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Venezuela

Trade Policy Monitoring

Venezuela's Agricultural Plan for 2000 and Beyond

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Report Highlights:

The President of Venezuela and top-level Agricultural Ministry laid out a plan to boost domestic production and reduce unemployment. The Plan listed several methods where the Government officials felt they could bring about change (e.g., lower taxes for farmers, lower loan rates, Chinese tractors, etc.), but the Plan lacked any true market-based features to stimulate consumption or export expansion.

Includes PSD changes: No

Includes Trade Matrix: No

Unscheduled Report

Caracas [VE1], VE

The Venezuelan Government announced its National Agricultural Development Plan on February 8, 2000. The Plan was presented by President Hugo Chavez, Juan de Jesus Montilla, the Minister of Production and Commerce (MPC) (late last year the former Ministry of Agriculture and Livestock of Venezuela was combined with the Trade and Industry Ministry resulting in the new Ministry of Production and Commerce), and the Vice-Minister for Food and Agriculture, General Orlando Navas. The Plan seeks to turn around Venezuela's current status as a net food importer, increase cultivable area, and generate employment.

Implementation of the Plan will focus on three specific areas: 1) the food system chain (from production agriculture to processing and marketing), 2) rural development and 3) food security and nutrition.

Over 731 billion Bolivares ($1.1 billion) will be destined to finance the Agricultural Plan. The banking sector will finance 85 percent of this amount with the Government financing the rest through the Agricultural Development Fund. For this year, the additional agricultural financing will be 200 million Bs. Thus far, the Government has approved 100 billion Bs. ($152 million) in bonds for the agricultural sector, with half this amount earmarked to finance infrastructure projects and the remainder to be used for agricultural financing. According to President Chavez, the increase in agricultural financial assistance in 2000 to the private sector, banks and producers is projected to be 70 percent over the level available in 1999. Interest rates for agriculture are expected to be 23 percent (equivalent to 80 percent of the average commercial interest rate of the six leading financial institutions in the country).

Under the Plan, cultivable area is expected to almost double (46 percent increase over 1999) to 2.186 million hectares, planted to the five leading commodities: oil palm, rice, sugar cane, coffee and cacao. (These commodities and dual purpose livestock have been identified by the Ministry as having some export potential in the short term). The Plan also identifies additional strategic commodities, those with export potential in the medium term, to receive production incentives: corn, sorghum, leguminous plants, cotton, cassava, potatoes, fruits and vegetables, pork, poultry and eggs. The increase in planted area will be accomplished through nine new irrigation systems in the States of Aragua, Sucre, Tachira, Merida, Trujillo, Barinas, Guarico and Portuguesa at a cost of 14 billion Bs. ($2.1 million) over the next three years. The Minister also indicated that Venezuela and Brazil had signed a $2 billion investment agreement on February 7, 2000, which included some agricultural components (details to be reported separately).

In terms of generating employment, the Plan seeks to create 100 thousand direct jobs (by increasing women labor force participation from 5 percent in 1999 to 25 percent in 2000) and 1.5 million indirect jobs in agriculture.

The Plan makes reference to various production incentives, including an 80 percent reduction in the income tax borne by the agricultural sector (for 2000, and given present conditions, agricultural producers have been entirely exonerated from paying income taxes), a 20 percent reduction in the price of fertilizers and an increase of $32 million for agricultural machinery (through loan funds provided by China).

With regards to the livestock sector, the Plan announced a program to eradicate foot and mouth disease over the next five years and declare at least two states (Bolivar and Monagas) aftosa free in 2000. Additional incentives to poultry production were also mentioned.

Post comments: The intentions of the creators of this Plan are genuine -- diversify the Venezuelan oil-dependent economy and create some much needed jobs. But, as has generally been the case with Venezuelan government proclamations for the agricultural sector, there does not appear to be any clear market-driven rationale for these changes to occur. The government may be able to encourage production by paying farmers artificially high prices for selected commodities, but these prices are passed on to the Venezuelan consumer. Even though one of the stated goals of this Plan is to develop the export market for Venezuelan agricultural products, it will be nearly impossible to achieve when domestic prices exceed world prices. Production targets without the discipline of the markets or regard for the welfare of the consumer who is forced to pay high prices (or taxes) will eventually fail and leave behind a farming culture that will be technologically stunted and years behind the rest of the world. Venezuelan agriculture can only advance by focusing on products for which it has a competitive advantage with a government that fully supports the processing and marketing industry beyond the farm gate.

During the discussion, President Chavez and Vice-Minister Navas expressed their opinion that Venezuela had been incorrectly classified as a net importer of food before the WTO. There are some products that Venezuela can produce, but it is a fact that Venezuela typically must import about two-thirds of the food it consumes. There are too many food items that are ingrained in the Venezuelan food culture that Venezuelan farmers cannot supply; e.g., wheat for bread/pasta, milk for fluid consumption and cheese, potatoes for the growing fast food and snack industry, corn and soybeans for animal feed to produce livestock products locally, etc.

FAS/Caracas will continue to work with the Ministry of Production and Commerce through the various training, technology and information sharing programs coordinated by this office to focus on their efforts on those agricultural products that the ***market*** determines should be produced and this can best be determined in an environment of open and transparent trading practices. By doing so, the goals of this Plan's creators -- diversification and higher employment -- can best be met. Simultaneously, U.S. interests will be served by reducing non-tariff barriers and chipping away at the myriad of byzantine producer policies.