social program. According to contacts, these percentages could vary according to the agreements and negotiated terms between millers and governmental officers.

PSD TABLE

Rice, Milled	2016/2017		2017/2018		2018/2019	
Market Begin Year	Apr 2016		Apr 2017		Apr 2018	
Venezuela	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Harvested	125	125	135	135	70	86
Beginning Stocks	57	57	42	42	77	77
Milled Production	305	305	275	275	140	170

Rough Production	449	449	405	405	206	251
Milling Rate (.9999)	6786	6786	6786	6786	6786	6786
MY Imports	350	350	400	400	450	450
TY Imports	330	330	500	500	450	450
TY Imp. from U.S.	168	168	0	0	0	0
Total Supply	712	712	717	717	667	697
MY Exports	40	40	20	20	0	0
TY Exports	40	40	20	20	0	0
Consumption and Residual	630	630	620	620	620	620
Ending Stocks	42	42	77	77	47	77
Total Distribution	712	712	717	717	667	697
Yield (Rough)	3.592	3.592	3	3	2.9429	2.9186

Commodities:

Sorghum

Production
In MY 2018/19, post revised the sorghum area harvested and production dramatically down to 25,000 ha and 35,000 MT, respectively, with little yield improvement due to the good climate conditions. Sorghum production like other grains has been severely impacted by shortages of imported diesel fuel, essential inputs, certified seeds, equipment, and machinery. The issues with poor and scarce national seeds and no imports of sorghum seeds are key factors determining the severe decline in area harvested.

Sorghum is an important crop for dry areas in the east and southern regions of Venezuela, specifically the States of Guárico and Cojedes. Sorghum has two different growing cycles during the marketing year. The principle sorghum-planting season when weather conditions are most apt begins in October/November with the harvest occurring from January to March. The second cycle planting begins in June/July with the harvest beginning in September and ending in October.

Consumption
In MY 2018/19, sorghum consumption is forecast down to 35,000 MT. Sorghum is used for poultry and swine feed production in Venezuela, and to a lesser degree forage for cattle. Sorghum is not subject to government-regulated prices and grower contacts indicate that farmer margins for sorghum, compared to grains subject to regulated prices, are better. Nevertheless, sorghum supplies a smaller, niche market, as the Venezuelan feed industry prefers domestically produced, or imported, yellow corn, and because producers do not know the variety of uses of sorghum.

PSD TABLE

Sorghum	2016/2017		2017/2018		2018/2019	
Market Begin Year	Oct 2016		Oct 2017		Oct 2018	
Venezuela	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Harvested	70	70	70	70	25	25
Beginning Stocks	12	12	9	9	0	0
Production	70	70	70	70	35	35
MY Imports	2	2	0	0	0	0
TY Imports	2	2	0	0	0	0
TY Imp. from U.S.	0	0	0	0	0	0
Total Supply	84	84	79	79	35	35
MY Exports	0	0	0	0	0	0
TY Exports	0	0	0	0	0	0
Feed and Residual	70	70	79	79	35	35
FSI Consumption	5	5	0	0	0	0
Total Consumption	75	75	79	79	35	35
Ending Stocks	9	9	0	0	0	0
Total Distribution	84	84	79	79	35	35
Yield	1	1	1	1	1.4	1.4

Commodities:

Wheat

Production

The Venezuelan market for wheat is almost entirely dependent on imports. There are a few thousand hectares of experimental tropical wheat, but contacts in the Venezuelan Wheat Millers Association indicate that the impact on the market is negligible.

Consumption

Total consumption remains the same at 1.5 million MT in MY 2018/19. People are consuming more pasta in their diet, especially consumers that receive subsidized CLAP food distributions (which contain more pasta than any other food). In general, pasta is the most affordable and available staple food in Venezuela. The estimated uses of imported wheat in Venezuela are:

Wheat	Uses
65 percent Hard Red Winter	Bread industry

26 percent Hard Ambar Durum	Pasta Industry
3 percent Soft Red Winter	Cookies industry (sweet and salty)
6 percent MIX	Pizza and Pastries

The prolonged economic crisis is negatively affecting wheat imports that currently satisfy only a fraction of the demand. The total domestic import demand for wheat in Venezuela is close to 210,000 MT per month. In CY 2018, only 30 percent of that volume arrived monthly leading to severe shortages of bread. In the first three months of 2018, monthly imports averaged an insufficient 90,000 MT. Product availability and product affordability will challenge Venezuelan consumers in CY 2018. The GBRV has limited foreign exchange for imported goods creating shortages of the product, worsened by hyperinflation that will further erode Venezuelan purchasing power, which is currently less than US $30 per month.

Trade

Imports remain the same at 1.5 million MT in MY 2018/19. The United States and Canada were traditional wheat suppliers to Venezuela; however, growing competition from Russian milling wheat and Mexican durum wheat is affecting the market share distribution.

Under a commercial agreement between the GBRV and Russia signed in May 2017, 300,000 MT to 600,000 MT of wheat were to arrive before the close of MY 2017/18. The delivery terms of the agreement appear to be slipping. From August 2017 to April 2018, less than 400,000 MT of Russian wheat arrived in Venezuela. Industry contacts indicate that the marginal quality of this wheat is sufficient for flour to make crackers, but not bread or pasta, unless it is blended with higher quality wheat from traditional wheat trading partners such as the United States, Canada or Mexico.

The biggest development in the Venezuelan wheat market is durum wheat coming from Mexico, and most of this comes raw to make pasta for the CLAP boxes. Currently, there is more pasta in the CLAP box than any other product. The Clap box may contain some rice, soybean oil, lentils, black beans, either sardine cans or tuna fish cans but 60 percent of the food contained in the box is pasta and this explains the increasing imports of durum from Mexico. Inventories are also maintained with the durum imports because hard red winter wheat for bread continuous to be scarce.

PSD TABLE

Wheat	2016/2017		2017/2018		2018/2019	
Market Begin Year	Jul 2016		Jul 2017		Jul 2018	
Venezuela	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Harvested	0	0	0	0	0	0
Beginning Stocks	98	98	87	87	109	98
Production	0	0	0	0	0	0
MY Imports	1139	1139	1522	1522	1500	1500
TY Imports	1139	1139	1522	1522	1500	1500

TY Imp. from U.S.	400	400	272	272	0	0
Total Supply	1237	1237	1609	1609	1609	1598
MY Exports	0	0	0	0	0	0
TY Exports	0	0	0	0	0	0
Feed and Residual	0	0	0	0	0	0
FSI Consumption	1150	1150	1500	1511	1500	1500
Total Consumption	1150	1150	1500	1511	1500	1500
Ending Stocks	87	87	109	98	109	98
Total Distribution	1237	1237	1609	1609	1609	1598
Yield	0	0	0	0	0	0