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Brazil

Dairy and Products Annual

Annual Dairy Report

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Report Highlights:

Post forecasts milk production to decrease by 8 percent in CY 2016 caused by the severe drought faced by the country in 2015/2016. In addition, the dairy industry decided to reduce investments because of the risk due to the lack of the water supply. This scenario resulted in lower domestic milk production, which affected retail prices and milk availability in the market. Lower domestic milk supply forced the country to increase dairy imports. From January to September 2016, purchases of dairy products in general including dairy ingredients from abroad, reached 201,507 MT, nearly 74 percent above from the same period in 2015.

Commodities:

Dairy, Milk, Fluid

Production:

In 2015/2016, Brazil had one of the most severe droughts since 1930, causing serious impacts in large areas of Brazil's southeastern region, in particular the states of São Paulo, Rio de Janeiro, and Minas Gerais. Minas Gerais is the main milk producing state in Brazil, accounting for 26 percent of total milk production. The severe dryness had a negative impact on dairy production due to issues with pasture for animals but also in the production operations, specifically cleaning of the silos and maintenance of production lines. The dairy industry decided to reduce investments because of the risk due to the lack of the water supply. This scenario resulted in lower domestic milk production, which affected retail prices and milk availability in the market.

Post estimates milk production under inspection of governmental official to reach 24.8 million metric tons (MMT) in CY 2015 and 22.7 MMT in CY2016. Post also forecasts that milk production will recover and reach 24.2 MMT in CY 2017.

Trade:

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

The average fluid milk prices in CY 2016 have increased almost 50 percent compared to the same period in the previous year. There are several factors causing this situation: the weakening Brazilian real, the correlation of domestic and international prices, increase of feed meal prices, and high inflation.

Milk Prices (Fluid Milk, "fresh") paid to the producer
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States	Prices in September 2015 (R\$/liter)	Prices in September 2016 (R\$/liter)	Prices in September 2015 (US\$/liter)	Prices in September 2015 (US\$/liter)
Minas Gerais	1.0820	1.6848	0.3381	0.5265
Rio Grande do Sul	0.9644	1.5984	0.3014	0.4995
Parana	1.0536	1.6332	0.3293	0.5104
São Paulo	1.1129	1.6113	0.3478	0.5035
Goiás	1.1471	1.7060	0.3585	0.5331
Santa Catarina	1.0579	1.5607	0.3306	0.4877
Bahia	1.0269	1.3888	0.3209	0.4340

Source: Conab

Average Exchange rate for Sep 2016: US\$ 1.00 = R\$ 3.20

Fluid Milk Acquisition:

The Brazilian dairy sector experienced further consolidations in the recent years. The fifteen largest dairy companies were responsible for the acquisition of 9.857 billion liters of milk in 2015. As mentioned, the milk shortage led those companies to rethink their investments and postpone plans for expansions.

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.

Production, Supply and Demand Data Statistics:

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

Dairy, Milk, Fluid Market Begin Year Brazil	2015		2016		2017	
	Jan 2015		Jan 2016		Jan 2017	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Cows In Milk	17330	17426	17680	17426	0	17850
Cows Milk Production	26300	24770	27100	22726	0	24208
Other Milk Production	0	10060	0	9850	0	10050
Total Production	26300	34830	27100	32576	0	34258
Other Imports	1	1	1	1	0	1
Total Imports	1	1	1	1	0	1
Total Supply	26301	34831	27101	32577	0	34259
Other Exports	7	6	7	0	0	1
Total Exports	7	6	7	0	0	1
Fluid Use Dom. Consum.	9900	10925	10095	10141	0	10948
Factory Use Consum.	15898	23500	16500	22086	0	22900
Feed Use Dom. Consum.	496	400	499	350	0	410
Total Dom. Consumption	26294	34825	27094	32577	0	34258
Total Distribution	26301	34831	27101	32577	0	34259
(1000 HEAD) ,(1000 MT)						

PS&D data for fluid milk are reported in 1,000 metric tons and not in 1,000 kiloliters. One liter of cow's milk weighs approximately 1.03 kg.

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 in CY 2016 to decrease to 745 MT, the cause is mainly the milk shortage in the market and an estimated small growth in the fast-food sector. The forecast for cheese production in CY 2017 is to reach 772 MT. This slightly increase is boosted mostly for exports to Russia.

Trade:

Imports:

Cheese imports in CY2016 are projected to increase by 92 percent, as a result of reduced fluid milk suppliers. For CY 2017, Post forecasts a slight decrease in imports due to the higher value of the Brazilian real and a continued drop in consumer income. Cheese manufacturers will try to recover the production volume from previous years.

Imports from Uruguay and Argentina increased significant amounts compared to other countries. The main reasons for this scenario, is that due the milk shortage, Brazil searched for low cost cheeses produced in these two countries. Imported cheese from these countries included mainly parmesan and "prato" cheese (yellow cheese), used in the food service sector.

Brazil Import Statistics								
Commodity: 0406, Cheese And Curd								
Year To Date: January - September								
Partner Country	Unit	2014		2015		2016		Change %2015/2016
		USD	Quantity	USD	Quantity	USD	Quantity	
World	T	87,501,539	15,435	73,406,471	15,909	103,920,565	30,492	92%
Argentina	T	37,559,453	7,226	32,491,905	7,961	47,694,556	14,636	84%
Uruguay	T	25,020,148	5,530	23,564,674	5,726	43,659,655	14,122	147%
France	T	6,605,751	709	4,576,582	645	3,941,941	582	-10%
Netherlands	T	10,613,143	1,119	6,236,985	772	3,787,996	515	-33%
Italy	T							-19%

		3,527,407	321	3,018,438	327	2,234,408	264	
Germany	T	1,184,700	156	1,019,480	159	805,147	129	-19%
Denmark	T	360,653	34	692,314	71	471,400	52	-27%
Switzerland	T	446,619	28	380,346	30	346,214	29	-3%
Portugal	T	688,522	53	311,955	28	296,921	32	14%
United States	T	995,059	201	628,193	134	212,260	51	-62%
Spain	T	193,349	12	298,947	24	207,521	16	-33%
United Kingdom	T	306,735	43	145,192	26	184,109	42	62%
New Zealand	T	-	-	-	-	52,414	20	
Austria	T	-	-	41,460	6	26,023	3	-50%

Source of Data: SECEX – Foreign Trade Secretariat

Exports:

Cheese exports in CY 2016 reached 2.6 MT and Post forecasts that cheese exports will increase by 2 percent in CY 2017 to 2.7 MT. Brazil is not a strong cheese exporter, but companies are trying to improve in terms of machineries and will target exports to Russia in CY 2017. Recently Russia opened the cheese, milk powder and butter market to Brazil by registering some dairy plants to export to that country. This will explain the increase in cheese production and in the exports in CY 2017.

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: #(0)
0406.20.00	Cheese: Grated or Powdered	16	Mercosul: #(0)
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%
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* 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 Market Begin Year Brazil	2015		2016		2017	
	Jan 2015		Jan 2016		Jan 2017	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Beginning Stocks	0	0	0	0	0	0
Production	751	754	766	745	0	772
Other Imports	21	22	20	33	0	30
Total Imports	21	22	20	33	0	30
Total Supply	772	776	786	778	0	802
Other Exports	3	3	3	3	0	3
Total Exports	3	3	3	3	0	3
Human Dom. Consumption	769	773	783	775	0	799
Other Use, Losses	0	0	0	0	0	0
Total Dom. Consumption	769	773	783	775	0	799
Total Use	772	776	786	778	0	802
Ending Stocks	0	0	0	0	0	0
Total Distribution	772	776	786	778	0	802

(1000 MT)

Commodities:

Dairy, Butter

Production:

Note: *There are no official statistics on production and consumption of butter in Brazil. Post production estimates for butter are based on trade sources, and includes “informal” butter production.*

Butter production is projected to decrease by 1 percent in CY 2016, reflecting the milk shortage crisis.

Trade:

Export volumes for this product are insignificant in CY2016. Brazil mainly produces butter for its own consumption and occasionally, depending on market conditions exports low volumes. Russia opened the market for Brazil in September 2015 for dairy products: milk powder, cheese and butter. Post forecasts a slight increase in butter exports in CY 2017, mainly to Russia, but the volumes are small compared to other commodities

Due the milk shortage crisis, Brazil imported butter for industrial and retail purposes. Imports reached 5,016 MT, an increase of almost 200 percent in CY 2016.

Table - Tariff Rate Table

Tariff Number	Product Description	Rate (%) CXT *	Other Info
0405.10.00	Butter	16	Mercosul: #(0)
0405.90.10	Butter Oil	16	Mercosul: #(0)

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 Market Begin Year	2015		2016		2017	
	Jan 2015		Jan 2016		Jan 2017	
Brazil	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Beginning Stocks	0	0	0	0	0	0
Production	87	83	88	82	0	84
Other Imports	2	2	1	5	0	6
Total Imports	2	2	1	5	0	6
Total Supply	89	85	89	87	0	90
Other Exports	1	1	2	0	0	0
Total Exports	1	1	2	0	0	0
Domestic Consumption	88	84	87	87	0	90
Total Use	89	85	89	87	0	90
Ending Stocks	0	0	0	0	0	0
Total Distribution	89	85	89	87	0	90

(1000 MT)

Commodities:

Dairy, Dry Whole Milk Powder and Nonfat Dry

Production:

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

Post forecasts whole milk powder (WMP) production to decrease by 9 percent to 550 MT in CY 2016 and start to recover by 7 percent in CY 2017, reaching 595 MT. The dairy industry will try to recover the production that it had in CY2014 and will focus on exports to increase the demand. This scenario is expected for both products, dry whole milk powder and nonfat dry milk.

Trade:

Lower domestic milk supply due to declining production this year in Brazil is forcing the country to increase dairy imports, especially nonfat dry milk. From January to September, purchases of dairy products in general including dairy ingredients from abroad reached 201,507 MT, nearly 74 percent above the same period in 2015, according to official data from the Foreign Trade Secretariat (SECEX/CAMEX). The value of imports in the first eight months of 2016 rose 32 percent, to \$532 million. Brazilian exports of dairy products, totaled \$102 million during the January-September period, almost half during the same period in 2015. As a result, the deficit of the Brazilian dairy balance reached \$255 million, compared with a \$100 million shortfall in the entire 2015.

The United States continues to be a traditional and competitive exporter of sweet whey and lactose dairy ingredients to the Brazilian market. The United States is also competitive in whey protein concentrate.

Brazil Import Statistics							
Commodity: Dairy Products, Ex 04, 21, 17, 35							
Year To Date: January - September							
Partner Country	Unit	2014		2015		2016	
		USD	Quantity	USD	Quantity	USD	Quantity
World	T	427,144,922	95,236	401,548,444	115,792	531,951,386	201,507

Uruguay	T	92,585,403	22,766	138,525,769	44,772	251,989,939	96,541
Argentina	T	181,017,202	46,887	138,781,098	46,443	162,223,860	71,424
United States	T	55,450,547	10,419	58,889,346	12,110	39,781,566	13,115
New Zealand	T	16,780,152	2,394	12,501,302	2,701	17,170,664	4,668
Chile	T	12,723,437	2,748	1,863,428	625	13,239,764	5,465
France	T	18,445,074	3,337	13,394,089	3,182	12,147,964	3,073
Netherlands	T	17,226,373	2,619	13,971,614	2,503	9,886,597	2,181
Denmark	T	11,529,324	739	10,015,493	829	7,804,981	747
Canada	T	7,111,411	884	2,278,764	412	6,237,837	1,210
Others		14,275,999	2,443	11,327,214	2,216	11,468,214	3,081

Source of Data: SECEX – Foreign Trade Secretariat

Uruguay and Argentina are the traditional suppliers of milk powder to Brazil including nonfat dry milk. Due to the shortage of milk in the market, Brazil has searched for other nontraditional milk powder suppliers and has imported some from the United States even with an import tariff of 33 percent. Most recently, some U.S exporters have taken advantage of this opportunity, with exports of US\$ 7.7 million dollars so far in 2016, an increase of 546 percent compared to the same timeframe last year.

Post forecasts that productions of dry whole milk powder and nonfat dry milk will recover to the same numbers as it was in CY 2014.

Brazil Import Statistics							
Commodity: _PSD NFD, (040210)							
Year To Date: January - September							
Partner Country	Unit	2014		2015		2016	
		USD	Quantity	USD	Quantity	USD	Quantity
World	T	73,144,692	15,338	73,343,926	24,092	65,519,863	26,617

Uruguay	T	39,035,073	8,112	42,596,109	14,007	28,603,710	10,114
Argentina	T	34,109,619	7,226	29,605,219	9,646	25,718,596	11,417
United States	T	-	-	1,142,598	440	7,376,789	3,345
Chile	T	-	-	-	-	3,815,354	1,740
Germany	T	-	-	-	-	5,414	2

Source of Data: SECEX – Foreign Trade Secretariat

Production, Supply and Demand Data Statistics:

Dairy, Dry Whole Milk Powder Market Begin Year Brazil	2015		2016		2017	
	Jan 2015		Jan 2016		Jan 2017	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Beginning Stocks	0	0	0	0	0	0
Production	617	610	629	555	0	595
Other Imports	60	59	55	99	0	55
Total Imports	60	59	55	99	0	55
Total Supply	677	669	684	654	0	650
Other Exports	40	41	41	16	0	21
Total Exports	40	41	41	16	0	21
Human Dom. Consumption	637	628	643	638	0	629
Other Use, Losses	0	0	0	0	0	0
Total Dom. Consumption	637	628	643	638	0	629
Total Use	677	669	684	654	0	650
Ending Stocks	0	0	0	0	0	0
Total Distribution	677	669	684	654	0	650

(1000 MT)

Dairy, Milk, Nonfat Dry Market Begin Year Brazil	2015		2016		2017	
	Jan 2015		Jan 2016		Jan 2017	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Beginning Stocks	0	0	0	0	0	0
Production	157	155	160	153	0	157
Other Imports	35	35	35	28	0	35
Total Imports	35	35	35	28	0	35
Total Supply	192	190	195	181	0	192
Other Exports	0	0	0	0	0	0
Total Exports	0	0	0	0	0	0
Human Dom. Consumption	192	190	195	181	0	192
Other Use, Losses	0	0	0	0	0	0

Total Dom. Consumption	192	190	195	181	0	192
Total Use	192	190	195	181	0	192
Ending Stocks	0	0	0	0	0	0
Total Distribution	192	190	195	181	0	192
(1000 MT)						