

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: 10/15/2012

GAIN Report Number: BR0822

Brazil

Dairy and Products Annual

Annual Dairy Report

Approved By:

Robert Hoff, Agricultural Counselor

Prepared By:

Priscila Ming, Agricultural Specialist

Report Highlights:

Post forecasts fluid milk production to increase by three percent in 2013, supported by higher domestic demand.

Post revised production and import estimates for milk and milk products for 2012 to reflect new estimates. Although Brazil imports milk powders from MERCOSUL partners, the United States continues to be competitive in other dairy categories such as ingredients which Brazil does not manufacture.

Commodities:

Dairy, Milk, Fluid

Production:

Post forecasts fluid milk production to increase by three percent in 2013 and to reach a record of nearly 32 million metric tons (MMT). The increase in production is supported mostly by stronger domestic demand due to increased consumer disposable income. However, uncertainty remains regarding Brazilian dairy exports as the appreciation of the Brazilian currency makes Brazilian dairy products uncompetitive in world markets. Post revised 2012 production and export estimates for the Brazilian dairy sector to reflect new estimates made by trade sources.

The Southwest and South are the top milk producing regions in Brazil. Santa Catarina state (South region) has been the leading state in milk production for the last five years, according to the Brazilian Association of Milk Producers (Leite Brasil). Over this period, milk production has grown 13 percent compared to other important milk producing states such as Paraná (11.6 percent), Rio Grande do Sul (7.2 percent), São Paulo (3.8 percent), Minas Gerais (3.6 percent) and Goiás (1.4 percent). The national average of growth for milk production was 5.5 percent in the same period. 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 fewer products available for export.

Consumption:

Consumption of fluid milk is forecast to increase by nearly three percent in CY 2013. Brazilian dairy per capita consumption is estimated at 150 liters per year.

Flavored milk drinks are expected to have the strongest growth in both retail volume and current value terms within dairy products in 2012. This is the result of a growing demand for convenient and nutritional products among children and younger consumers.

Long-life/UHT milk accounts for the most sales within consumer-ready fluid milk products, and is expected to approach US\$ 5.5 billion (R\$11 billion) - or almost 44 percent of total sales of drink milk products in 2012. Whole long life/UHT milk is the most popular with a retail value share of 75 percent, followed by non-fat long-life/UHT milk and semi-skimmed long-life/UHT milk with shares of 19 percent and six percent, respectively. In particular, the Southeast accounts for around 70 percent of total consumption of long-life/UHT milk.

Price:

The average fluid milk prices paid to producers have decreased four percent in 2012 compared to the same period in the previous year. Higher production and sporadic stocks have caused prices to decrease slightly in 2012. This situation has not benefitted are paying the same prices as they did in 2011.

It is expected that prices paid to local producers will return to 2011 levels, considering possible increases in production costs for 2013.

Table 1 - São Paulo: Monthly Average Price Received by Producers for Fluid Milk per Liter, Jan-Sep 2009-12:				
Month	2009	2010	2011	2012
Jan	0.6331	0.7125	0.7676	0.803
Feb	0.6358	0.7393	0.4461	0.795
Mar	0.6385	0.7415	0.7963	0.811
Apr	0.6536	0.7492	0.8253	0.818
May	0.6871	0.74	0.868	0.82
Jun	0.7378	0.7456	0.8996	0.814
Jul	0.8189	0.756	0.9247	0.895
Aug	0.8171	0.7485	0.9244	0.825
Sep	0.7862	0.7425	0.9395	0.825
Year Average	0.712	0.7417	0.8579	0.8229
(in U.S.\$)	0.36	0.37	0.43	0.41

Source: Cepea

Average Exchange rate for Sep 2012: US\$ 1.00 = R\$ 2.00

Trade:

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

Stocks:

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

Policy:

The Brazilian Government 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 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 to 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 to 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 integrated milk producers with integrated operations.

Production, Supply and Demand Data Statistics:

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

Dairy, Milk, Fluid Brazil	2011		2012		2013		
	Market Year Begin: Jan 2011		Market Year Begin: Jan 2012		Market Year Begin: Jan 2013		
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post	
Cows In Milk	18,200	19,200	18,600	19,900		20,450	(1000 HEAD)
Cows Milk Production	30,610	30,715	31,300	31,491		32,380	(1000 MT)
Other Milk Production	0	0	0	0		0	(1000 MT)
Total Production	30,610	30,715	31,300	31,491		32,380	(1000 MT)
Other Imports	6	14	5	15		16	(1000 MT)
Total Imports	6	14	5	15		16	(1000 MT)
Total Supply	30,616	30,729	31,305	31,506		32,396	(1000 MT)
Other Exports	0	0	0	0		0	(1000 MT)
Total Exports	0	0	0	0		0	(1000 MT)
Fluid Use Dom. Consum.	11,316	11,429	11,515	11,716		12,000	(1000 MT)
Factory Use Consum.	18,720	18,720	19,200	19,200		19,796	(1000 MT)
Feed Use Dom. Consum.	580	580	590	590		600	(1000 MT)
Total Dom. Consumption	30,616	30,729	31,305	31,506		32,396	(1000 MT)
Total Distribution	30,616	30,729	31,305	31,506		32,396	(1000 MT)
CY Imp. from U.S.	0		0	0		0	(1000 MT)
CY. Exp. to U.S.	0		0	0		0	(1000 MT)
TS=TD		0		0		0.0	

Commodities:

Dairy, Cheese

Production:

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

Post forecasts cheese production to increase by three percent in 2013. As reported last year, this increase is boosted mostly by estimated strong domestic demand for cheese, principally from the fast-food sector. Post revised cheese production in CY 2012 which is estimated to increase by three percent.

Consumption:

Post forecasts cheese consumption to increase by nearly three percent in 2013 supported by strong consumer and industry demand. Local companies continue to innovate and copy European style cheeses to attract the consumers that are experienced with these types of cheeses.

Packaged hard cheese is expected to experience the fastest current value growth, reaching 18 percent in 2012, besides accounting for 39 percent of total sales. Such products are commonly used in Brazilian cooking or to prepare snacks in which the most popular sorts of cheese are mozzarella and yellow cheese ("queijo prato"). Within unprocessed cheese, mozzarella and "queijo prato" accounted for a 74 percent share of the total 2012 volume.

Soft cheese is also expected to perform well in 2012 with a current growth in sales of 18 percent. This is driven by the strong performance of white cheese ("queijo fresco") and ricotta, which are perceived as being healthier than the popular mozzarella and "queijo prato" hard cheeses. Fine cheeses such as Emmental, Gruyère, Gorgonzola, Brie and Camembert are still niche products in Brazil due to their high unit prices.

Spreadable processed cheese accounts for 19 percent of total sales in 2012, in which spreadable processed cheese ("requeijão") represents the bulk of these sales. Reconstituted cheese leads sales of this category with an expected value share of 92 percent for 2012 while cream cheese accounts for the rest. In general, such products are very popular due to the local tradition of eating "requeijão" with French bread for breakfast or brunch.

Prices:

Average wholesale prices of cheese manufactured in Brazil by major types are:

Table 3

Type	US\$/Kilogram
Minas (fresh farmer type)	12.75
Mozzarella	17.93
Queijo Prato (yellow cheese)	10.58
Provolone	21.20
Parmesan	32.55

Notes: (1) Prices for Sao Paulo market, as of 10/01/2012.
(2) Average Exchange Rate for Oct 2012: US\$ 1.00=R\$2.00

Trade:

Due to strong domestic demand for cheese products, cheese imports in 2011 reached 39,000 metric tons (MT). Cheese imports are expected to decline in CY 2012 to 28,000 MT due to an increase in domestic production, strong domestic demand and higher domestic prices and fewer domestic products destined for export. Post forecasts cheese imports to increase to 29,000 MT in 2013, considering strong demand from the food service sector. Argentina and Uruguay remain the main suppliers of cheese to Brazil.

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	2011		2012		2013		
	Market Year Begin: Jan 2011		Market Year Begin: Jan 2012		Market Year Begin: Jan 2013		
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post	
Beginning Stocks	0	0	0	0		0	(1000 MT)
Production	675	679	700	700		722	(1000 MT)
Other Imports	29	39	25	28		29	(1000 MT)
Total Imports	29	39	25	28		29	(1000 MT)
Total Supply	704	718	725	728		751	(1000 MT)
Other Exports	3	3	4	3		3	(1000 MT)
Total Exports	3	3	4	3		3	(1000 MT)
Human Dom. Consumption	701	715	721	741		758	(1000 MT)
Other Use, Losses	0	0	0	0		0	(1000 MT)
Total Dom. Consumption	701	715	721	725		748	(1000 MT)
Total Use	704	718	725	728		751	(1000 MT)
Ending Stocks	0	0	0	0		0	(1000 MT)
Total Distribution	704	718	725	728		751	(1000 MT)
CY Imp. from U.S.	0	0	0	0		0	(1000 MT)
CY. Exp. to U.S.	0	0	0	0		0	(1000 MT)
TS=TD		0		0.0		0.0	

Commodities:

Dairy, Butter

Production:

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

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

Prices

Average wholesale prices of butter manufactured in Brazil are:

Table 5

Type	US\$/kilogram
Salted	13.8
Unsalted	13.8

Notes: (1) Prices for Sao Paulo market, as of 10/01/2012.

(2) Average Exchange Rate for Oct 2012: US\$ 1.00=R\$2.00

Trade:

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

Stocks:

There are no official government stocks of butter in Brazil.

Production, Supply and Demand Data Statistics:

PSD: Dairy, Butter (HTS 0405)

Dairy, Butter Brazil	2011		2012		2013		
	Market Year Begin: Jan 2011		Market Year Begin: Jan 2012		Market Year Begin: Jan 2013		
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post	
Beginning Stocks	0	0	0	0		0	(1000 MT)
Production	79		81			83	(1000 MT)
Other Imports	0		1			1	(1000 MT)
Total Imports	0	0	1	0		1	(1000 MT)
Total Supply	79	0	82	0		84	(1000 MT)
Other Exports	1		2			2	(1000 MT)
Total Exports	1	0	2	0		2	(1000 MT)
Domestic Consumption	78		80			82	(1000 MT)
Total Use	79	0	82	0		84	(1000 MT)
Ending Stocks	0		0			0	(1000 MT)
Total Distribution	79	0	82	0		84	(1000 MT)
CY Imp. from U.S.	0		0			0	(1000 MT)
CY. Exp. to U.S.	0		0			0	(1000 MT)
TS=TD		0		0		0	

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 three percent in 2013 and reach 549,000 MT. Strong domestic demand and imports limited by quotas 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 WMP consumption to increase by three percent in 2013, due to strong domestic demand.

Trade:

Milk powder imports, mostly from Uruguay, increased 50 percent during Jan-Aug 2012, compared to the same period in 2011. In 2011, the Brazilian Government (GOB) took measures to prevent higher dairy imports from Argentina. The measures included the non-automatic licensing procedure for imports from Argentina and the establishment of import quotas. The GOB limited Argentine milk powder imports to 3,600 tons per month. The GOB reported that it is likely to implement the same measure against Uruguay. Trade analysts attribute this action to the domestic consumption increase. For this reason Post predicts that WMP powder imports will decrease to seven percent in 2012. For 2013, according to trade sources, imports will return and increase by 3.5 percent.

WMP surpluses are occasionally exported to African and Central American markets depending on availability of the product and international market prices. Brazilian milk powders are not competitive in the world market.

The United States continues to be competitive with other dairy categories, such as ingredients which Brazil does not manufacture. Sweet whey powder imports from U.S totaled 12 percent and lactose imports totaled 69 percent in 2011. The other category in which United States is competitive is whey protein concentrates and isolate, which account for 62 percent of this market. The volume of dairy proteins is expected to increase as the food industry segment continues growing supporting and demand for this type of ingredient. This is especially the case for the nutritional and health food segment that uses whey protein concentrates and isolates in several different categories of product.

Stocks:

There are no official government stocks of WMP in Brazil.

Production, Supply and Demand Data Statistics:

PSD: Dairy, Dry Whole Milk Powder

Dairy, Dry Whole Milk Powder Brazil	2011		2012		2013		
	Market Year Begin: Jan 2011		Market Year Begin: Jan 2012		Market Year Begin: Jan 2013		
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post	
Beginning Stocks	0	0	0	0		0	(1000 MT)
Production	510	515	550	531		549	(1000 MT)
Other Imports	58	55	50	56		57	(1000 MT)
Total Imports	58	55	50	56		57	(1000 MT)
Total Supply	568	570	600	587		606	(1000 MT)
Other Exports	2	1	3	2		3	(1000 MT)
Total Exports	2	1	3	2		3	(1000 MT)
Human Dom. Consumption	566	569	597	585		604	(1000 MT)
Other Use, Losses	0	0	0	0		0	(1000 MT)
Total Dom. Consumption	566	569	597	585		604	(1000 MT)
Total Use	568	570	600	587		607	(1000 MT)
Ending Stocks	0	0	0	0		0	(1000 MT)
Total Distribution	568	570	600	587		607	(1000 MT)
CY Imp. from U.S.	0	0	0	0		0	(1000 MT)
CY. Exp. to U.S.	0	0	0	0		0	(1000 MT)
TS=TD		0		0		1	

Commodities:

Dairy, Milk, Nonfat Dry

Production:

Post forecasts non fat dry milk powder (NFDM) production to increase by three percent in 2013. The production increase is estimated at seven percent in 2012, as reported previously. The same factors that will increase the WMP production will support production growth of NFDM. In 2011, Brazil produced around 141,000 MT of NFDM.

Consumption:

Post forecasts NFDM consumption to increase by three percent in 2013, due to strong domestic demand.

Trade:

Brazil does not export NFDM.

Stocks:

There are no official government stocks of NFDM in Brazil.

Production, Supply and Demand Data Statistics:

PSD: Dairy, Non Fat Dry Milk Powder

Dairy, Milk, Nonfat Dry Brazil	2011		2012		2013		
	Market Year Begin: Jan 2011		Market Year Begin: Jan 2012		Market Year Begin: Jan 2013		
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post	
Beginning Stocks	0	0	0	0			(1000 MT)
Production	135	132	141	141		146	(1000 MT)
Other Imports	25	31	22	29		30	(1000 MT)
Total Imports	25	31	22	29		30	(1000 MT)
Total Supply	160	163	163	170		176	(1000 MT)
Other Exports	0	0	0	0		0	(1000 MT)
Total Exports	0	0	0	0		0	(1000 MT)
Human Dom. Consumption	160	163	163	170		176	(1000 MT)
Other Use, Losses	0	0	0	0		0	(1000 MT)
Total Dom. Consumption	160	163	163	170		176	(1000 MT)
Total Use	160	163	163	170		176	(1000 MT)
Ending Stocks	0	0	0	0		0	(1000 MT)
Total Distribution	160	163	163	170		176	(1000 MT)
CY Imp. from U.S.	0	0	0			0	(1000 MT)
CY. Exp. to U.S.	0	0	0			0	(1000 MT)
TS=TD		-0		0		0	