

THIS REPORT CONTAINS ASSESSMENTS OF COMMODITY AND TRADE ISSUES MADE BY
USDA STAFF AND NOT NECESSARILY STATEMENTS OF OFFICIAL U.S. GOVERNMENT
POLICY

Required Report - public distribution

Date: 10/17/2013

GAIN Report Number: BR 0917

Brazil

Dairy and Products Annual

Annual Dairy Report

Approved By:

Robert Hoff, Agricultural Counselor

Prepared By:

Priscila Ming, Agricultural Specialist

Report Highlights:

Post forecast milk production to increase by 2 percent in 2014, supported by a relatively strong Brazilian economy and higher domestic demand.

Post has revised production and export estimates for dairy products for 2013 to reflect new estimates made by trade sources. The United States continues to be competitive with other dairy ingredients, such as lactose powder and sweet whey powder.

Commodities:

Dairy, Milk, Fluid

Production:

Post forecasts 2014 fluid milk production to increase to 33 billion liters, up 2 percent from the current year. This increase will be supported by firm domestic demand undergirded by increased purchasing power. However, uncertainty remains regarding Brazilian dairy exports since the appreciation of the Brazilian currency and high production costs make Brazilian dairy products less competitive in the world market. The increase in domestic consumption since 2011 has helped the sector avoid a decrease in production, since the internal market has offered more profitable milk prices than the global one. Post has revised 2013 production and export estimates for the Brazilian dairy sector to reflect new estimates made by trade sources.

The Brazilian government (GOB) does not maintain milk stocks, so the strong demand for milk products coupled with a late start in the producing season led to high milk prices in the local market and fewer products available for export.

The Southwest and South are the top milk producing regions in Brazil. In August 2013, there was an increase of almost 7 percent in milk production in southern Brazil (from the three producing states of Rio Grande do Sul, Parana and Santa Catarina) compared to August 2012. Rio Grande do Sul decreased milk production in the first quarter as a result of unfavorable weather conditions, but production recovered in the second half of 2013.

Consumption:

Brazil fluid milk consumption is estimated at 177 liters per capita per year. Consumption of fluid milk is forecast to increase around 2 percent in 2013. The increase is derived mostly from an estimated increase in industrial use, supported by higher disposable consumer income.

Milk drink products in Brazil are not only expanding in volume but also gaining in sophistication and health orientation. Brazil is considered the top flavored milk drink market in Latin America. Innovation is focusing on functionality as manufacturers seek to meet the health requirements of an increasingly health-oriented middle-class. In Brazil, children under the age of 12 consume 52 percent of the country's flavored milk drink – with chocolate the dominant flavor. Teens up to 18 account for 23 percent of consumption, followed by 18-34 year olds with 19 percent. Adults aged 35 and above make up just 6 percent of flavored milk consumption, according to some market research.

Trade:

Brazil imports insignificant volumes of fluid milk and packaged UHT milk imports are sold by companies from Argentina and Uruguay with commercial interests in Brazil.

Prices:

The average fluid milk prices have increased 22 percent compared to the same period in the previous year. Lack of stocks and higher domestic demand have kept prices strong in 2013.

Despite higher receipts, production costs have also increased, limiting the financial recovery of the milk producers.

Table - São Paulo: Monthly Average Price Received by Producers for Fluid Milk per Liter, Jan-Sep 2010-13:				
Month	2010	2011	2012	2013
Jan	0.7125	0.7676	0.8030	0.9103
Feb	0.7393	0.4461	0.7950	0.9035
Mar	0.7415	0.7963	0.8110	0.9299
Apr	0.7492	0.8253	0.8180	0.9574
May	0.7400	0.8680	0.8200	0.9956
Jun	0.7456	0.8996	0.8140	1.0449
Jul	0.7560	0.9247	0.8950	1.0772
Aug	0.7485	0.9244	0.8250	1.0964
Sep	0.7425	0.9395	0.8250	1.1121
Year Average	0.7417	0.8213	0.8229	1.0030
(in U.S.\$)	0.31	0.35	0.35	0.42

Source: Cepea

Average Exchange rate for Sep 2013: US\$ 1.00 = R\$ 2.38

Stocks:

Current milk and dairy product stocks held by major dairy companies are considered operating stocks to meet short term demand. There are no government held stocks of milk or milk products in Brazil.

Policy:

The GOB published a new law to inform milk producers about milk prices paid by the dairy companies. Law 12.669, promulgated on June 20, 2012, established that dairy companies need to inform milk producers the value paid per liter of milk by the 25th of each month prior to delivery of the product. In the past, milk producers were informed of the price one month after the delivery of the product.

Milk producers are entitled to participate in state dairy development programs designed to increase productivity through pasture improvement and animal genetics. State government programs are also developed to assist and improve social and economic conditions of small milk producers. However, the most important state subsidy program for milk producers is the exemption of the state value-added tax (ICMS) on the sale of milk for producers and cooperatives. This benefit, however, is only available for producers who operate in a few states in Brazil located in the Center-West and South.

In addition to these federal and state programs, milk producers also benefit from financing programs from large dairies, which are specifically designed to increase milk productivity and quality. These programs are only available for those milk producers with operations which are integrated into the large dairies.

Production, Supply and Demand Data Statistics

PSD: Dairy, Milk and Fluid (HTS: 0401.10; 0401.20)

Dairy, Milk, Fluid Brazil	2012		2013		2014		
	Market Year Begin: Jan 2012		Market Year Begin: Jan 2013		Market Year Begin: Jan 2014		
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post	
Cows In Milk	19,900	19,900	20,450	20,450		20,859	(1000 HEAD)
Cows Milk Production	31,490	31,490	32,380	32,380		33,028	(1000 MT)
Other Milk Production	0	0	0	0		0	(1000 MT)
Total Production	31,490	31,490	32,380	32,380		33,028	(1000 MT)
Other Imports	15	12	16	16		16	(1000 MT)
Total Imports	15	12	16	16		16	(1000 MT)
Total Supply	31,505	31,502	32,396	32,396		33,044	(1000 MT)
Other Exports	0	0	0	0		0	(1000 MT)
Total Exports	0	0	0	0		0	(1000 MT)
Fluid Use Dom. Consum.	11,715	11,712	12,000	12,000		12,242	(1000 MT)
Factory Use Consum.	19,200	19,200	19,796	19,796		20,192	(1000 MT)
Feed Use Dom. Consum.	590	590	600	600		610	(1000 MT)
Total Dom. Consumption	31,505	31,502	32,396	32,396		33,044	(1000 MT)
Total Distribution	31,505	31,502	32,396	32,396		33,044	(1000 MT)

Commodities:

Dairy, Cheese

Production:

Note: There are no official statistics on production and consumption of cheese in Brazil. OAA production estimates for cheese are based on trade sources and also include “informal” cheese production.

Post forecasts cheese production in 2013 to increase by 2 percent boosted mostly by an estimated strong domestic demand for cheese, principally from the fast-food sector.

Consumption:

Post forecasts cheese consumption to increase by 2 percent in 2013 supported by firm consumer demand. Local companies are innovating and launching value-added cheeses which copy European style cheeses. They have also launched different varieties using buffalo milk, which are gaining in popularity.

Current Brazilian cheese consumption is estimated at 3 kilos per person per year, well below the FAO recommended amount which is 9 kilos. Human consumption of fresh cheese is expected to continue to increase in 2013. Mozzarella and “queijo prato” accounted for more than 74 percent of unprocessed cheese retail value sales during 2011 and 2012. These types of cheese are very popular due to the tradition among Brazilians of eating cheese with French bread for breakfast or brunch.

Prices:

Average wholesale prices of Brazilian-produced cheese by major types are:

Type	US\$/Kilogram
Minas (fresh farmer type)	11.98
Mozzarella	18.66
Provolone	22.25
Parmesan	17.77

Notes: (1) Prices for Sao Paulo market, as of 10/01/2013.
(2) Average Exchange Rate for Oct 2013: US\$ 1.00=R\$2.38

Some cheese manufacturers are strengthening their businesses through acquisitions or joint-ventures. This is likely to stimulate small and medium-sized companies into improving their operations by investing in machinery, extending distribution, reducing costs and diversifying the product portfolio.

Trade:

Cheese imports in 2013 are projected to remain unchanged from 2012. Cheese exports will decrease to 2,000 MT.

Dairy companies are expected to be less dependent on imported cheeses. Brazil is not a strong exporter of cheese and the increase on the cheese production will meet domestic demand.

Table - Tariff Rate Table

Tariff Number (HTS)	Product Description	Rate (%) CXT *	Other Info
0406.10.10	Cheese, Mozzarella (1)	28	Mercosul: 27%
0406.10.90	Cheese, Other	16	Mercosul: zero
0406.20.00	Cheese: Grated or Powdered	16	Mercosul: Zero
0406.90.10	Cheese, with a fat content less than 36 %, by weight (1)	28	Mercosul: 27%
0406.90.20	Cheese with a fat content superior or equal to 36 % and less than 46%, by weight (1)	28	Mercosul: 27%

* CXT: MERCOSUL Common External Tariff. The CXT tariff is applied to all imports other than from MERCOSUL. These tariffs are assessed on the CIF value of the product.

Note (1): Effective June 1, 2001, these types of cheeses were included on the "exception list" of the Common External Tax (CXT), of the MERCOSUL, per Resolution 16/01, of the Foreign Trade Chamber (CAMEX), which altered Annex Two of the Decree Number 3,704 of December 27, 2000. The 27% tax is charged in addition to the Import Tariff of 16 percent for all imported cheeses, including MERCOSUL members.

Stocks:

There are no official government stocks of cheese in Brazil.

Production, Supply and Demand Data Statistics:

PSD: Dairy, Cheese (HTS: 0406)

Dairy, Cheese Brazil	2012		2013		2014		
	Market Year Begin: Jan 2012		Market Year Begin: Jan 2013		Market Year Begin: Jan 2014		
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post	
Beginning Stocks	0	0	0	0		0	(1000 MT)
Production	700	700	722	722		736	(1000 MT)
Other Imports	28	27	29	29		29	(1000 MT)
Total Imports	28	27	29	29		29	(1000 MT)
Total Supply	728	727	751	751		766	(1000 MT)
Other Exports	3	3	3	2		3	(1000 MT)
Total Exports	3	3	3	2		3	(1000 MT)
Human Dom. Consumption	725	725	748	748		763	(1000 MT)
Other Use, Losses	0	0	0	0		0	(1000 MT)
Total Dom. Consumption	725	725	748	748		763	(1000 MT)
Total Use	728	728	751	751		766	(1000 MT)
Ending Stocks	0	0	0	0		0	(1000 MT)
Total Distribution	728	728	751	751		766	(1000 MT)

Commodities:

Dairy, Butter

Production:

Note: There are no official statistics on production and consumption of butter in Brazil. OAA production estimate for butter is based on trade sources, and also includes "informal" butter production.

Butter production is projected to increase by 2 percent in CY 2013, reflecting an increase in domestic demand, despite strong competition from margarine.

Prices:

Average wholesale prices for butter manufactured in Brazil are:

Type	US\$/kilogram
Salted	13.63
Unsalted	10.48

Notes: (1) Prices for Sao Paulo market, as of 10/01/2013.

(2) Average Exchange Rate for Oct 2011: US\$ 1.00=R\$2.38

Trade:

Import and export volumes for this product are insignificant. Brazil mainly produces butter for its own consumption and occasionally, depending on the market condition exports or imports low volumes.

Table - Tariff Rate Table

Tariff Number	Product Description	Rate (%) CXT *	Other Info
0405.10.00	Butter	16	Mercosul: Zero
0405.90.10	Butter Oil	16	Mercosul: Zero

* CXT: MERCOSUL Common External Tariff (CXT). The CXT tariff is applied to all imports other than from MERCOSUL. These tariffs are assessed on the CIF value of the product.

Production, Supply and Demand Data Statistics:

PSD: Dairy, Butter (HTS: 0405)

Dairy, Butter Brazil	2012		2013		2014		
	Market Year Begin: Jan 2012		Market Year Begin: Jan 2013		Market Year Begin: Jan 2014		
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post	
Beginning Stocks	0	0	0	0		0	(1000 MT)
Production	81		83			85	(1000 MT)
Other Imports	1		1			1	(1000 MT)
Total Imports	1	0	1	0		1	(1000 MT)
Total Supply	82	0	84	0		86	(1000 MT)
Other Exports	2		2			2	(1000 MT)
Total Exports	2	0	2	0		2	(1000 MT)
Domestic Consumption	80		82			84	(1000 MT)
Total Use	82	0	84	0		0	(1000 MT)
Ending Stocks	0		0			0	(1000 MT)
Total Distribution	82	0	84	0		86	(1000 MT)

Commodities:

Dairy, Dry Whole Milk Powder

Production:

Note: There are no official statistics on production and consumption of powdered milk in Brazil. OAA estimates for powdered milk production (nonfat and whole milk) are based on trade sources.

Post forecasts whole milk powder (WMP) production to increase by two percent in 2014 and reach a total 560,000 MT. Strong domestic demand and reduced imports from Argentina are factors that explain this increase. Another factor which affects this situation is the food processing industry, which continues to grow and increase its utilization of milk powders.

Consumption:

Post forecasts 2012 powdered milk consumption to increase by 2 percent supported by higher domestic demand.

Trade:

Post forecasts a decrease in milk powder exports in 2013 based on trade sources. The domestic price for milk powder is around US\$ 5,000/ton compared to US\$ 4,000/ton in international markets, which makes the Brazilian product uncompetitive overseas.

Milk powder imports, mostly from Uruguay, showed a slight decrease during Jan-Aug 2013, compared to the same period 2012. In 2012, the GOB continued to take measures to prevent higher dairy imports from Argentina. The measures included the non-automatic licensing procedure for imports from Argentina and the establishment of an import quota. The GOB limited Argentine milk powder imports to 3,600 ton/month. The prices negotiated in the same period increased, reflecting the high prices of dairy commodities in international markets. In September 2012, traders purchased whole milk powder at US\$ 3.61/kg. During the same period in 2013, the product was purchased at US\$ 4.63/kg.

Argentina and Uruguay are the major suppliers of powdered milk to Brazil, accounting for 94 percent of total imports, comprised mostly by whole milk powder (68 percent of the total imported). Based on post forecasts, the milk powder imports for 2014 should increase by 2 percent, due to an increase in the domestic consumption. WMP imports are projected to reach 57,000 MT in 2013 and rise slightly to 58,000 MT in 2014.

The United States continues to be competitive with other dairy categories, such as ingredients (sweet whey powder, lactose and whey powder concentrate). Sweet whey powder imports from U.S totaled 11

percent and lactose imports represent 50 percent of total imports in 2013. The other category in which the United States is competitive is whey protein concentrates/isolate accounting for 33 percent of this market. Most of sweet whey and lactose are used on the feed sector. Lactose is the most competitive ingredient imported from the U.S.

Stocks:

There are no official government stocks of powdered milk in Brazil.

Policy:

In 2013, the GOB published two resolutions to decrease the import tariff for ingredients: lactose powder and sweet whey powder. Those measures aimed at alleviating the high production costs that the feed and food sector were suffering due to high international prices.

1-) Resolution #25, issued by the Ministerial Council on International Trade (CAMEX) reduced the import tariff for lactose products (Harmonized Tariff Schedule -HTS Code 1702.11.00) to 2 percent. The tariff used to be 16 percent for this category. This reduced tariff rate is being applied to a quota of 4,476 tons (first-come first-serve basis).

The tariff reduction was enacted to help alleviate the high production costs facing Brazil's swine and dairy industries. The tariff reduction went into force on April 4, 2013, as per an official notification from the Brazilian Ministry of Industry and Commerce (**MDIC**), and is valid for a twelve month period.

2-) Resolution # 60, issued by CAMEX, reduced the import tariff for whey, modified whey powder and whey products (Harmonized Tariff Schedule -HTS Code 0404.10.00) to 2 percent. The tariff used to be 28 percent for this category. This reduced tariff rate (2 percent) is being applied to a quota of 2,000 tons (first-come first-serve basis).

The tariff reduction was enacted to help alleviate the high production costs facing Brazil's dairy and food industries. The tariff reduction went into force on July 30, 2013, as per an official notification from MDIC, and is valid for a twelve month period.

Production, Supply and Demand Data Statistics:

PSD: Dairy, Dry Whole Milk Powder (HTS: 0402.21; 0402.29)

Dairy, Dry Whole Milk Powder Brazil	2012		2013		2014		
	Market Year Begin: Jan 2012		Market Year Begin: Jan 2013		Market Year Begin: Jan 2014		
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post	
Beginning Stocks	0	0	0	0		0	(1000 MT)
Production	531	531	549	549		560	(1000 MT)
Other Imports	56	71	57	57		58	(1000 MT)
Total Imports	56	71	57	57		58	(1000 MT)
Total Supply	587	602	606	606		618	(1000 MT)
Other Exports	2	1	3	0		0	(1000 MT)
Total Exports	2	1	3	0		0	(1000 MT)
Human Dom. Consumption	585	601	603	606		618	(1000 MT)
Other Use, Losses	0	0	0	0		0	(1000 MT)
Total Dom. Consumption	585	601	603	606		618	(1000 MT)
Total Use	587	602	606	606		618	(1000 MT)
Ending Stocks	0	0	0	0		0	(1000 MT)
Total Distribution	587	602	606	606		618	(1000 MT)

Commodities:

Dairy, Milk, Nonfat Dry

Production:

Post forecasts nonfat dry milk powder (NFDM) production to increase by 2 percent in 2014 and reach 154,000 MT. In 2012, Brazil produced 141,000 MT of NFDM and post estimates that 2013 production will reach 151,000 MT. The same factors that will increase WMP production will support growth of NFDM (limited quotas from Argentina and increase in domestic consumption).

Consumption:

Post forecasts 2014 NFDM consumption to increase by 2 percent in 2014, due to strong domestic demand.

Trade:

Imports come basically from Uruguay and Argentina and help meet the domestic demand. Brazil does not have a competitive industry and surplus to export NFDM.

In 2013 post forecast imports of NFDM to decrease due to the launch of two new plants previously reported and that now are working at full capacity. In 2013, imports are estimated to reach 25,000 MT and forecast to increase slightly to 26,000 MT in 2014.

Stocks:

There are no official government stocks of NFMD in Brazil.

Production, Supply and Demand Data Statistics:

PSD: Dairy, Non Fat Milk Powder (HTS: 0402.10)

Dairy, Milk, Nonfat Dry Brazil	2012		2013		2014		
	Market Year Begin: Jan 2012		Market Year Begin: Jan 2013		Market Year Begin: Jan 2014		
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post	
Beginning Stocks	0	0	0	0		0	(1000 MT)
Production	141	141	146	151		154	(1000 MT)
Other Imports	29	33	30	25		26	(1000 MT)
Total Imports	29	33	30	25		26	(1000 MT)
Total Supply	170	174	176	176		180	(1000 MT)
Other Exports	0	0	0	0		0	(1000 MT)
Total Exports	0	0	0	0		0	(1000 MT)
Human Dom. Consumption	170	174	176	176		180	(1000 MT)
Other Use, Losses	0	0	0	0		0	(1000 MT)
Total Dom. Consumption	170	174	176	176		180	(1000 MT)
Total Use	170	174	176	176		180	(1000 MT)
Ending Stocks	0	0	0	0		0	(1000 MT)
Total Distribution	170	174	176	176		180	(1000 MT)