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Venezuela

Sugar Annual

2018

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Report Highlights:
Economic mismanagement and an overdependence on oil exports have led to Venezuela's economy contracting for the fourth year in a row, down an estimated 15 percent in calendar year (CY) 2017. Hyperinflation, estimated at 2,616 percent in CY 2017, continues to beleaguer the economy. The severity of the economic crisis creates profound challenges to sugar cane production and milling.

Executive Summary:

Venezuela's economy is heavily dependent on oil production and exports that account for over 90 percent of foreign exchange. The four-year trend in low oil prices, coupled with extraction inefficiencies dropping Venezuela's crude output, will continue to exacerbate foreign exchange cash flow challenges for the Government of the Bolivarian Republic of Venezuela (GBRV). The 2017 economic crisis and foreign exchange limitations saw the total value of agriculture and food imports fall 24 percent from the year before, bottoming to $2.48 billion (Global Trade Atlas). This was the lowest trade value of imports in over a decade. The GBRV monopolizes imports with government corporations that have priority access to foreign exchange from the Venezuela Central Bank. The Central Bank occasionally distributes subsidized foreign exchange to the private sector for imports; nevertheless, the small amounts of foreign exchange distributed are insufficient to satisfy the breadth of private sector imported product needs. The GBRV Public Corporation for Food and Services is responsible for all agricultural product imports and allocations to domestic manufacturers and distributors.

A GBRV corporation, Agropatria, supplies about 90 percent of essential agricultural inputs to farmers, but in order to access those inputs, farmers must deliver/sell 20 percent of production to Agropatria at government-regulated prices. The GBRV challenges with foreign exchange have affected imports of all agricultural inputs. Agropatria's inventories of seed, fertilizer, pesticides, machinery, parts, and equipment are insufficient to support the extensive needs of growers. Nearly obsolete tractors, equipment and other machinery are in dire need of new parts and/or upgrades. Frequent shortages of diesel fuel frequently disrupt the critical timing of the planting and harvest cycle detrimental to yields. One positive development is a recent agreement with Russia that will bring approximately 180,000 MT of fertilizer in CY 2018. The first 30,000 MT vessel of Russian fertilizer is allegedly at port and offloading with additional vessels pending.

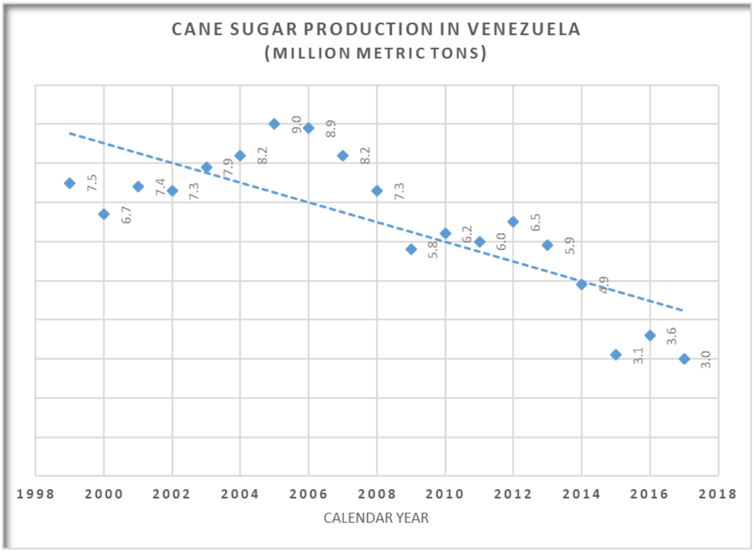
The centrifugal sugar-milling sector is operating at a fraction of capacity. The GBRV's financial challenges and incapability to provide foreign exchange for much needed equipment upgrades is the primary cause. In addition, mismanagement in GBRV expropriated mill operations have plummeted centrifugal sugar production in historically productive mills. As a result, the forecast for domestic centrifugal sugar production, consumption and sugar imports are all down in MY 2018/19.

Commodities:

Sugar, Centrifugal

Production:

Production of domestic sugar is forecast down to 250,000 MT. Like all agricultural industries and food processors, the sugar industry desperately needs foreign exchange to import new equipment and repair parts for aging, dilapidated machinery. There are a few private sector sugar mills that have been able to maintain operations, but any stability in production, or even marginal gains, will never sufficiently make up for the plummeting production in the 10 government-owned, expropriated mills. The Venezuelan Federation of Sugar Cane Producers (Spanish acronym: FESOCA), reports that private sector mills have delayed any additional investment because of worsening economic conditions. The illustration below shows the downward trend in sugar mill production since 1998.



Source: FESOCA

Consumption:

In MY 2018/19, the forecast for sugar consumption is marginally down to 1.2 million MT. Controlled retail prices and inflation for basic food items have created black market incentives where purchases are hoarded at the government price, then sold at two and three times that price to consumers in informal market settings.

The sugar industry estimates that the actual sugar usage between industry and households are almost even as some food manufacturers are able, and willing, to pay more than four times the regulated price, currently bolivars (Bs.) 18,758 per kilogram (kg). This distorts market mechanisms leaving little sugar for household consumption or stocks.

All alternative sweeteners, such as high fructose corn syrup, are imported, which are subject to the same limited foreign exchange problem. The consumption of these sweeteners is growing, but still only represents less than 1 percent of total sugar consumption in the country.

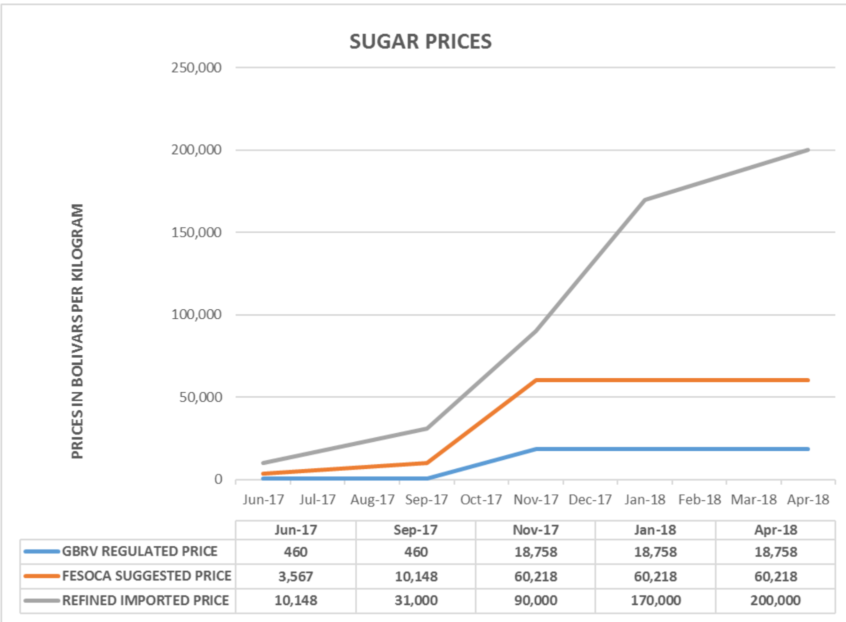
Trade:

Total sugar imports for MY 2018/19 are forecast slightly lower from the previous year to 1 million MT. Food imports and distribution are monopolized by a government corporation, CUSPAL. Domestic purchases are made through several local suppliers, including private companies. Limited foreign exchange is the primary factor determining volumes of sugar imports are the need and priority for other imported commodities, such as corn, soybeans, wheat and rice.

Brazil is the primary supplier of raw and refined sugar to Venezuela. Imports from Nicaragua and Bolivia follow Brazil, but their market share was negligible for CY 2017. Imports of raw sugar during the first quarter of 2018 are 305,000 MT, or 40% higher than the last quarter of CY 2017 at 180,000 MT. Sugar is a key household commodity in Venezuela and the bump in GBRV-procured sugar imports is likely motivated by the upcoming elections for president in May 2018. After the election, sugar shortages in households will likely worsen.

Policy:

Price controls, lack of foreign exchange, security concerns, lack of spare parts for agricultural inputs, machinery and packaging materials, and even labor problems, are all major issues negatively impacting sugar production and consumption. According to the private sector, the the GBRV may rather import refined sugar than invest in expanding local cane and raw sugar production. GBRV price regulations are always well below the milling industry's recommended price that allows for a small margin above break-even. The illustration below shows the disparity between the GBRV regulated price, industry recommended price, and imported refined sugar prices (not subject to regulation). For reference, the April 2018 regulated price is equivalent to $0.03/kg.



Source: FESOCA

Marketing:

Both the government and the private sector currently sell refined sugar. Sugar millers continue to offer refined sugar under public and private brands, depending on the mill, and distribute product to private retailers or for government supported food distribution to low-income households. The Venezuelan consumer prefers refined cane sugar, but it remains difficult to find, at any price – regulated or otherwise, in retail establishments. Shortages force consumers to find other alternatives, such as brown sugar and fructose products, but availability of these alternatives can be costly and account for less than one percent of the market.

Production, Supply and Demand Data Statistics:

Sugar, Centrifugal	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
Beginning Stocks	100	100	0	0	0	0

Beet Sugar Production	0	0	0	0	0	0
Cane Sugar Production	260	250	300	300	0	250
Total Sugar Production	260	250	300	300	0	250
Raw Imports	869	400	830	830	0	800
Refined Imp.(Raw Val)	201	200	200	200	0	200
Total Imports	1070	600	1030	1030	0	1000
Total Supply	1430	950	1330	1330	0	1250
Raw Exports	0	0	0	0	0	0
Refined Exp.(Raw Val)	100	0	0	0	0	0
Total Exports	100	0	0	0	0	0
Human Dom. Consumption	1330	950	1330	1330	0	1250
Other Disappearance	0	0	0	0	0	0
Total Use	1330	950	1330	1330	0	1250
Ending Stocks	0	0	0	0	0	0
Total Distribution	1430	950	1330	1330	0	1250
(1000 MT)						