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Venezuela

HRI Food Service Sector

Report

2003

Approved by:

Leanne Hogie
U.S. Embassy

Prepared by:

Jonathan Martinez

Report Highlights:

Most HRIs in Venezuela buy their products at the lowest available price and prefer fresh food to canned, precooked, or frozen products. The HRI establishments buy products at many different points of the distribution chain, reflecting each product's particular nature. This has been a difficult year for the sector; establishments have experienced a decrease in consumption estimated in 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.

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

MARKET SUMMARY

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.

Advantages and Challenges of Exporting to Venezuela's HRI Sector

Advantages	Challenges
<ul style="list-style-type: none"> ➤ U.S. food quality and culture are U.S. major strengths. ➤ Fast food chains are having success in Caracas and in major cities. ➤ Many hotels are associated with international chains and foreign operators. ➤ U.S. suppliers can supply products with consistent and reliable quality and quantity. ➤ Familiarity with U.S. chain restaurants. 	<ul style="list-style-type: none"> ➤ Government imposed exchange controls and price control. ➤ Domestic restaurants buy mainly local fresh products, which are cheaper. ➤ Limited tourism infrastructure and low quality service discourage longer stays of international tourists. ➤ High tariffs applied to most specialty food imports and increased difficulty in obtaining import permits. ➤ Transportation and distribution methods make it difficult to serve the market.

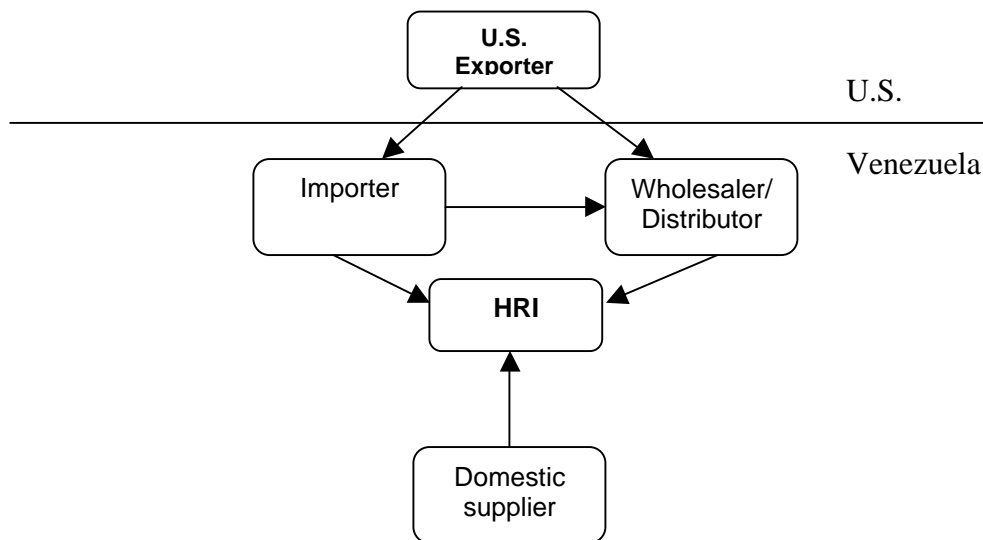
II. ROAD MAP FOR MARKET ENTRY

A. ENTRY STRATEGY

- ❖ U.S. exporters can approach the Venezuelan HRI food market through a large importer, a large wholesaler/distributor or a specialized importer/retailer.
- ❖ Regardless of which strategy is chosen, personal visits are highly recommended to get to know your buyer. Recent economic and political disturbances have made that difficult, but the situation is improving. The local partner should be well known by the U.S. company before any permanent contractual arrangement is made and should be able to provide updated information on market consumer trends, on current market development and trade business practices.
- ❖ U.S. exporters should base their entry strategy to stimulate demand within two different markets:
The local consumer market, to incorporate U.S. food ingredients in traditional and international menus due to differences in food taste.

In the delicatessen food market, where preference for European food is strong U.S. food products strength in this market is that they are considered to be of superior quality, taste and presentation.

B. MARKET STRUCTURE



- ❖ 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 small volumes of purchases.
- ❖ Top-ranked restaurants and hotels normally deal with multiple suppliers to ensure supplies of high-quality products at good prices.
- ❖ Restaurants, hotels, and HRI institutions which regularly supply the general public try to make their purchases from a small number of suppliers. In general they work with wholesalers who provide several lines of food and beverages at good prices.
- ❖ Except for the fast food restaurant chains, there are very few HRI establishments which directly import the products they use. When they do so, their imports are generally limited to liquors and other alcoholic beverages.
- ❖ Institutions (schools, hospitals, prisons, etc.) tend to use generic inputs, with little concern for brand names and quality.

C. SUB-SECTOR PROFILE

1.- Hotels in Venezuela

The Venezuelan hotel association, FENAHOVEN, provide ratings to hotel on a one to five stars basis and their data is listed below. The major international hotel chain that are present in Venezuela include Inter-continental, Marriot, Hilton, Melia, Embassy Suits and Hampton Inn

Five & Four-stars Hotels	400
Three & Two-stars Hotels	100
One-star Hotels	300
Apart-hotels & resorts	400
Inns	1500
Total	2700

Source: FENAHOVEN

2.- Restaurants

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. Profranquicia 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. Twenty seven percent 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* (local currency).

3.- Institutional

The sector we designate as institutional is not very well developed in Venezuela. There is a Chamber of Food Businesses (CANEAS) which represents the companies that render food services to the Social Security Administration hospitals.

The companies providing food services to schools, hospitals, prisons, airports, school and coffee shops, universities, high schools, etc., are organized in a large number of ways, ranging from family-owned companies to banquet-reception halls.

The country's catering businesses are owned by the airlines and render a very limited service, since domestic flights are quite short. They generally supply nothing more than a package of snacks on those flights, accompanied by soft drinks or coffee. International flights have been served by foreign companies for years, though it appears that they will soon go back to being served by some Venezuelan firms.

III. COMPETITION

The Venezuelan government protects local producers. The use of tariffs on imported goods and discretionary issuance of import licenses and permits serves to promote the use of local production, yet most would still prefer to import what they believe are far superior products from the United States and some other nations. Many imported foods used in the HRI sector come from Europe, reflecting that continent's influence on Venezuelan eating habits, and the high percentage of Venezuelans with Spanish, Italian and Portuguese ancestry. Still, while many people prefer European food, the young are more inclined toward American cuisine.

The United States is the major supplier of food products to Venezuela followed by Colombia. The following table provides a breakout in key sectors.

Competition Situation facing U.S. suppliers

Product Category	Rank	Country	Share of Import Market (%)
Meat Net imports: \$3,627 U.S. Millions	1	Brazil	73
	2	Colombia	10
	3	Chile	10
	4	United States	3
Dairy Net imports: \$73,549 U.S. Millions	1	New Zealand	45
	2	Colombia	17
	3	Ireland	13
	9	United States	1
Seafood Net imports: \$3,144 U.S. Millions	1	Chile	32
	2	Ecuador	20
	3	Peru	9
	5	United States	7
Cereals Net imports: \$171,936 U.S. Millions	1	United States	74
	2	Canada	23
	3	Argentina	2
	4	U.K,	2
Wine Net imports: \$3,935 U.S. Millions	1	Chile	46
	2	France	14
	3	Italy	13
	5	United States	4
Fruits & Nuts Net imports: \$6,566 U.S. Millions	1	Chile	58
	2	United States	21
	3	Spain	6
	4	Colombia	5
Snack foods Net imports: \$15,316 U.S. Millions	1	Colombia	84
	2	Costa Rica	5
	3	Brazil	3
	4	United States	3

Source: World Trade Atlas, January-August 2003.

IV. BEST 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.

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 reached about 80,000 tons during 2003. 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, late in 2003 pork prices surged up due to local shortages. Local herds have been depopulated due to problems with obtaining feed. Several companies requesting import permits for large quantities of pork, but the permits have not yet been granted.

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 only 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. POST CONTACT AND FURTHER INFORMATION**POST INFORMATION**

Foreign Agricultural Service

USDA/FAS

American Embassy

Calle F con Calle Suapure, Parcela B-2

Colinas de Valle Arriba

Caracas 1061, Venezuela

Phones: (58-212) 975-8861 / 975-7495

Fax: (58-212) 975-7615

E-mail: Agcaracas@fas.usda.govwebsites: www.fas.usda.govwww.embajadausa.org.ve/usda.html (Caracas)

Asociación Venezolana de Hoteles Cinco Estrellas, AVECINTEL

Address: Hotel Tamanaco Intercontinental. Oficina Ejecutiva N° 1. Las Mercedes. Caracas.

Phone Numbers: (58-2) 9098909 - 9098910 - 9098911

Fax Number: (58-2) 9098911

Alfonso Rivas & Cía, C. A.

Address: Edificio Aguila. Av. Veracruz con calle Calí. Urb. Las Mercedes. Caracas.

Phone Number: (58-2) 9934644 - 9930711

Fax Numbers: (58-2) 9933884 - 9092127

Cámara Nacional de Restaurantes, CANARES.

Address: Av. Francisco de Miranda. Centro Lido, Torre E, Piso 6, Ofna. 61E Chacao. Caracas.

Phone Numbers: (58-2) 9521435 - 9523124 - 9535510

Fax Number: (58-2) 9527437

Cámara Nacional de Empresarios de Alimentos y Servicios de Venezuela, CANEAS.

Address: Av. Andrés Eloy Blanco. Edificio Cámara de Comercio de Caracas, Piso 7. Los

Caobos. Caracas.

Consultores en Economía y Proyectos Integrales, CONSEPI

General Manager: Oswaldo Ron

Address: P.O. Box. 51327. Caracas 1050-A. Venezuela

Phone Numbers: (58-2) 2832571,

Fax Number: (58-2) 2865837

e-mail: oswaldoron@cantv.net

Federación Nacional de Hoteles de Venezuela, FENAHOVEN

Address: Parque Central, Torre Oeste, Mezanina 2. Local 2CM2. Caracas

Phone Numbers: (58-2) 5745672 - 5743994

Fax: (58-2) 5744094

e-mail: fenahove@c-com.net.ve

Profranquicias. Cámara Venezolana de Franquicias.

Address: Centro Comercial El León. Planta Alta, Ofna. 5. Altamira.

Phone Numbers: (58-2) 2618596 - 2610404

Fax Number: (58-2) 2619620 - 2662365

e-mail: profranquicias@ibm.net

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

Fax: 58-212-483-8189

Instituto Nacional de Estadísticas (INE) (Former OCEI)

(National Statistics Office)

Avenida Boyacá, Edificio Fundación La Salle

Maripérez

Caracas, Venezuela

Tel: 58-212-781-1380

Telefax: 58-212-781-5412 782-1156

Camara Venezolano-Americana de Comercio e Industria (VENAMCHAM)
(Venezuelan-American Chamber of Commerce)
2da.Av. de Campo Alegre, Torre Credival, Piso 10, Ofic.A, Caracas 1060, Venezuela
Apartado Postal 5181 (Caracas 1010-A)
Tel.: 58-212-263-0833/267-20-76/64-81
Fax: 58-212-263-20-60

Federacion Venezolana de Camaras y Asociaciones de Comercio y Produccion
(FEDECAMARAS)
(Venezuelan Federation of Chambers and Associations)
Edf. Fedecameras, PH 1 y 2, Av. El Empalme, Urb. El Bosque, Caracas 1050, Venezuela
Apartado de Correos 2568 (Caracas 1010-A)
Tel.: 58-212-731-17-11/17-13/18-45/19-32/19-67
Fax: 58-212- 730-2097 – 731-1907

Confederacion Nacional de Asociaciones de Productores Agropecuarios
(FEDEAGRO) (National Confederation of Agricultural Producers)
Edf. Casa de Italia, P.B., Av. La Industria, San Bernardino, Caracas, Venezuela
Tel.: 58-212-571-40-35/573-44-01
Fax: 58-212-573-44-23
Email: fedeagro@fedeagro.org

Camara Venezolana de la Industria de Alimentos (CAVIDEA) Food
Av. Principal de Los Ruices
Centro Empresarial
Piso 5, Of. 510
Los Ruices
Caracas, Venezuela
Tel: 58-212-239-9818/0918
Fax: 58-212-238-3268

Camara Venezolana de Franquicias (PROFRANQUICIA) Franchising
3ra. Transversal de Altamira con Avdas. Luis Roche y Juan Bosco,
Oficentro Neur, Ofc. 4
Caracas, Venezuela
Tlf. 58-212-266-8494/261-8613
Fax 58-212-261-9620