

# MARKET SURVEY

# AGRICULTURE



Caracas, May, 2016  
Bolivarian Republic of Venezuela



May, 2016

Survey by **AL&C** Consulting Group  
for the Embassy of India in Caracas- Venezuela

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# TABLE OF CONTENT

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<b>PART I: PROFILE OF THE BOLIVARIAN REPUBLIC OF VENEZUELA</b>	<b>6</b>
Bolivarian Republic of Venezuela	7
Demography	8
Venezuelan population pyramid	8
Geography	9
Location	9
Attractiveness	9
Happiness Index	10
Profitability	10
Marketing Channels	10
Regional agreements and trade blocs	10
Economic situation in Venezuela	11
Chart 1.1: GDP: Constant Prices, 2004-2014	11
Chart 1.2: Oil sector production, 2012-2015	11
Chart 1.3: Price index, 2012-2015	12
Chart 1.4: International Reserves, 2012-2015	12
Chart 1.5: Relation between external debt and International Reserves, 2012-2015	13
Chart 1.6: Reserve assets (gold and foreign currency), 2010-2015	13
Chart 1.7: International Investment Balance (USD\$), 2010-2015	14
Chart 1.8: Trade Balance, 2010-2015	14
<b>PART II: AGRO-INDUSTRY IN THE BOLIVARIAN REPUBLIC OF VENEZUELA</b>	<b>15</b>
VENEZUELA FOOD SYSTEM CHARACTERISTICS	16
Diet	16
Chart 2.1: Calories consumption in Venezuela, (1998-2013)	16
Chart 2.2: Average percentage consumption by groups of food. (2012-2014)	16
LIST OF TOP 20 FOODS OF THE VENEZUELAN POPULATION DIET	17
Average consumption of Cereals, 2012-2014	17
Chart 2.3: Average consumption of Cereals, (2012-2014)	17
Average consumption of roots, tubers and other starchy foods, 2012-2014	18



Average consumption of legumes, 2012-2014	18
Chart 2.4: Average consumption of roots, tubers and other starchy foods, (2012-2014)	18
Chart 2.5: Average consumption of green vegetables, (2012-2014)	18
Average consumption of fruits, 2012-2014	19
Chart 2.6: Average consumption of fruits, (2012-2014)	19
Average consumption of beef, 2012-2014	19
Chart 2.7: Average consumption of beef, (2012-2014)	19
Average consumption of fish, 2012-2014	20
Chart 2.8: Average consumption of fish, (2012-2014)	20
Average consumption of milk, 2012-2014	20
Chart 2.9: Average consumption of milk, (2012-2014)	20
Average consumption of visible fat, 2012-2014	21
Chart 2.10: Average consumption of visible fat, (2012-2014)	21
Average consumption of drinks, 2012-2014	21
Chart 2.11: Average consumption of drinks, (2012-2014)	21
 AGRICULTURAL PRODUCTION IN VENEZUELA	22
Productivity	22
Productivity by category	22
International Market: Commerce and supply	23
Venezuela imports (2013-2014)	24
 <b>PART III: OPPORTUNITIES FOR INDIAN COMPANIES IN AGRICULTURE INDUSTRY</b>	<b>25</b>
Interesting areas to invest in the agro-industry	26
• Equipments supply	26
• Technical support service	26
• Provision of seeds	26
• Tropical Fruits	26
Venezuela regions characteristics	27
 <b>FINAL CONSIDERATIONS</b>	<b>28</b>



# PART I

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## PROFILE OF THE BOLIVARIAN REPUBLIC OF VENEZUELA

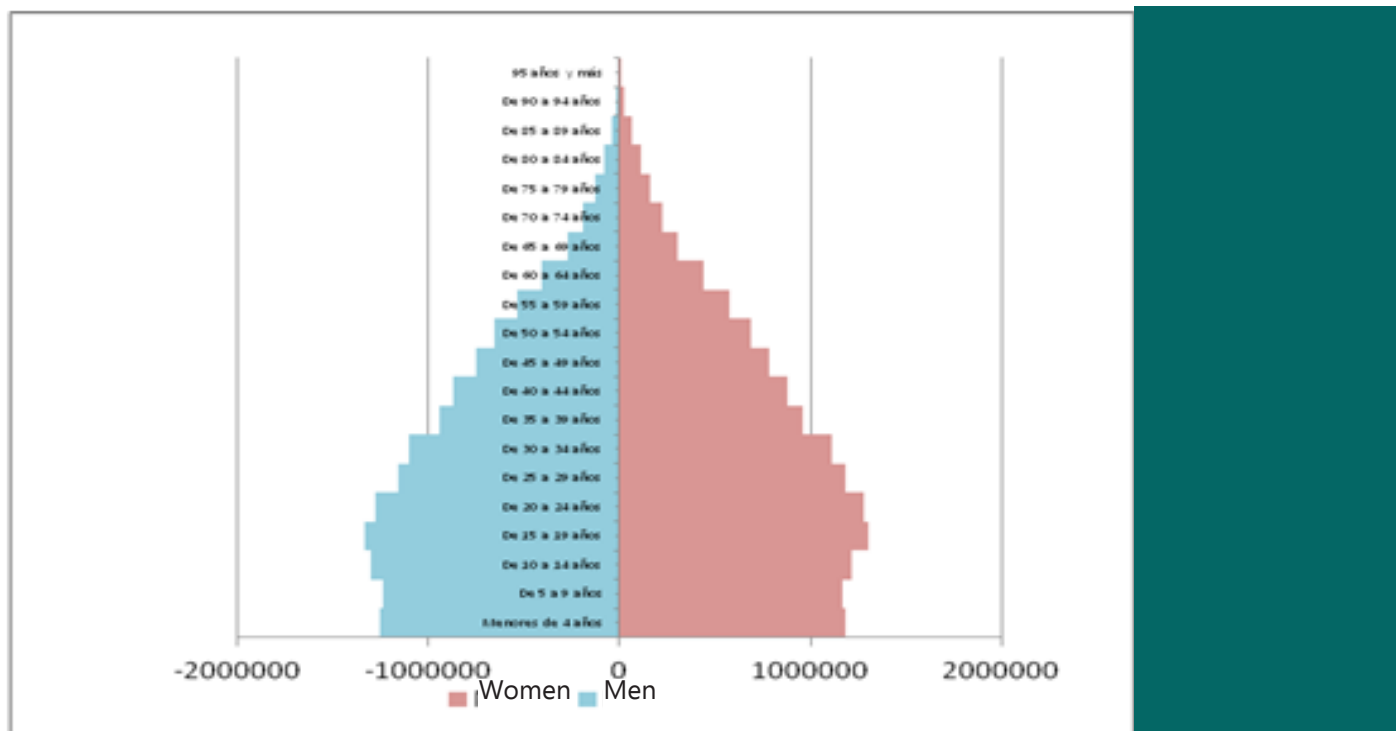
# Bolivarian Republic of Venezuela

Country profile	Bolivarian Republic of Venezuela
Official language	Spanish
Population (2016)	30,851,343 inhabitants
Form of Government	Federal Presidential Republic
Head of State	President, Nicolás Maduro Moros
GDP Per cápita (2016)	12.820 US\$.
Foreign Direct Investment (FDI) (% of GDP) (2015)	1.6% (UN)
Gross Fixed Capital Formation (% GDP) (2015)	20,3%
Public expenditure on education (2015)	6,9% of GDP
Public expenditure on health (2015)	3,4% of GDP
Currency	The official currency is the Bolívar (VEF), with a system of foreign exchange control which has two rates: DIPRO (type: protected change) for essential products 10 Bs/\$ and DICOM (type: complementary change) for all transactions not contained in DIPRO. The floating rate is controlled by the BCV and starts at 206.92 Bs/\$1

## Demography

### Venezuelan population pyramid

Venezuelan population pyramid shows that the bulk of the Venezuelan population is between the ages of 10-24 years old, which results in a young population with aspirations to enter the labor market, after an average of 8.9 years of studies, representing an educated population that almost finish high school and that can become labor for any growing industry or development, also the Venezuelan population has a life expectancy at birth of 74.2 years .



Life expectancy at birth

74.2 years

HDI (ajusted for inequality)

0.612 (UN)

Population density (2015)

33.34 inhabitants per Km2

Mortality at birth

110 (deaths per 100,000 live births) (2015)

Expected years of schooling

14.2 years

Average years of schooling

8.9 years



## Geography

### Location:

Venezuela is a country located at the most northern point of South America, with coasts on the Caribbean Sea and the Atlantic Ocean. It has a land area of 916,445 km<sup>2</sup>. Its borders are: Brazil and Guyana to the East, Colombia and Brazil to the South, Colombia to the West, and the Caribbean Sea and the Atlantic Ocean to the North. Because of its location, Venezuela enjoys a tropical climate with two seasons a rainy one and drought one, with temperatures ranging between 28 ° C.

Venezuela has four well defined regions:

**1.- Central-coastal Region:** Where the capital city, Caracas, is located. It is a region con-

sisting of coasts and is the seat of major cities that have international ports and industrial cities.

**2.- Andes Region:** Formed by Táchira, Mérida and Trujillo states; defined as the country's mountainous zone with agricultural settlements with banana, potatoes and coffee plantations.

**3.- Los Llanos Region (Plain region):** Consisting of plains and rivers and formed by Guárico, Apure, Barinas and Portuguesa states, it is the fertile land of the country for agricultural industry.

**4.- Guyanese massif:** In geological terms, it is the oldest part of the country, consists of large plateaus, and is the region with the largest mineral reserves.



### Attractiveness

There are regulations affecting business efficiency in the country, such as exchange control, which puts the country in the position 182 in the world ranking. In terms of labor freedoms, Venezuela occupies position 181 in the world ranking and in the post 169 worldwide about freedom of business .

Doing Business 2016 classification puts the Venezuelan economy at No. 186 among 189 eco-

nomies, taking into account aspects such as: operational aspects regarding the opening of a business, dealing with construction permits, getting electricity, registering property, obtaining credit, protecting minority investors, paying taxes, trading across borders, enforcing contracts and resolving insolvency.

Venezuelan market is constituted by 30 million inhabitants, is the fifth largest GDP in Latin America, owns the largest proven reserves of crude oil in the world. Regarding to gas reserves, Venezuela possesses the eighth worldwide. Never-

theless, there is need for renewal the national infrastructure (roads, rails, ports), industries and machinery.

## Happiness Index

In addition to the basic economic indices it is important to know how does work the subjective well-being of the population of a country and evaluates the human being's ultimate goal: happiness. Because economic policies should enhance the usefulness of the population defined as the amount of pleasure, satisfaction or happiness of individuals ; to carry out the survey, people's opinion is asked by a series of questions. In this survey, Venezuelan people perceived themselves as a people with high levels of happiness. Venezuela in ranked in the 44th place, above El Salvador, Ecuador and Japan, but below countries such as France, UK, Colombia, Germany, Chile, Uruguay, among others .

## Profitability

According to ECLAC, FDI decreased in 2014 by 80%, from 2,680 million dollar to 320 million dollar. In previous years had happened the opposite, because of the difficulty of repatriation of capital due to exchange controls, foreign companies tried to reinvest in the country in real estate sector. However, it is possible that because of the economic contraction in 2014, foreign companies have decided to back their investment because of reduced profits .

## Marketing Channels

In Venezuela there are six commercial ports, whose customs are authorized to import, export and transit, as well as to provide services of transshipment, cabotage and postal packages :

**1.- Port of Puerto Cabello:** It is Venezuela's main port, located in Carabobo state. It is the sixth largest port in Latin America and the Caribbean. In terms of capacity, has a total regional foreland of 75%: to United States and Canada (20%), the Caribbean (17%), Colombia and Trinidad (15 %), South America East Coast (10%), Central America (8%) and South America West Coast (3%); to other ports in Venezuela, this port foreland is 15% and to the rest of the world 10%.

**2.- Port of La Guaira:** An artificial port located in Vargas state. It has a total of 26 docks, some of them are not operational, and its maximum depth of water is of 9,7 m.

**3.- Port of Guanta:** Located in Anzoátegui state, has 6 docks, and a maximum depth of water of 10,5 m.

**4.- Port of Maracaibo:** Located in Zulia state, has 12 docks, 8 of them remain operational and have a maximum depth of water of 10,97 m.

**5.- Port of Sucre-Cumaná:** Located in Sucre state, has two floating docks for general cargo and vehicles, its maximum depth of water is of 10,4 m.

**6.- Port of Guaranao:** Located in Falcón state. Currently, this port is operating only for refinery and industrial zone products import.

## Regional agreements and trade blocs

- **ALADI (Latin American Integration Association):** Signed by Argentina, Brazil, Bolivia, Colombia, Chile, Cuba, Ecuador, Uruguay, Mexico, Panama, Paraguay, Peru and Venezuela, in which Venezuela signed a Regional Tariff Preference agreement, which decreases the proportion of ad-valorem duties stipulated to the tariff schedule.

- **MERCOSUR (Southern Common Market):** Signed by Argentina, Brazil, Uruguay, Paraguay and Venezuela, where the total elimination of taxes is agreed through the signing of three agreements: "Treaty of Asuncion", "Protocol of Ouro Prieto" and "Olivos Protocol for the settlement of MERCOSUR disputes".

- **ALBA-TCP (Bolivarian Alliance for the Peoples of America- Treaty of the Peoples):** Signed by Venezuela, Cuba, Bolivia, Antigua and Barbuda, Dominica, Ecuador, Granada, Nicaragua, Saint Kitts and Nevis, Saint Lucia, Saint Vincent and the Grenadines, Suriname and as observers: Haiti, Iran and Syria. It is based on the use of hedge funds to reduce socioeconomic differences among its member countries.

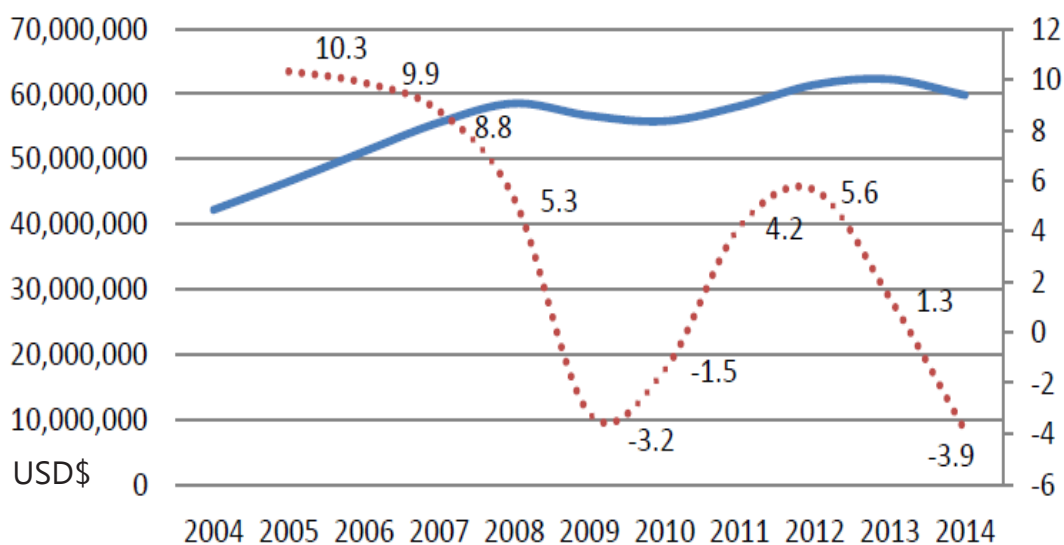
# Economic situation in Venezuela

According to the data submitted by the Venezuelan National Bank (or Banco Central de Venezuela - BCV), Venezuelan economy shows very unstable levels of economic growth, with high rates (8% and 10%) in 2005 and 2007, while a sharp drop occurred in 2010, 2014 and 2015, with levels around -4%. (Chart 1.1)

Despite being an oil economy, the contribution of the oil sector in the country's economy is decreasing, representing only 11% of the Gross Do-

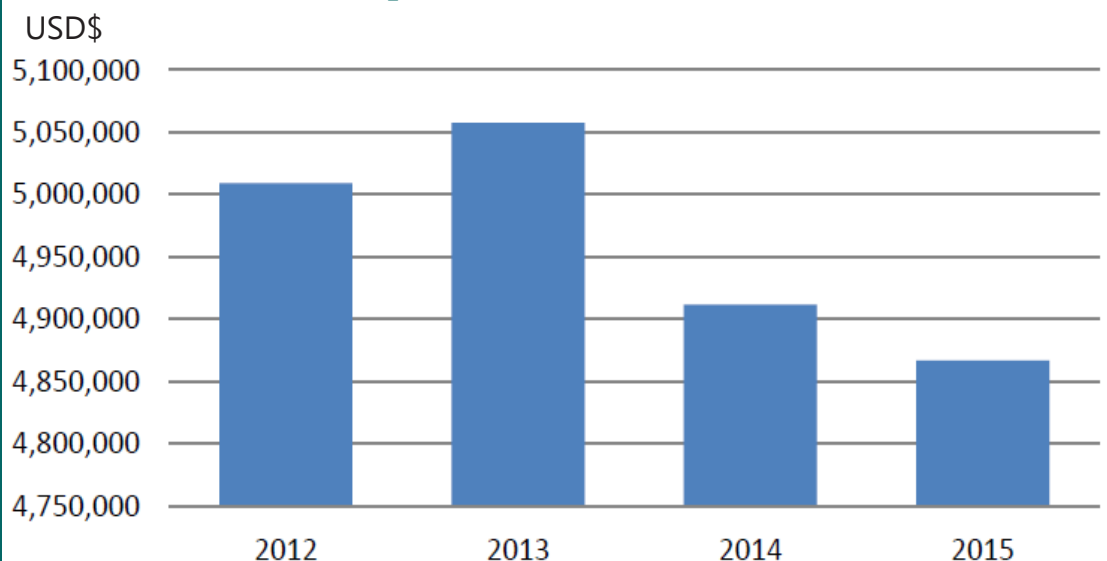
mestic Product (GDP), which is a worrying situation because this is the only productive sector participating in international trade, and which contributes 98% of income in foreign currency. (Chart 1.2)

**Chart 1.1**  
**GDP: Constant Prices (USD\$), 2004-2014**



Venezuelan economy shows very unstable levels of economic growth, with high rates in 2005 and 2007, while a sharp drop occurred in 2010, 2014 and 2015, with levels around -4%.

**Chart 1.2**  
**Oil sector production, USD, 2012-2015**

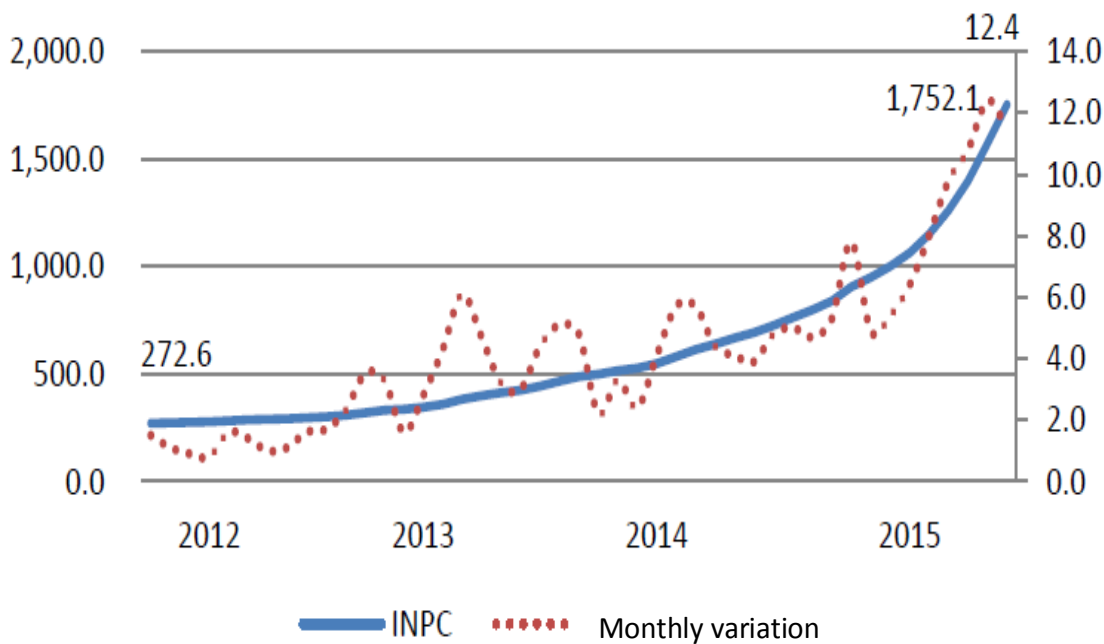


Despite being an oil economy, the contribution of the oil sector is becoming less to the national productive apparatus, representing only 11% of the Gross Domestic Product

The variation of prices is changing exponentially: prices are six times higher in the period between 2012 and 2015. Inflation in 2015 was 200%. In 2016, inflation rate is projected 600%. A month-on-month variation of 10% will represent an annual inflation rate of 313%. (Chart 1.3)

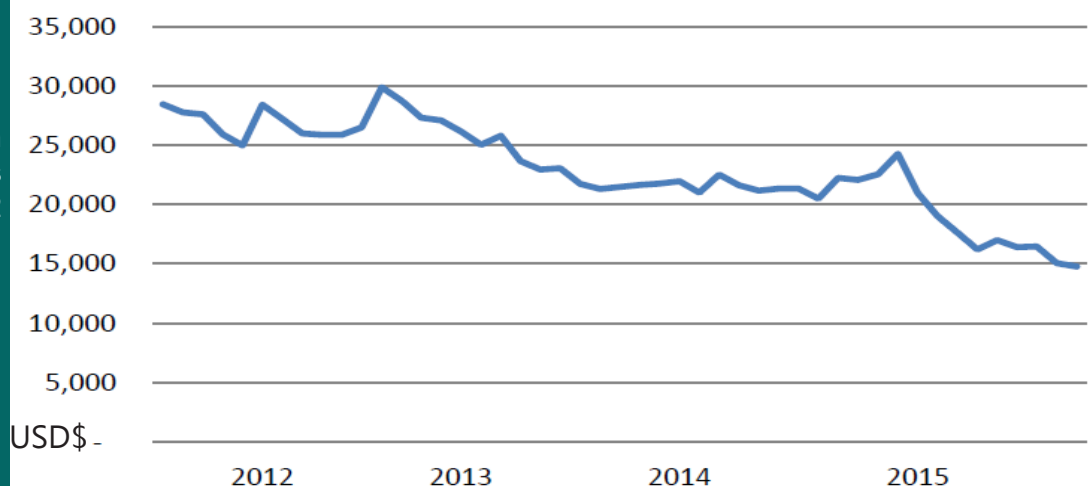
In the same period, international reserves have fallen to less than half, reaching levels as low as those of 12 years ago. This creates a strong pressure on their external balances. (Chart 1.4)

Chart 1.3  
Price index, 2012-2015.  
2007=100



The variation of prices is changing exponentially: prices are six times higher in the period between 2012 and 2015.

Chart 1.4  
International Reserves USD, 2012-2015



International reserves have fallen to less than half, reaching levels as low as those of 12 years ago

The growth of external debt adds to the drop in international reserves, makes that the current coverage be less than 10%. That means the amount of the international reserves only pays 10% of the total external debt. By beginning of 2016, the country already had a trade deficit of 24 billion dollars. (Chart 1.5)

Venezuelan external debt is divided in two sectors: government owes 83%, and private sector owes the remaining 17%. At the same time, this is related to 25% of short term debts (less than

a year) and 75% of long term debts. Public and private commercial credits represent 19% of the external debt, while most are concentrated in bonds and other forms of loans.

As to the position of the reserve assets, Venezuela has decided to concentrate 70% in monetary gold, and this assets has had the same behavior as of international reserves. It has fallen almost by half: from twenty-one billion in 2011 to eleven and a half billion in 2015. Although public operations regarding monetary gold have not been made. The fall is evident in the Venezuelan

Chart 1.5

Relation between external debt and International Reserves, 2012-2015

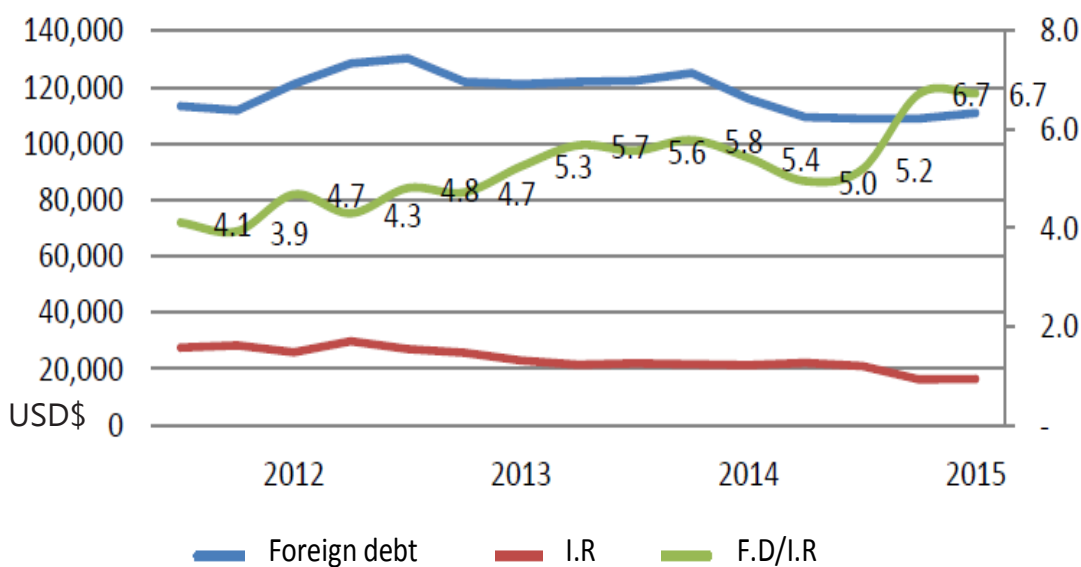
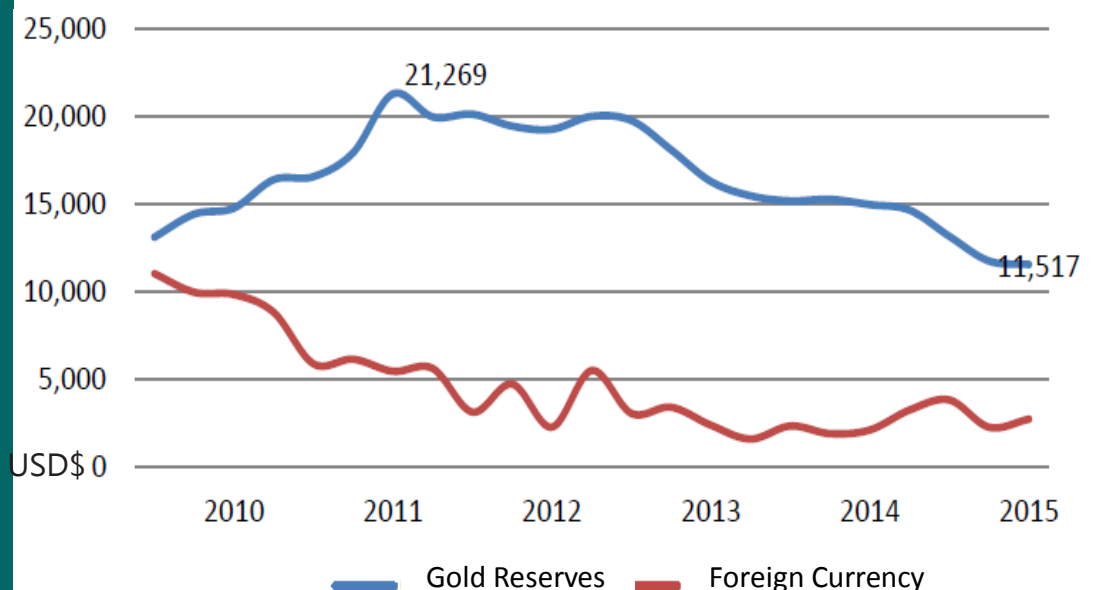


Chart 1.6

Reserve assets (gold and foreign currency), 2010-2015





National Bank's balance. (Chart 1.6)

The behavior of the balance of payments remains negative during the last six years, with the characteristic feature of maintaining positive trade balances, but capital outflows exceeding this

surplus. In 2015, for the first time in 20 years, quarterly reports show negative trade balance, mainly due to the fall in oil prices.

Chart 1.7

International Investment Balance (USD\$), 2010-2015

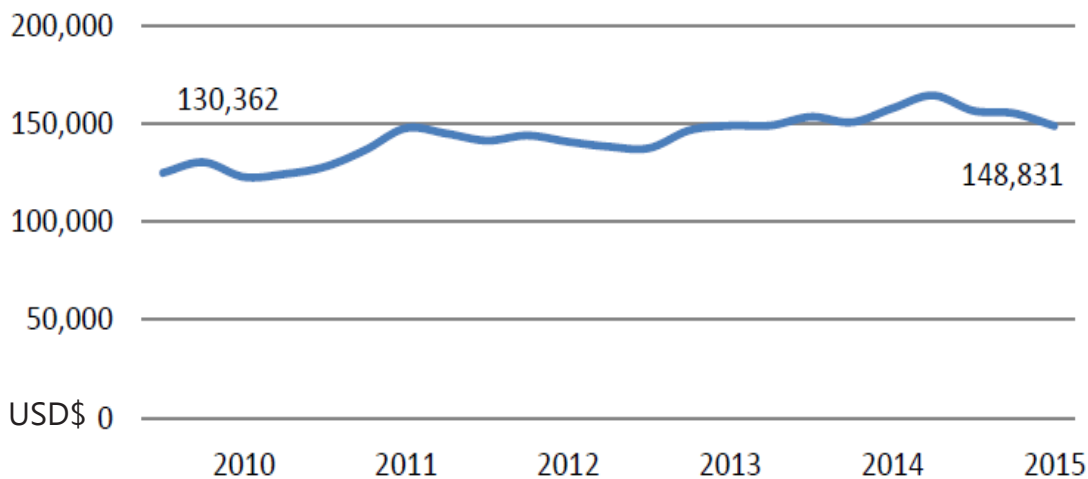
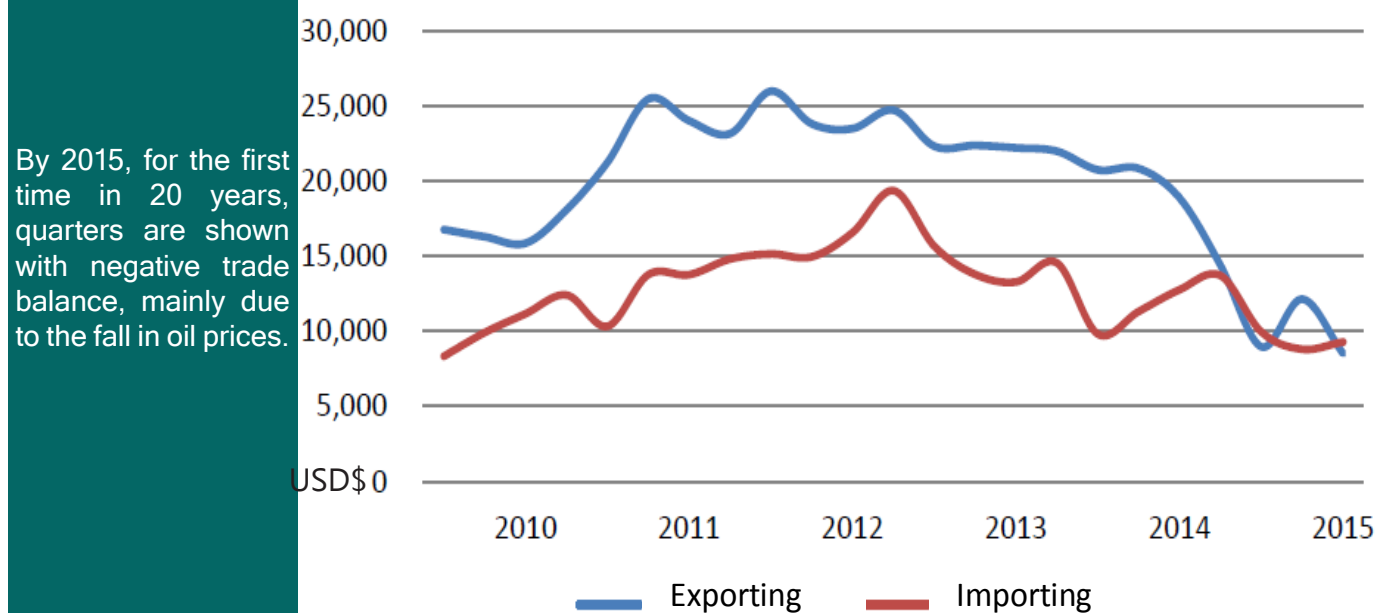


Chart 1.8

Trade Balance, 2010-2015



By 2015, for the first time in 20 years, quarters are shown with negative trade balance, mainly due to the fall in oil prices.

## PART II

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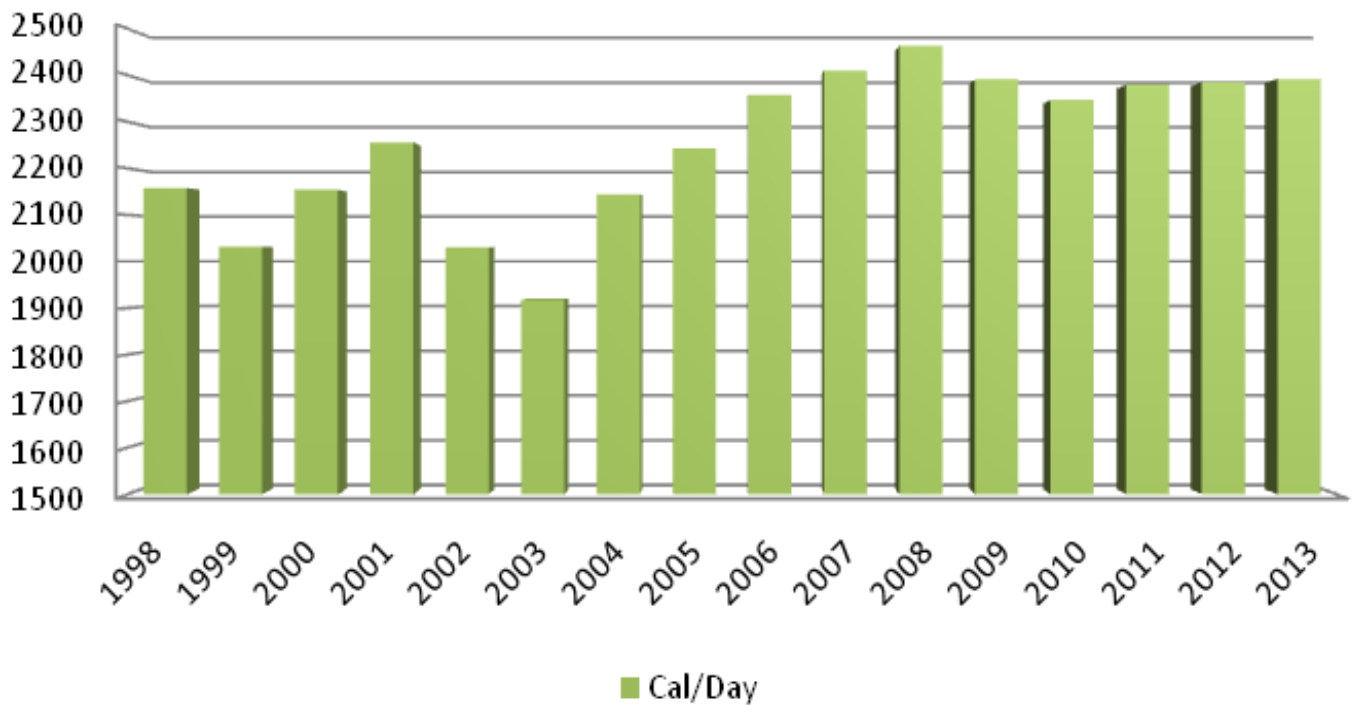
### AGRO-INDUSTRY IN THE BOLIVARIAN REPUBLIC OF VENEZUELA

# Venezuela food system characteristics

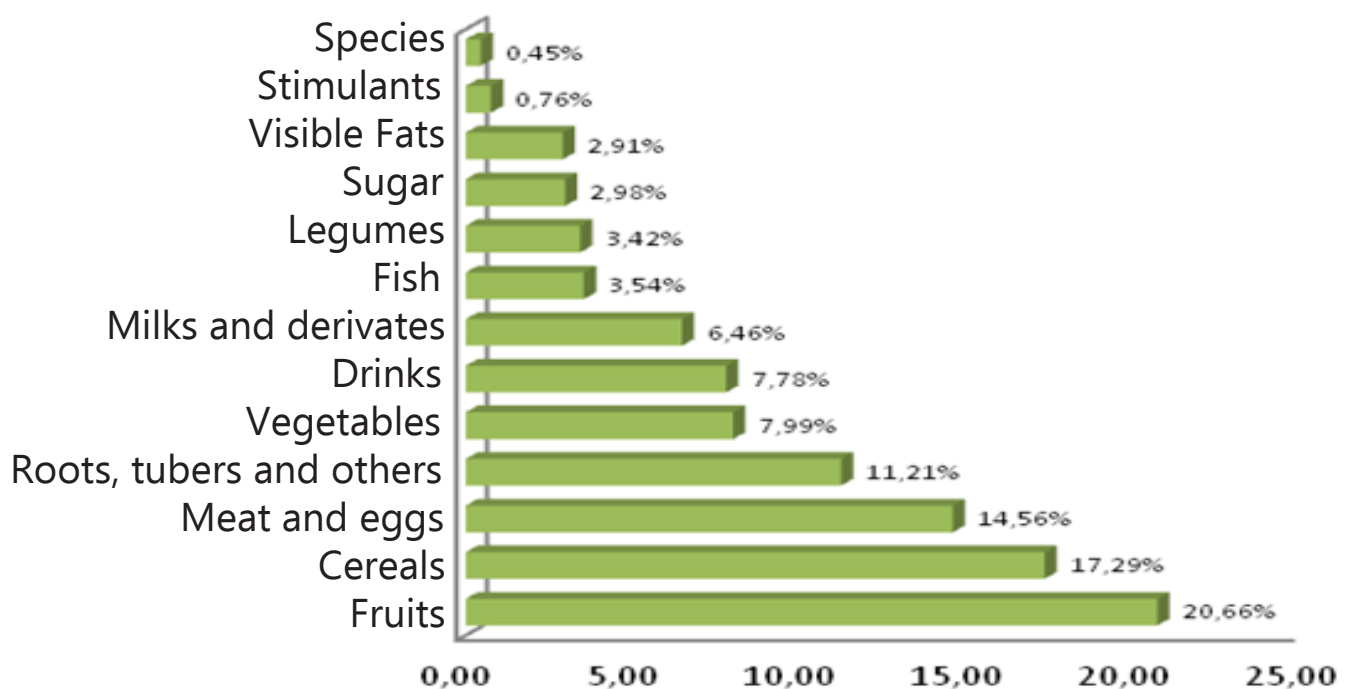
## Diet

According to the Monitoring Survey of Food Consumption from 2012 to 2014 by the Statistics National Institute, the average Venezuelan citizen has had a high consumption of fruits, followed by cereals, meat and eggs. Also, the survey indicates a medium consumption of soft, alcoholic and instant drinks, followed by vegetables, dairy products and their derivatives and a low consumption of fish, legumes, sugar, visible fats, stimulants and spices.

**Chart 2.1:**  
Calories consumption in Venezuela, (1998-2013)



**Chart 2.2:**  
Average percentage consumption by groups of food. (2012-2014)



## List of top 20 foods of the Venezuelan population diet

1. Pre-cooked corn flour

2. Coffee

3. White rice

4. Soft drinks

5. Chicken

6. Plantains

7. Pasteurized fruit juice

8. Salty bread

9. Pasta

10. Melon

11. White sugar

12. Beef

13. Papaya

14. Eggs

15. White cheese

16. Liquid milk

17. Black beans

18. Vegetable oil

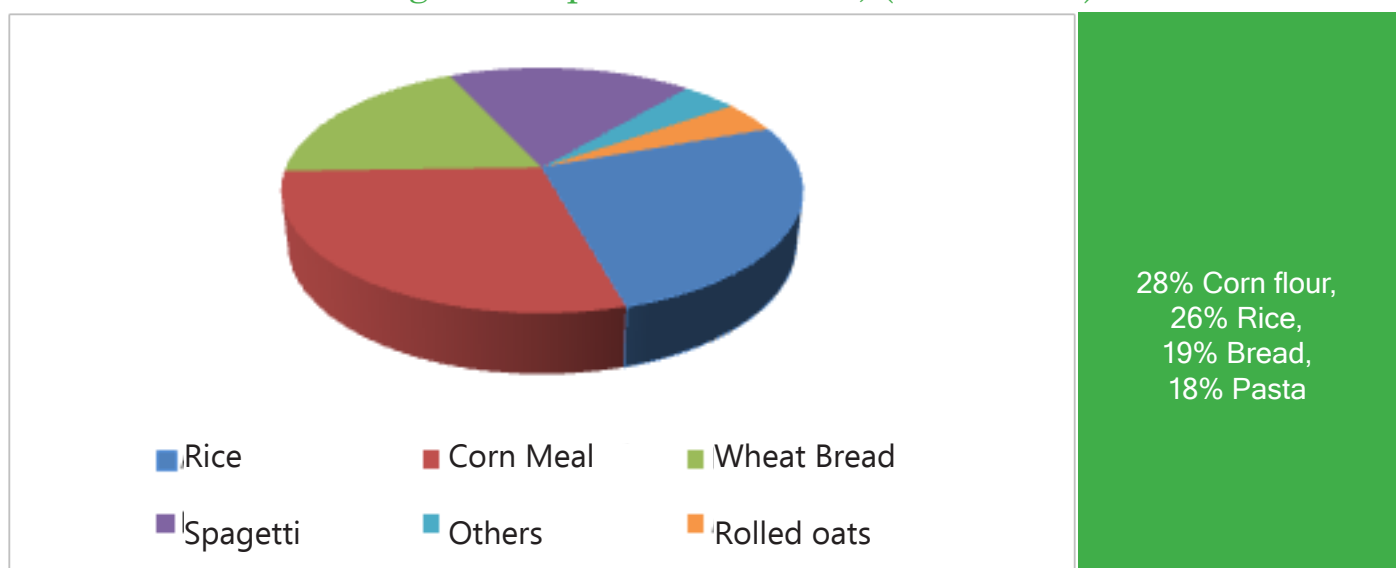
19. Fresh orange juice

20. Guava

### Average consumption of Cereals, 2012-2014

The most consumed cereal in Venezuela is corn flour, the main ingredient of arepas (traditional Venezuelan food), followed by rice which is the main accompaniment meals; and then: bread, pasta, oatmeal and others.

Chart 2.3:  
Average consumption of Cereals, (2012-2014)



(Graphics by AL&C Consulting Group. Source: Monitoring Survey of Food Consumption-Statistics National Institute)

## Average consumption of roots, tubers and other starchy foods, 2012-2014

The nutritional value of plantains is similar to that of vegetables, which have fiber and complex carbohydrates and it is traditionally used as an accompaniment of meals, reason why it leads the percentage consumption of this group of foods, followed by potato and cassava, and in smaller quantities by celery, yams and taro.

## Average consumption of legumes, 2012-2014

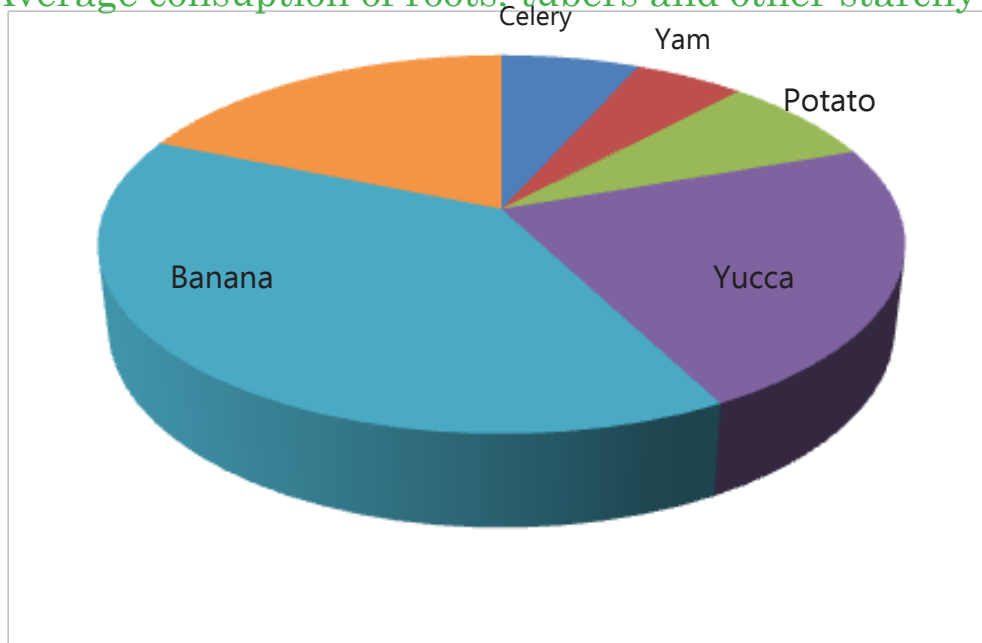
The main legumes consumed by Venezuelan population are black, white or red beans, followed by lentils, peas and other beans.

## Average consumption of green vegetables, 2012-2014

The main vegetable consumed in Venezuela is tomato, followed by onion, pumpkin and carrot, and to a lesser extent bell pepper and chili pepper.

Chart 2.4:

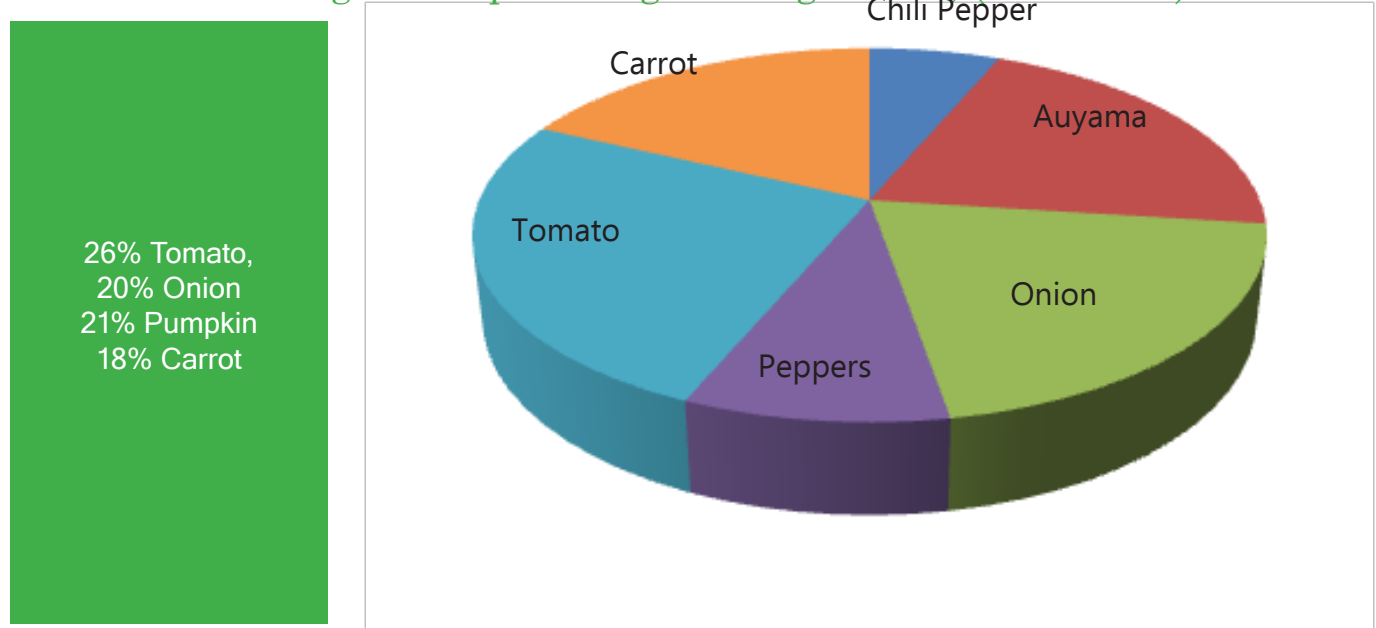
### Average consumption of roots, tubers and other starchy foods, (2012-2014)



39% Plantains,  
23% Potato,  
19% Cassava

Chart 2.5:

### Average consumption of green vegetables, (2012-2014)



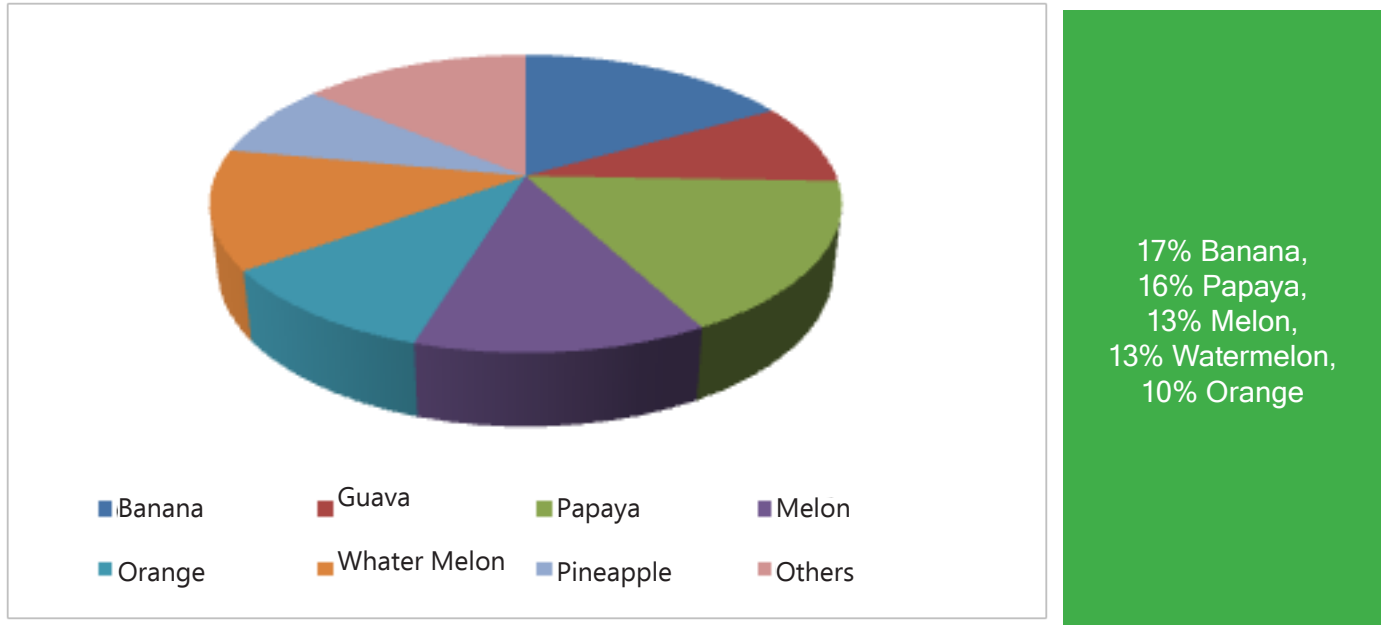
(Graphics by AL&C Consulting Group. Source: Monitoring Survey of Food Consumption-Statistics National Institute)



## Average consumption of fruits, 2012-2014

Because Venezuela is a tropical country, fruit consumption is high and covers a wide variety of different fruits. The consumption of fruits is led by those with the lower cost as banana, papaya, melon, watermelon and orange. In small proportions, guava and pineapple.

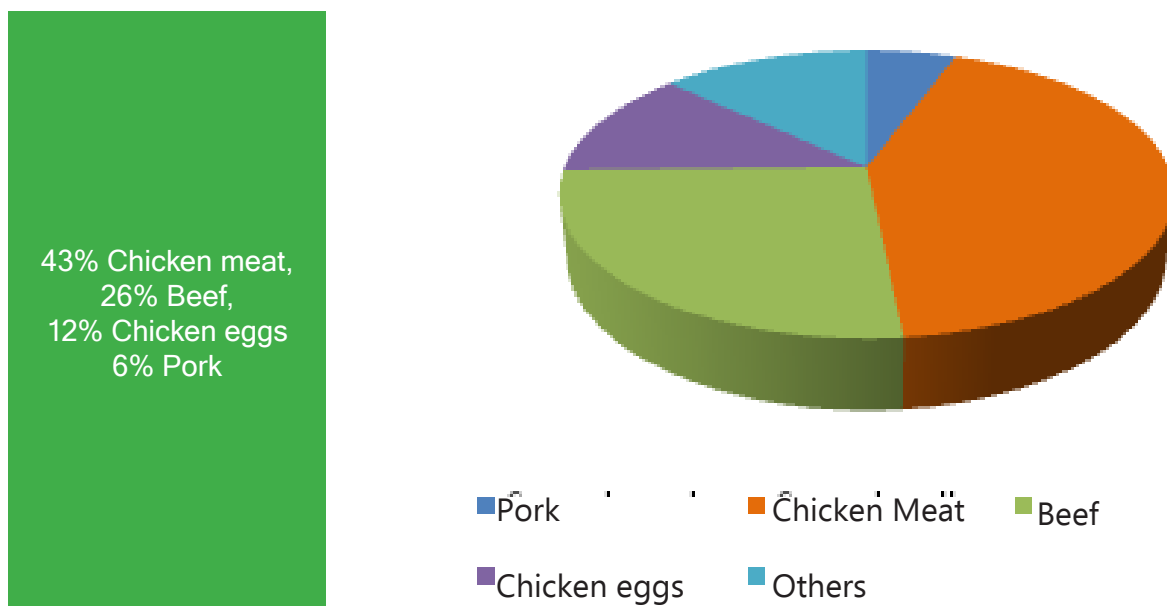
Chart 2.6:  
Average consumption of fruits, (2012-2014)



## Average consumption of beef, 2012-2014

As for the consumption of meat, chicken meat is the most consumed by the average Venezuelan, followed by beef, chicken eggs and pork.

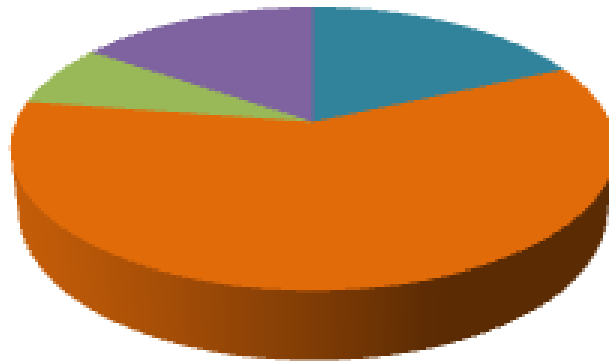
Chart 2.7:  
Average consumption of beef, (2012-2014)



## Average consumption of fish, 2012-2014

In Venezuela, there is preference for the consumption of fresh more than for canned tuna and sardines and salted fish.

Chart 2.8:  
Average consumption of fish, (2012-2014)



■ Canned tuna      ■ Fresh Fish  
■ Salted Fish      ■ Sardines

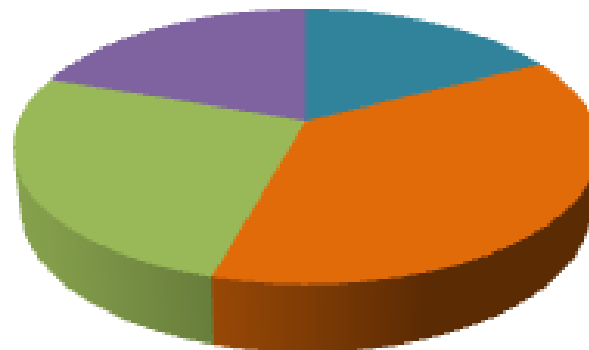
59% Fresh fish,  
18% Canned tuna  
16% Sardines,  
7% Salted fish

## Average consumption of milk, 2012-2014

Liquid whole (full-fat) milk is the main dairy product consumed by Venezuelans, followed by white cheese and powdered whole (full-fat) milk.

Chart 2.9:  
Average consumption of milk, (2012-2014)

37% Liquid full-fat milk,  
26% White cheese,  
20% Powdered full-fat  
milk

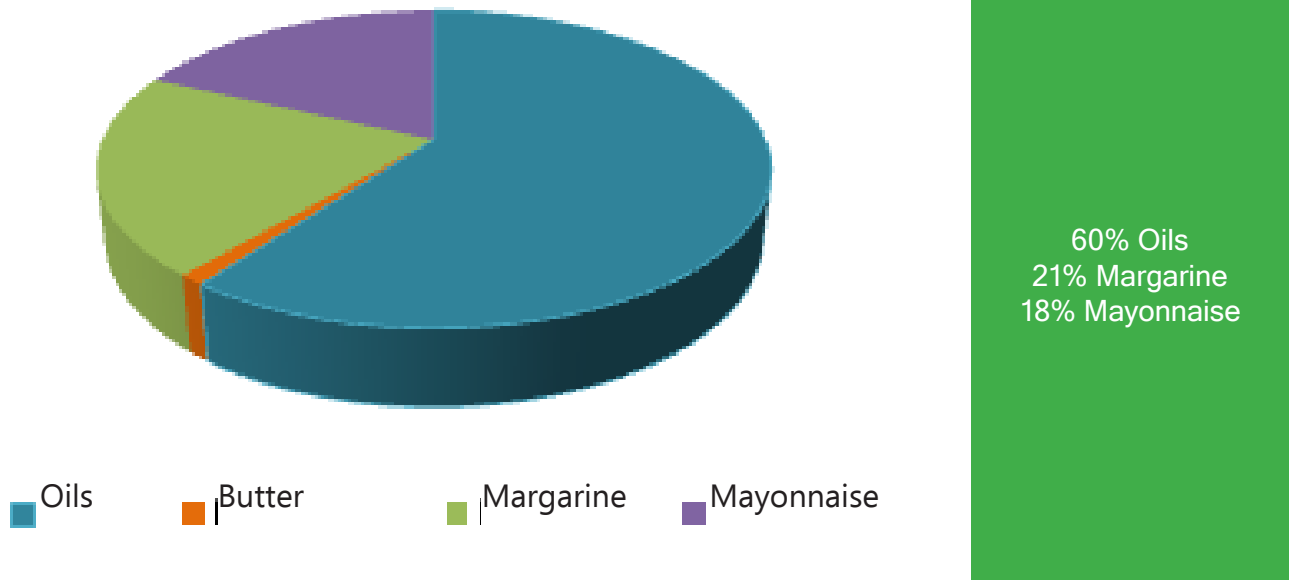


■ Liquid full-fat milk      ■ Powdered full-fat milk  
■ White cheese      ■ Others

## Average consumption of visible fat, 2012-2014

Oils are the main visible fat consumed by Venezuelan population, used in the preparation of various dishes that require being fried, followed by butter and mayonnaise.

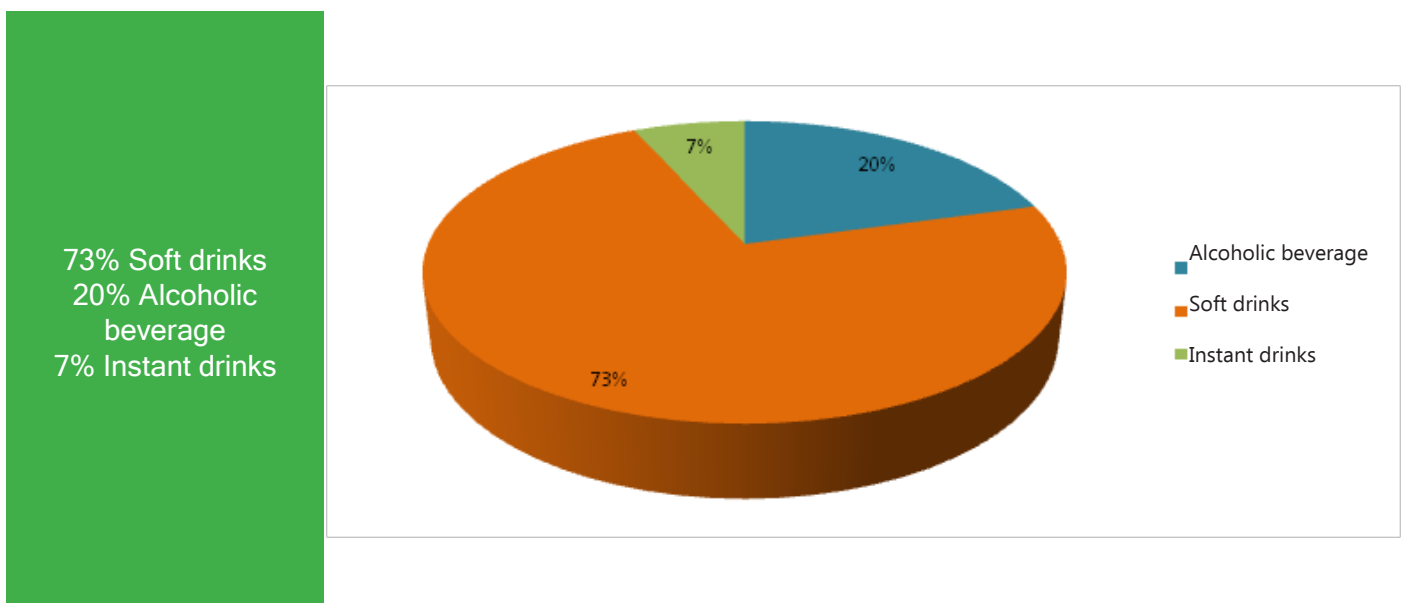
Chart 2.10:  
Average consumption of visible fat, (2012-2014)



## Average consumption of drinks, 2012-2014

In the line of soft drinks, alcoholic beverages and instant drinks, the survey revealed a preference for soft drinks, followed by alcoholic beverages.

Chart 2.11:  
Average consumption of drinks, (2012-2014)



## Agricultural production in Venezuela

A characteristic feature of economic situation in Venezuela has been the increasing government intervention in markets and the political conflict with the private sector. The government has strengthened itself as a regulator and at the same time it implemented an exchange and prices control since early 2003, and also controls foreign trade. Additionally, National Government has intensified its actions as a producer, distributor and direct importer of consumer, intermediate and capital goods, as well as services, either by creating new companies or by expropriation, nationalization or recovery processes and occupation of lands in rural and urban areas.

## Productivity

From a technical point of view, the agricultural output of Venezuelan lands has a high standard compared to regional agricultural production. But, the improvement of land productivity has not advanced significantly over the past 20 years. On the contrary, it has taken a step backwards (-4%) compared to the performance achieved in 1998. This loss is visible in sectors such as soy, banana and carrot production. Nevertheless, production in items such as cocoa, black beans and corn has improved its average.

### Productivity by category (Measures in Kilograms per hectare) (year 2011)

<b>Rice</b>	5.459	<b>Plantain</b>	6.521
<b>Corn</b>	3.241	<b>Garlic</b>	6.810
<b>Sorghum</b>	2.115	<b>Onion</b>	24.968
<b>Beans</b>	1.071	<b>Tomato</b>	23.188
<b>Oil Palm</b>	12.460	<b>Carrot</b>	18.569
<b>Soy</b>	1.482	<b>Cocoa</b>	396
<b>Potato</b>	19.829	<b>Coffee</b>	371
<b>Yucca</b>	12.692	<b>Sugar cane</b>	69.903
<b>Banana</b>	10.246	<b>Tobacco</b>	716
<b>Orange</b>	14.215	<b>Mango</b>	20.900

(Table by AL&C Consulting Group, Ministry of Agriculture and Lands, taken from Gutierrez, 2012)

In general, agricultural production shows stagnation in its growth rate, with an annual average of 1.65% over the past 18 years. This situation can be demonstrated by considering two central points:

1. From 1999, National Government has implemented the policy of setting minimum prices for farmers, especially for products such as cereals (corn, rice and sorghum), sugar cane, coffee and milk. At the same time, free prices for so-called perishable s(vegetables, tubers and fruits) have remained. The policy of minimum prices, under the price control frame, started in 2003, evolved into a fixing maximum price, including all links of the agricultural productive chain (farm gate, door factory, wholesale and retail trade), arguing to avoid the unfulfilment of price regulations, but with negative consequences for the functioning of markets.

2. Secondly, the strategy of appreciating the real exchange rate (RER) has had an impact on the foreign trade agri-food because make imports cheaper, while makes more expensive exportable food and agricultural goods. That means the exchange rate policy stimulates imports to exercise the equivalent effect of a subsidy on them, which reduces the competitive-

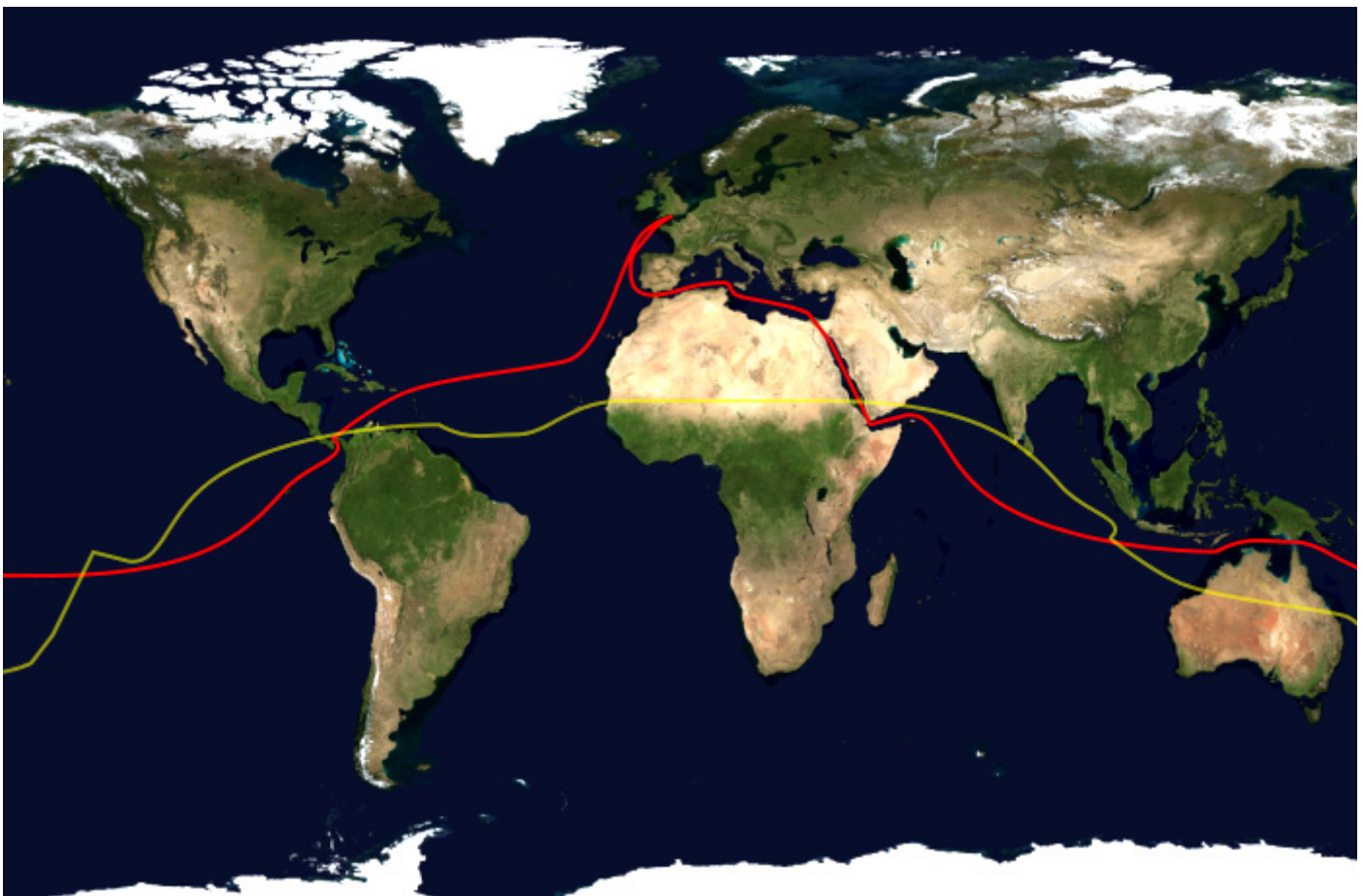
ness of agri-food goods substitutes of imported goods and those who are exportable.

## International Marquet: Commerce and supply

The current trade policy applies quantitative restrictions on imports (subject to a prior request to demonstrate the insufficiency of domestic production) and exports of food and agri-food goods (in some cases there are explicit prohibitions or certification of full supply of the domestic market for exports is required).

The agri-food trade is primarily managed through the issuance of prior import licenses and clearances for export, subject to the satisfaction of domestic demand, but the trend has been to increase the role of the National Government as a direct importer of food and supplies for agricultural production.

By years 2015 and 2016, the persistent shortage of foreign currency in the country, exacerbates the tendency to concentrate the administration of purchases of food by the State.





## Venezuela imports (2013-2014)

ECONOMIC SECTOR	US\$ MILLION DOLLAR 2013 (P)	(%) 2013	US\$ MILLION DOLLAR 2014 (P)	(%) 2014
<b>TOTAL</b>	37.823	100,00%	31.870	100,00%
<b>Vegetable and animal</b>	5.402	14,30%	4.399	13,80%
<b>Agro-industry, Beverages and Tobacco</b>	2.812	7,40%	2.909	9,10%
<b>Paper</b>	694	1,80%	610	1,90%
<b>Plastic and Manufacturing</b>	1.745	4,60%	1.562	4,90%
<b>Mining</b>	385	1,00%	1.075	3,40%
<b>Chemical Products</b>	6.343	16,80%	5.602	17,60%
<b>Base Metals</b>	3.622	9,60%	3.301	10,40%
<b>Electrical machinery and material</b>	10.722	28,30%	7.663	24,10%
<b>Transportation of Material (1)</b>	968	2,60%	838	2,60%
<b>Others</b>	5.130	13,60%	3.847	12,10%

(Table by AC&L Consulting Group. Statistics National Institute data, 2016)

## PART III

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### OPPORTUNITIES FOR INDIAN COMPANIES IN AGRICULTURE INDUSTRY OF VENEZUELA

## Interesting areas to invest in the agro-industry

To the Government, agricultural sector is mainly based on the vision of food sovereignty, aimed at the need to develop capacities for self-supply of food for the population.

As part of specific projects, the Government is planning to increase irrigation systems in approximately 200%, by the creation of new systems like "Abreu de Lima" or "San José de los Tiznados", or increasing the capacity in irrigation area of the existing systems.

Irrigation system	Area (Hectares)	Place
"Abreu de Lima"	2.800	Anzoátegui
"San José de los Tiznados"	6.700	Guárico
Sistema de Riego Guárico (1960)	45.000	Guárico

### • Equipments supply

An important investment space can be the acquisition of equipment that sharpens the modernization and use of technologies in the agro-industry. This opportunity exists for the development of new agro-industrial systems and the reactivation of existing systems. In this market is possible to identify opportunities for agro-machinery to be used in the production process such as tractors, harvesters, dump trucks, spraying equipment, technology for milk production.

### • Technical support service

The creation of the State enterprise "Agropatria" breaks with the dominant position that had the company supported by Spanish economic resources "Agroisleña". Now, there is vacant in the system of agricultural supplies including fertilizers, seeds, technical equipment and training for the application of techniques and processes to improve planting process, oriented to small and medium producers. So, this free space becomes an attractive possibility for foreign investment.

### • Provision of seeds

The entry of Venezuela in Mercosur, and the adoption of the rules and laws of the trade bloc supposes the challenge of assuming trends applied in neighboring countries (Argentina, Brazil and Uruguay) in the technologies applied to Genetically Modified Organisms (GMOs). The investment to improve the outputs of cereals, vegetables, fruits and livestock in general is an area that is opening as an opportunity for new investment projects.

### • Tropical Fruits

Agricultural production is located in the tropical zone, divided in 3 clearly differentiated areas: Coast-Mountain Region, Plains (Llanera) Region and Guayana Region. Each region offers some agricultural productions according to its geographic peculiarities and associated to the technical characteristics of the item to be produced.

## Venezuela regions characteritics

Region	Characteristics	Goods
<b>Coast Mountain</b>	Rugged terrain with heights between 0 and 2000 meters above sea level, favorable for small crops, moderate rainfall.	Sugar cane, coffee, cocoa, vegetables (carrot, potato, onion, tomato, beans, garlic, chili pepper, yucca, plantain).
<b>Plains</b>	Large tracts favorable to extensive agro-industrial process.	Rice, corn, sesame, tobacco, cotton, mango and livestock production of cattle, pigs and poultry.
<b>Guayana</b>	Steep relief, dense jungle population, unfavorable for agriculture and breeding.	Tropical fruits of small extension such as: mango, merrey, and citric fruits.



## Final Considerations

The agricultural industry in Venezuela has been undergoing a process of gradual disinvestment, developed mainly on the stage of conflict between private producers and the motivation of the central government to control the Venezuelan Agricultural System in the aspects of production, distribution and consumption, with complex systems of control and supervision that gradually have been affecting the development of the national productive process.

The food consumption of Venezuelan population is now very close to the limits established by the FAO: a minimum caloric intake per day of 2,300 calories, keeping the average over the last 5 years. Within the typical diet of fruits, Venezuela occupies the first place with 20% of consumption, followed by 17% of cereals (rice and corn with more than 50% of domain) and 14.5% of animal protein, dairy products and derivatives occupy the seventh place with a 6.4% of consumption.

Agricultural production can be described in terms of the characteristics of the geographical areas: Coast-Mountain, Plains and Guyana, with favorable relationships productivity (and potential competitiveness in terms of macroeconomic stability) in products such as: rice, carrot, coffee, cocoa and tropical fruits like mango and banana. In the case of mango, despite being a seasonal crop, it is possible to get benefits from the experience of India in the operation of this product with a good productivity.

The macroeconomic situation with the Real Exchange Rate (RER) has created an overvalued turn on import of agricultural products to the detriment of domestic production, which can become competitive in balancing scenarios. At present, the country imports about 8 billion US dollars in food, which is equivalent to 20% of imports.

Opportunities within the agricultural sector are extensive, due to the disinvestment process and obsolescence created by the control imposed by the Government, and the intention of that Government to generate greater production capabilities with the creation of new irrigation systems and strengthening of existing ones.

In this investment space there are opportunities associated with the productivity of different industries and unemployment generated by the Government in terms of equipment and technical support.

In addition, is opened the opportunity to generate capital investment under research and development criteria for the new sector in relation to genetically modified organisms, and that can help to develop a process of sustained productivity.