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Venezuela

Dairy and Products

Annual Report

2004

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Report Highlights:
Post is forecasting a slight recovery of dry milk production to 26,000 MT for 2005; this is assuming that the country will continue enjoying a modest economic recovery. Also as a consequence of an oil-driven economic rebound, dry milk imports are expected to increase from 75,000 MT to 90,000 MT in 2005. Imports have been sourced from the traditional partners with New Zealand remaining the main source. Since 2003, the Government of Venezuela emerged as a major importer of several food products, including dry milk powder.

Includes PSD Changes: Yes
Includes Trade Matrix: No
Annual Report
Caracas [VE1]
[VE]

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Dry Whole Milk PS&D

Commodity	Dairy, Dry Whole Milk Powde (1000 MT)						
	2003	Revised	2004	Estimate	2005	Forecast	UOM
	USDA Official [	Estimate [	DA Official [	Estimate [	DA Official [	Estimate [	New]
Market Year Begin		01/2003		01/2004		01/2005	MM/YYYY
Beginning Stocks	39	39	33	33	29	31	(1000 MT)
Production	24	24	26	23	0	26	(1000 MT)
Intra EC Imports	0	0	0	0	0	0	(1000 MT)
Total Imports	75	75	85	90	0	95	(1000 MT)
TOTAL Imports	75	75	85	90	0	95	(1000 MT)
TOTAL SUPPLY	138	138	144	146	29	152	(1000 MT)
Intra EC Exports	0	0	0	0	0	0	(1000 MT)
Total Exports	0	0	0	0	0	0	(1000 MT)
TOTAL Exports	0	0	0	0	0	0	(1000 MT)
Human Dom. Consumpti	105	105	115	115	0	118	(1000 MT)
Other Use, Losses	0	0	0	0	0	0	(1000 MT)
Total Dom. Consumption	105	105	115	115	0	118	(1000 MT)
TOTAL Use	105	105	115	115	0	118	(1000 MT)
Ending Stocks	33	33	29	31	0	34	(1000 MT)
TOTAL DISTRIBUTION	138	138	144	146	0	152	(1000 MT)
Calendar Yr. Imp. from U	0	0	0	0	0	0	(1000 MT)
Calendar Yr. Exp. to U.S.	0	0	0	0	0	0	(1000 MT)

Production

Venezuela remains a milk deficit country, and 2003 was a difficult year for local milk producers. Local milk production only covered 55 percent of domestic consumption in 2003. The remainder has traditionally been imported in the form of dry milk primarily from New Zealand.

Domestic production has decreased steadily over the last 10 years, which has resulted in an increased need for imports. According to industry sources, the main reason for the decline is a reduction of the herd in the last four years, decreasing from 13,000,000 heads to 11,600,000 heads. Many cattle ranchers based in the important dairy production area along the Colombian border have been selling their animals due to security problems. Also, as a result of the last year poultry supply problems, demand for beef increased and forced cattle producers to slaughter a large number of animals, of which were many milk producers females. Domestic milk production for 2003 was 24,000 MT and it is projected to drop to 23,000 MT in 2004.

According to the Venezuelan Dairy Chamber, CAVILAC, milk production in Venezuela is the most expensive operation among Latin American countries and the only market in which production has been decreasing consistently since 1993. It blames this on lack of appropriate public development strategies for the dairy sector.

The Venezuelan dairy sector has been affected recently by several factors, among others: price increases in raw materials associated with currency devaluations, high interest rates, stagnant economy, low productivity, juridical and personnel insecurity (land invasions and kidnappings), and instability in agricultural policies. These factors have weakened the domestic milk sector, reducing stimulus and security to carry out the long-term investments needed to increase production.

However, Post is forecasting a slight recovery of dry milk production to 26,000 MT for 2005. This is assuming that the country will continue enjoying a modest economic recovery, that the problem of insecurity in the countryside remains limited, that the outbreaks of foot and mouth disease are controlled and the government's plan of cattle imports is successful.

Consumption

The severe recession combined with inflation has forced consumers to cut back on milk consumption. Ten years ago consump tion was 120 liters per capita/per year, and it has been gradually decreasing to reach the current level of 72 liters per capita/per year. Compared to other countries, Venezuela consumes very little milk. CAVILAC argues that consumption is below world levels due to several causes, among which are, insufficient domestic production and high costs of raw milk, which drives retail prices up to unaffordable levels, and to a decline in real incomes.

The Government put in place a system of price controls in the food sector in February 2003 that is still standing. The price controls were meant to keep products readily available to all consumers at a reasonable price and in general, they have been effective in slowing price increases. Price controls have probably kept milk consumption from falling even more, but are proving to be both a disincentive to local milk production and the cause of sporadic shortages of product in the market. The domestic controlled price for whole dry milk was set at 5,000 bolivars ($2.60) per kilo since February. However, controls are not fully enforced and the current average market price for dry milk has been varying between $3.03 and $3.24 to date.

Most Venezuelan consumers do not view low fat-milk favorably since there is a general perception that full-fat (3.2 percent fat) milk is more nutritious. In recent years, however, demand for low-fat milk has improved somewhat, as some consumers (mostly higher-income) have expressed greater concern about reducing fat intake. Approximately 10 percent of powdered milk consumption in Venezuela is non-fat. Colombian imports have covered this segment during the last two years.

Ultra-high temperature (UHT) milk first entered the Venezuelan market in the 90's. Currently, 5 percent of the market consists of UHT milk. Dairy Partners Americas, D.P.A., leads the UHT market in Venezuela with a 60 percent market share. This company is the result of a fusion between CADIPRO Milk Company (New Zealand), Nestlé (Switzerland) and INLACA (Venezuelan).

Venezuela Dry Whole Milk Prices Bolivars/ Kg.			
	2002	**2003**	**2004**
January	4,277.31	5,671.21	5,634.22
February	4,342.81	6,007.10	5,588.28
March	4,652.72	5,627.11	5,635.13
April	5,011.41	5,611.66	5,824.36
May	5,111.35	5,634.96	6,226.11
June	5,138.53	5,631.55	6,214.28
July	5,182.77	5,614.50	
August	5,345.33	5,591.06	
September	5,438.84	5,621.87	
October	5,442.34	5,606.33	
November	5,467.65	5,567.31	
December	5,445.31	5,579.06	

Source: Venezuelan Statistics Institute, INE

Trade

As a consequence of an oil-driven economic rebound, dry milk imports are expected to increase from 75,000 MT to 90,000 MT this year. Additionally the government has granted a temporary six-month tariff exemption to help alleviate supply problems in the domestic market. However, industry sources claim that this measure does not compensate for the freezing of regulated prices. They estimate that prices should be raised by 35 percent to cover cost increases. Post forecasts imports to increase to 95,000 MT in 2005 due to an expected increase in demand.

In addition to price controls, the GOV established strict foreign exchange controls in January 2003, which has had a major effect on trade. The exchange control commission, CADIVI, was initially very slow in beginning operations, and due in part to the private sector difficulties in getting access to dollars, the Government of Venezuela emerged as a major importer of several food products, including dry milk powder. Government imports are all contracted by the “Corporación de Abastecimiento y Servicios Agrícolas, CASA,” a government purchasing agency created in 2003.

Imports have been sourced from traditional partners with New Zealand remaining as the main source. Taking advantage of its status as a member of the Andean Community, Colombia holds a very strong second place. Dry milk is a product tied to the Milk Band of the Andean Price Band Tariff System. Dry milk imports from non-Andean countries are subject to 20 percent ad valorem duty, which is the common external tariff accorded by the Andean Community, and a variable duty (DEV) determined by the Andean price band. This system established an annual ceiling and floor import price on April 1 of each year, based on monthly historical averages of the last five years. Variable duties are modified every 15 days depending on the variation of international market prices, with respect to floor and ceiling prices. For most current information on the Andean price-band and tariffs rates refer to: www.comunidadandina.org

In the case of dairy products the import system of non-automatic, non-transparent import licensing continues, and these licenses are subject to the Ministry of Agriculture and Land’s approval. However, recently a new Ministry has been created, the Ministry of Food (Ministerio de la Alimentación) that among other functions will be in charge of issuing import licenses. The criteria used to distribute the licenses for the dairy tariff rate quota (TRQ) are non-transparent and extremely discretionary. The same can be said regarding the granting of licenses when demand exceeds the WTO tariff rate quota (TRQ), which is fixed for dry whole milk (0402.21) at 73,822 tons.