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# GAIN Report

Global Agricultural Information Network

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## Venezuela

## Poultry and Products Annual

## Annual 2010

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**Report Highlights:**

Poultry consumption in Venezuela is expected to continue expanding in 2011, although imports will take a larger share of the market as domestic output is pressured by fixed output prices and high feed costs. Poultry imports from Brazil and Argentina will continue, making the domestic industry less profitable as it faces stronger competition from trade.

**Executive Summary:**

Poultry production is expected to decline in 2010 in response to price controls and high feed costs; price controls which have been in place for a number of years compromise profit margins but boost consumption, a trend that is expected to continue in 2011. A boost in consumption is expected as the government continues to be an active importer and distributor through its state-owned food distribution networks where subsidized products are even cheaper than current controlled prices. The government imports poultry from Brazil and Argentina, origins which are not subject to tariff or custom charges.

**Commodities:****Production:**

According to the president of the National Federation of Poultry Producers (FENAVI), Brazilian exports to Venezuela have led to variable poultry production during the first months of 2010. In January, March, and May of this year, for example, output decreased by 13.9 percent, 1.4 percent and 4.20 percent, respectively. Average chicken production during 2010 is 77,336 tons per month, 0.76 percent less than in 2009, while producing an average of 882,562 boxes of eggs (30 pieces) per month.

Estimated 2010 poultry production is 874,000 metric tons, a five per cent decrease from 2009. This decrease in production will be driven by increased imports from Brazil and Argentina, price controls and high feed costs—Venezuela imports a significant amount of its feed components and thus also is impacted by world grain prices. Poultry demand is expected to increase because it is relatively low priced compared to pork and beef, its main competitors in the market.

The Venezuelan poultry sector is strong, organized, vertically integrated, and well-managed. These attributes are key to sustaining the industry in spite of a price control policy which does not allow producers to raise prices in step with growing production costs and competition from increased imports by the government. Investment in the industry continues, as producers must use modern technology to remain viable.

Venezuela produces and consumes only small amounts of duck and turkey. Therefore, the majority of the poultry referred to in this report is chicken.

**Feed availability**

Venezuela's poultry producers work very closely with animal feed processors through vertical integration within the industry. The trend is toward greater concentration of farms and processors. All animal feed is domestically produced from a combination of imported and domestic inputs. Yellow corn, yellow grease, and soybean meal are imported. Locally produced yellow corn is also used by the animal feed processing industry.

The partnership between the poultry and animal feed industries is important due to the fact that access to imported inputs is subject to an import licensing scheme administered by the Ministry of

Food (Ministerio de Alimentación, or MINAL). Venezuela could be 100 per cent self-sufficient in poultry if it had greater access to imported feed ingredients, according to industry representatives. Issuance of import licenses is technically tied to the purchase of local grain crops, but this has not restricted trade recently because import demand is significant.

### **Cost and quality**

The poultry sector will continue to look for quality improvement and cost reduction. The tendency for the near future is to maintain investments to upgrade the poultry sector.

Feed represents about 80 per cent of total production costs, which move with the price of imported inputs. In addition, labor costs (minimum wage and increasing labor benefits), transportation, marketing and security services are also increasing.

### **Price controls**

Since 2003, retail prices for poultry have been under a government control policy. That is, whole poultry and cuts are sold at a fixed price established by the Bolivarian Republic of Venezuela (BRV). The poultry industry continues to lobby government authorities to remove poultry and products from the list of price-controlled products. However, to date, the government has agreed only to 'review' current fixed prices. Nevertheless, it seems unlikely that price controls will be lifted in the short term.

Tracking controlled prices for poultry has been a challenge since 2003. Poultry products like whole chicken, breast and leg quarters, as well as their boneless and skinless versions, were sometimes included in the controlled price listings. In some cases, certain products were removed from the list, while for others a unique price was established for different products.

Large stores, such as hypermarkets, supermarket chains and established butcher shops are required to sell products at the established price on the price control list. Charging more than the official controlled price is illegal and leads to steep fines and possibly temporary closures of poultry facilities, supermarkets and hypermarkets.

### **Consumption:**

Consumption is expected to grow steadily during 2010 in response to increases in poultry meat imports. According the Venezuelan Poultry Federation, domestic poultry production is about 900,000 metric tons per year. FENAVI has commented that domestic production could supply 100 percent of the private market and address the demand of the Government's social networks. Domestic producers place monthly 30,000 tons of chicken in PDVAL, a government distribution chain, and work with CASA, the buying agency of the Ministry of Food, to supply 8,500 tons of whole chicken every three months in their Mercal stores.

While price controls compromise industry profit margins, they have helped to boost consumption. The poultry sector foresees a boost in consumption as the government continues to play an active role as a leading poultry supplier and importer through its state-owned food distribution network. PDVAL is expected to import at least 200,000 tons of poultry products in 2010. Poultry products offered through the government's distribution network even are cheaper than current controlled prices. Government poultry imports from Brazil, the main supplier, are subject to neither tariff nor custom charges.

The Executive Branch's decision to freeze trade relations with Colombia has taken effect. In the case of poultry, fertile eggs and baby chicks, imports are not allowed from that origin. FENAVI reported that programmed purchases--those that were contracted before the freeze-- entered the country gradually as they were scheduled. Poultry producers have since replaced them with imports with Brazil. The government is also negotiating prices and quantities with producers in Argentina but there is concern about availability. Some items previously imported from Colombia are now produced in the country.

Poultry is the meat of choice of Venezuelan consumers. It remains the most available and is a cheaper source of animal protein than beef or pork. According to figures presented by FENAVI, between 2007 and 2008 annual per capita consumption increased from 33 kilograms to 35 kilograms. The poultry sector foresees a boost in consumption as the government continues to play an active role as a poultry supplier through its state-owned food distribution network.

Poultry products offered through the government's distribution network are cheaper than current controlled prices. In addition, shortages of beef registered through 2009 and part of 2010 will continue to strengthen demand for poultry.

About 80 to 90 per cent of the poultry produced in Venezuela is purchased fresh by households. The rest goes to the processing sector (hams, sausages, frozen nuggets, and others).

### **Trade:**

Despite a domestic poultry sector capable of meeting domestic demand, according to the industry, whole poultry is imported from Brazil and Argentina. Venezuela's poultry industry says that it can supply 100 per cent of demand but cannot demonstrate this as long as imports continue. Government poultry imports from Brazil are subject to neither tariff nor custom charges, and do not require foreign exchange applications. Imports are only conducted by the government but are sold to both the private retail sector and government food distribution network. Poultry imports for 2010 and beyond are forecast to continue their upward trend. There are no official statistics regarding the exact level of imports.

According to FENAVI, after the suspension of commercial relations with Colombia, which was the main supplier of poultry genetics in the sector, Brazil became the first supplier of baby chicks and fertile eggs for the poultry industry nationwide. Argentina is also a major supplier of baby chicks and fertile eggs.

FENAVI notes that the recent decline in exports from Brazil was due to an increase in chicken consumption in the domestic market of that country, so sales were restricted to Venezuela breeders. This situation is being resolved--Brazilian production is recovering—and the expectation is for growth 15 percent this year compared to 2009.

Imports of chicken showed two major downturns in the first half. Contrasting March 2010 versus the same month of 2009 shows a 79.8 percent drop in foreign purchases, while in June this year, compared to the same month last year, the decrease was 82.3 percent. But in January, February, April and May 2010 showed imports rising 129.7 percent, 35.8 percent, 267.6 percent and 104.6 percent, respectively, versus the same period of 2009. Industry analysts note that these significant variations are due to seasonal stages in poultry production, that when there is lower domestic production, imports rise.

In the Uruguay Round negotiations, Venezuela established a tariff rate quota for poultry products (HR Code 0207) at 3,426 tons. However, the BRV effectively had a ban on unprocessed (fresh)

poultry meat since 1993 and has effectively barred imports from any country that could not or would not certify to being free of avian influenza (AI), both high and low pathogenic.

The current ad valorem tariff for poultry meat from third countries is 20 per cent plus a variable duty. Whole poultry and poultry pieces are included under the Andean price band system. This system raises or lowers the ad valorem duty of groups of related products according to the relationship of the prices of specified 'marker' commodities to set floor and ceiling prices.

**Stocks:**

Since 2007, a law against hoarding, speculation, usury and any other action that could affect the normal distribution of food products under price controls has been in effect. Therefore, producers keep stocks at minimum levels due to the fear of being accused of hoarding by government authorities.

**Policy:**

There is no specific agricultural policy for poultry production, rather than including poultry and egg in the list of priority commodities that will receive agricultural financing during fiscal year 2007, according to Official Gazette N° 38,619, dated 02/05/07.

**Marketing:**

Poultry is available fresh, refrigerated, frozen or processed. Refrigerated poultry products include ham-style turkey breast, chicken sausages, chicken bologna, whole-smoked chicken and chicken ham.