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Venezuela

Exporter Guide

Annual

2003

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Report Highlights:

Venezuela remains a major market for U.S. agricultural products, consistently among the top two markets in South America. However, the Venezuelan economy suffered it's worst contraction in over 50 years during the past 12 months. A major devaluation, combined with ongoing political unrest, a crippling two-month strike and rising unemployment are the basis of the problem. Government imposed exchange controls and price controls in January 2003 have only worsened the situation.

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

I. MARKET OVERVIEW

The Venezuelan economy suffered its' worst contraction in over 50 years during the past 12 months. A major devaluation, combined with ongoing political unrest, a crippling two-month strike and rising unemployment are the basis of the problem. Government imposed exchange controls and price controls in January 2003 have only worsened the situation. The Venezuelan GDP dropped by 29 percent during the first quarter of 2003, the largest recorded decline. In this declining economy marketing activities have become extremely difficult. While most forecasts are that access to foreign exchange will get easier, the current controls not only limit imports, but also limit the ability of Venezuelans to travel outside of their country.

Venezuela remains a major market for U.S. agricultural products, consistently among the top two markets in South America. While imports from the United States dropped below \$400 million in 2002, our market share actually increased. Total agricultural imports from all sources were down 32 percent in 2002, while imports from the United States only fell 19 percent. This reflects the key role U.S. products play in the Venezuelan market, and that they are not only very price competitive, but have characteristics and qualities that are valued by Venezuelan purchases. .

A key constraint for doing business in Venezuela currently is the high-level of trade barriers being imposed by the government, particularly the restrictive use of licenses and phytosanitary permits. The Venezuelan government has been refusing to issue import licenses for numerous products such as corn, soybeans, soybean meal, and yellow grease since last fall. In addition, importers are not able to get the phytosanitary permits needed for many other items such as poultry and pork products, apples, pears and grapes, even though no sanitary or phytosanitary problem has been specified. FAS/Caracas has worked closely with the affected industries to both pressures the government to open markets, and to also gather information about the actual barriers. USTR requested formal consultations with Venezuela in November 2002 concerning these trade barriers, and the case continues under review.

Even given the constraints, FAS/Caracas still sees many opportunities for export growth in Venezuela. Bulk agricultural products have been entering more easily since May and we have seen the introduction of some alternative products. The Venezuelan government has now become an active purchaser of some intermediate and consumer-oriented products, including significant quantities from the United States. However, the market for high-end consumer products has been severely restricted due to both the economy and government restrictions on dollars. But Venezuelan business relations continue to rely heavily on personal contacts, and now would be an excellent time to develop relationships and begin to position products in this market in order to take advantage of the recovery that is likely to occur in this petroleum-rich country.

II. EXPORTER BUSINESS TIPS

Customs Valuation

Customs calculates duties on the landed (CIF) cost of the product and on the gross weight of the import, thus including the weight or value of the packaging. Typically customs authorities accept the value of the shipment as indicated on the documents, but recent regulations allow them to reference a base price on some products such as textiles in order to determine minimum price for purposes of customs value. Government officials have indicated that this base price system is WTO-compliant. Under invoicing in any event can result in heavy fines to the importer as well as forfeiture of the goods in question.

Complaints by importers of inconsistency in customs treatment in various ports of entry have led to an effort by the National Tax Authority (SENIAT) to build a common data base of information and otherwise coordinate and ensure uniform valuation principles by customs offices throughout the country.

Import Permits

Import licenses are required for many agricultural products, and many agricultural imports must have sanitary or phytosanitary import certificates, issued by the Ministry of Agriculture and Lands, to be allowed entry. Medicines, foods and cosmetics also require registration with the Ministry of Health. Customs will admit products without a label showing the registration number if the importer produces the appropriate documentation from the relevant Ministry. Stickers are allowed and can be affixed on the retail package before distribution and sale. In the case of imported alcoholic beverages, the tax "band" must be affixed across the bottle closure before the shipment can leave the customs premises. Imported cigarettes are also subject to this type of measure and adhesive labels are not allowed.

Import / Export Documentation

Venezuelan Customs requires that all documents be in Spanish. The invoice must be typewritten; a photocopy will not be accepted. The manifest of importation and declaration of value must be in quadruplicate. The following documents may be required: commercial invoice; bill of lading; packing list; certificate of origin (if required); special certificates or permits when required (such as phytosanitary or quality standards certificates). Exporters should consult with the Venezuelan importer regarding what documentation is required in addition to the invoice. Exporters should quote CIF prices for Venezuela (not FOB) since import duties are calculated on the CIF price. Insurance and freight must be listed separately on the invoice.

The invoice must be in duplicate and list both the value per unit and the total value of the shipment. Shipping and insurance costs are to be listed separately. The description for the merchandise must include the appropriate tariff number, which the importer can supply. To simplify the import process for a large amount of cargo for one project, there should be a single declaration for all items, and each item then listed separately with its respective tariff number. For new products, particularly those whose tariff number cannot be readily identified, it is important to obtain a specific tariff number, which the importer can obtain from customs.

Labeling, Marking Requirements

Spanish is the official language of Venezuela, and the only official measuring system is metric. Labels must list all ingredients, the contents of the package in the metric system or in units, and the registration number of the Ministry of Health or the Ministry of Production and Commerce (Sencamer) in the case of animal feeds or veterinary medicines. Stickers are allowed in the case of imported products. These stickers must also identify the importer. Operating instructions or owners manuals must be in Spanish.

Standards

The Venezuelan standards agency COVENIN has established over 300 obligatory standards that apply to both domestic and imported products. These standards are not necessarily in conformity with or based on U.S. standards. In all cases involving products falling under such standards, customs authorities require a Venezuelan certificate of compliance. The

certificate can on occasion be obtained with a letter of certification confirming compliance issued by a recognized standards institute in the country of origin. Importers have experienced some difficulty where no recognized foreign standards exist and Venezuela requires such a certificate of compliance. Exporters should consult with their customers, since it is the responsibility of the importer to provide such certificates.

Free Trade Zones

Venezuela has four free trade zones. The Paraguana Peninsula Free Trade Zone is for industrial purposes only, is very small, and is being used by only a few enterprises. Another is the duty-free area comprised of the entire island of Margarita, which is the most active zone. The sale of duty-free merchandise from the island to the mainland is subject to quotas. In December of 1998 Merida was declared a free trade zone to the producers of goods and services within the cultural, scientific and technological areas. The most recent addition to the list is Santa Elena de Uairen in the State of Bolivar, which became a free trade zone in May of 1999.

Pre-inspection Clearance

Beginning September 1st, imports are subject to a pre-inspection clearance (verificación previa), as published by the Government of Venezuela in its official gazette N° 37,706, dated 06/06/2003. This pre-import verification inspection applies to all imports of over US\$ 5,000 FOB value. The charge/cost of the pre-import verification was established in 1% over the FOB value of imports, with a minimum charge of US\$250.

Venezuelan Added Tax (IVA)

One of the changes to the Venezuelan Added Tax (IVA) this summer states that certain imported products will be treated differently from domestic products in the collection of the tax. Imported products will be assessed the IVA tax if the respective Venezuelan Ministries state that there is sufficient national production of the same or equivalent products, which remains exempt from IVA. In the agricultural sector, this ruling now affects imports of rice, eggs, tuna and sardines, coffee, sausages and mortadella, and bottled water. In certain cases Customs officials are also requiring specific documentation stating there is no national production in order to waive the application of the IVA tax. This has so far affected the import of fruits, particularly grapes. The normal IVA is now 16 percent.

III. MARKET SECTOR STRUCTURE AND TRENDS

Food Service (HRI sector)

Restaurant food sales, especially franchises had been increasing during the country's recession while other areas of consumer spending have dropped. Venezuela is a good market for franchising investments as demonstrated by the amount and variety of new brands penetrating the Venezuelan market. Profranquicia is the chamber that has been working to accomplish franchisers' goals, lead by a proactive team of young executives with approximately 180 members. This franchising chamber, founded in 1998, reports that there are 180 franchises currently operating in the country with a total of over 3,000 outlets/stores. Profanquicia reports that 42 percent of all franchises are fast food, 14 percent are clothing and the remainder represents a variety of services such as computer training and dry cleaning services. 27% of the franchises are of U.S. origin.

However, 2003 has been a difficult year for franchising and in the fast food sector they experienced a decrease in consumption, estimated at 10 percent due to the government imposed exchange controls and price controls in January 2003. More consumers are eating at home or selecting less expensive menu items to stretch their bolivares. Most HRIs in Venezuela buy their food products at the lowest available price and prefer fresh foods to canned, precooked, or frozen ones. The HRI establishments buy products at many different points of the distribution chain, reflecting each product's particular nature. Fresh foods are bought at supermarkets, and nonperishable at hypermarkets whenever possible. As regards refrigerated or frozen foods, the HRIs prefer to deal directly with the manufacturer, given most distribution centers' limited cold storage capacity. Imported liquors are purchased from specialized distributors/importers. There are not many opportunities for direct commercial dealings between exporters and HRI companies, given the latter small volumes of purchases.

Food Retail sector

The hypermarket and supermarkets directly import the products they have identified as "successful" in other markets, through contacts with those products' manufacturers or distributors overseas. Only the hypermarkets directly import at the present time. The competition in the supermarket chain segment is intensifying, as a result of falling growth rates in the sector. The small grocery stores continue to hold a substantial market share in the aggregate, but present limited opportunity for placement of imported products. The supermarkets are increasingly giving up direct importing in favor of using specialized importers.

The hypermarkets and some nationwide and local supermarkets have created their own brands, which have been well accepted by consumers; they are considering the expansion of these product lines but that decision is controversial during this recessionary period. Store brands have been most successful for ham, ice cream, dry grains, and animal feed. The hypermarkets continue to be large-scale importers of food and beverages. The nationwide supermarkets and local chains have left that activity to distributors and specialized importers. Some retail businesses prepare and sell meals for consumption at the store or take-out (Home Meal Solutions - HMS), as a way of attracting customers.

The government imposed exchange controls and price controls in January 2003 also affected The retail sector, this sector experienced a decrease in sales, estimated at 20 percent so far this year.

Direct Marketing

Marketing, through TV commercials, newspaper inserts, house visits or street vendors, is common. Mail orders are not an option because of low reliability of the postal system. Placing orders by phone with delivery by messenger is becoming popular, supermarkets and hypermarkets like MAKRO, EXITO, EXCELSIOR GAMA and CENTRAL MADEIRENSE and several such companies have been successful by placing their catalogs in newspapers as weekend-issue inserts. As the telephone system continues to improve, direct marketing by phone will become more common. Almost all businesses now use fax in their day-to-day business and many utilize e-mail. E-commerce is in the very early stages, and could be a promising area for growth with some supermarkets now allowing consumers to order by e-mail for home delivering.

IV. BEST HIGH-VALUE PRODUCT PROSPECTS

The U.S. share of the Venezuelan food and agricultural market has been eroding over the past decade, falling to just over 30 percent of Venezuela's agricultural imports in recent years. The United States faces increasingly face tough competition from emerging suppliers like Argentina, Brazil and Colombia that have established preferential trade agreements with Venezuela and throughout South America. Venezuela was the leading overall agricultural market in South America for the United States in 1997, and still remains the second largest market for our products, after Colombia.

The major problems with currency controls this year have hit all exporters hard, particularly Colombia, the second largest food supplier to the Venezuelan market. The large US companies are better positioned to weather the storm, and in fact US product is currently gaining increased market share, but of a much smaller market.

U.S. sales of bulk commodities to Venezuela have leveled off in recent years at around \$200 million, but recent rice and soybean meal shipments could push sales higher. A strong consumer preference exists for practically anything associated with the United States, which gives an advantage to many U.S. food products. Value-added, consumer-ready imports had been the fastest growing sector for U.S. agricultural exports to Venezuela, topping \$100 million in 2001. But government import restrictions have hurt that sector the most.

The potential growth for 2003 and beyond is cloudy at this time as non-tariff trade barriers such as the restrictive use of licenses and phytosanitary permits have become a major impediment to trade for basic food products. However, this 25 million-person market will remain an attractive destination for many food exporters.

The following is an illustrative list of the major export opportunities and some of the emerging opportunities for U.S. agricultural products to Venezuela:

	2000	2001	2002
Rice: (PSD Code: 1060) 1,000 Metric Tons			
A. Total local market size	690	667	464
B. Total Local Production	690	737	472
C. Total Exports	0	70	8
D. Total Imports	0	0	0
E. Imports from the U.S.	0	0	0

Rice

Venezuela has been self-sufficient in rice production in recent years, but due to the impact of a three-year drought in the major irrigated production area rice imports will be needed in 2003 and 2004 to avoid a drop in availability and a run-up in prices. Rice imports are currently estimated at 120,000 tons during 2003, but could go higher. The government has been trying to stimulate rice consumption as an alternative to wheat and corn based products, but with the current production shortfalls and the drop in consumer purchasing power consumption of all products is expected to decline. At the recently set internal price control, domestic rice is currently below market prices in Colombia, and it is estimated that some product is moving across the border in contraband or "green" channels. Rice imports could occur in either paddy or milled form since there is a sophisticated milling industry in

the country. The government will need to allocate both foreign exchange and import permits to allow the rice trade to occur.

Red Meat

(HS Code: 0202)

1,000 U.S. Dollars	2000	2001	2002
A. Total Market Size	N/A	N/A	N/A
B. Total Local Production	N/A	N/A	N/A
C. Total Exports	261	197	0
D. Total Imports	5,875	11,545	9,202
E. Imports from the U.S.	1,349	1,812	1,353

Red Meat

The market for imported red meats, mainly beef, is still small in this beef-producing country, but the increase has been steady, only dropping slightly in 2002. The majority is frozen, deboned product coming from Brazil and Colombia, but opportunities for high-end cuts of U.S. beef continue to gain more market share. Variety meats and trimmings make up the majority of the product mix coming into Venezuela. Fast-food chains are the main end-users for the product mix. At the retail level, beef is generally custom-cut for consumers at in-store butcher counters, although this trend is slowly changing. Most Venezuelans are accustomed to lean beef because Venezuelan cattle are generally grass-fed, but high-end consumers are always looking for something "unique" and grain-fed beef has great potential.

The import market for pork is very restricted as imports face various sanitary and tariff barriers. However, as the market for pork products grows, niche imports for certain cuts should become more available.

Cereals and Mixes

(HS Code: 1904)

1,000 U.S. Dollars	2000	2001	2002
A. Total Market Size	N/A	N/A	N/A
B. Total Local Production	N/A	N/A	N/A
C. Total Exports	5,755	4,195	2,896
D. Total Imports	8,424	14,840	9,301
E. Imports from the U.S.	2,111	3,049	1,656

Cereals & Mixes

Imports of breakfast cereals and mixes such as pancake mixes have soared in the past two years reaching almost USD15 million. The growth in this sector in 2002 was affected by the economic situation of the country. Half of these products are sourced out of Mexico, with the United States and Colombia the other major suppliers. As more women enter the work force, and households search for easier and quicker ways to prepare meals we expect to see continued growth in this sector. But, the ground-work of having consumer awareness as well as buyer and seller relations is expect to pay back as soon as the economy recovers. Greater contacts between buyers and sellers and more promotion efforts on the part of U.S. suppliers could elicit even higher sales in this sector.

Wine

(HS Code: 2204)

1,000 U.S. Dollars	2000	2001	2002
A. Total Market Size	N/A	N/A	N/A
B. Total Local Production	N/A	N/A	N/A
C. Total Exports	124	15	6
D. Total Imports	24,951	29,964	9,476
E. Imports from the U.S.	1,433	1,552	740

Wine

Wine in Venezuela is a relatively new concept. with sales of approximately 8.1 million liters in 2002, which gives a per capita consumption of nearly 0.4 liters. The majority of the Venezuelan population does not drink wine, preferring instead beer, rum, or whisky. The wine market is very divided with some consumers drinking cheaper wine brands but others preferring very high-end imported wines. Although there is just a small niche of wine consumers, they are very loyal to wine. Some whiskey consumption is also shifting to wine since wine is now relatively less expensive.

There is great potential for increased wine consumption in the Venezuelan market. More advertising, tasting clubs and articles about grape varieties and guides to learn which wine accompanies different foods, are appearing.

V. KEY CONTACTS AND FURTHER INFORMATION .

Ministerio de Agricultura y Tierras-MAT (Department of Agriculture)
 Minister Arnoldo Marquez
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 Parque Central
 Caracas, Venezuela
 Tel: 58-212-509-0445/0121/0111
 Fax: 58-212-574-2432

Ministerio de la Producción y el Comercio-MPC (Ministry of Production and Commerce, which includes the Department of Industry, Commerce and Tourism)
 Minister Ramon Rosales
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 Caracas, Venezuela
 Tel: 58-212 -571-6383
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Fondonorma (COVENIN -Venezuelan Standards Agency)
 Director de Seguimineto y Control
 Servicio Autónomo
 Dirección de Normalización y Certificación de Calidad
 Avenida Andrés Bello,
 Edificio Torre Fondo Común, piso 11
 Caracas, Venezuela
 Tel: 58-212-575-4111
 Fax: 58-212-574-1312/576-3701

Ministerio de Salud y Desarrollo Social (Ministry of Health and Social Development)
Edificio Centro Simón Bolívar
Edificio Sur, piso 7
Caracas, Venezuela
Tel: 58-212-481-5573/4292/9101/482-0345
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Instituto Nacional de Estadísticas (INE) (Former OCEI)
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Confederacion Nacional de Asociaciones de Productores Agropecuarios
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Asociacion de Supermercados y Afines (ANSA) Supermarkets
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Camara Venezolana de Franquicias (PROFRANQUICIA) Franchising
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www.embajadausa.org.ve/usda.html (Caracas)

TABLE A. KEY TRADE & DEMOGRAPHIC INFORMATION

Agricultural Imports From All Countries	\$1.3 billion
U.S. Market Share	27%
Total Population (Millions)	25
Number of Major Metropolitan Areas	6
Size of the Middle Class	17%
Total Gross Domestic Product (2002)	\$95 million
Unemployment Rate	18%
Exchange Rate	US\$1= 1,600 Bolivares