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Brazil

Dairy and Products Annual

Annual Dairy Report

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Report Highlights:

Post forecasts fluid milk production to increase by 1.8 percent in 2018. The increase in production is driven by high demand for fluid milk used for other dairy products, such as sweetened condensed milk, mostly to African markets. Another factor influencing this increase is the suspension of dairy imports from Uruguay. High domestic milk production and soft demand has resulted in limited milk powder imports.

Executive Summary:

Post forecasts dairy production to increase by 1.8 percent in 2018 mostly driven by higher exports in other dairy sectors, and no increase in domestic demand attributed to the economic crises. The outlook for the Brazilian economy in 2018 is for cautious optimism after a three-year recession, with an improvement in the main macroeconomic figures including: 1) growth of over two percent in the Gross Domestic Product (GDP), 2) lower inflation rate, 3) a small recovery in the unemployment rate, and 4) lower consumer debt.

Commodities:

Dairy, Milk, Fluid

Production:

Post forecasts fluid milk production to increase by 1.8 percent in 2018, supported by the exports in other dairy sectors, such as sweetened condensed milk and whole milk powder. Volumes should reach 23,980 MMT compared to 23,550 MMT in 2017.

The Southeast and South regions of Brazil are the main milk producers' areas in Brazil. Minas Gerais state is the biggest milk producer accounting for 26.7 percent of total milk production in 2016. The average milk production in Brazil was 1,709 liters/cow/year in 2016. This number represents an increase of 4.2 percent compared to the previous year which was 1.639 liters/cow/year.



Source: Reproduced from 4.bp.blogspot.com

Consumption:

Consumption of fluid milk for next year is forecast to maintain the low volumes of 2017. The scenario is derived from excess of milk in the market and weak demand from consumers. Even though many indicators show that Brazil's economic situation is gradually improving, consumer purchases of dairy products are still weak. Dairy companies are using this milk in other dairy commodities such as sweetened condensed milk.

Trade:

Brazil imports and exports insignificant volumes of fluid milk.

Prices:

The average fluid milk prices in 2017 have decreased almost 6.2 percent compared to the same period in the previous year. There are some factors affecting this scenario: weak domestic demand, increase in fluid milk production and high inflation costs for producers. Although some feed prices decreased, milk producers still faced a difficult situation to buy other feed ingredients such as minerals and other nutrients.

Policy:

The Minister of Agriculture, Livestock and Food Supply (MAPA), announced on October 10 the suspension of import license for Uruguay milk and other dairy products due to concerns over potential transshipment of product in order to take advantage of the duty free trade for MERCOSUR countries. Brazil requested that Uruguay provide traceability of their product to show that 100 percent the milk is produced in Uruguay.

MAPA explained that organized sectors, producers, unions, associations and federations complained about the amount of milk imported from Uruguay. The explanation is that Uruguay's total milk production is insufficient to justify the export volumes to Brazil. A technical mission will be sent to Uruguay to discuss this issue. MAPA is concerned about Brazilian producers and the crisis they are currently facing with low market prices.

Production, Supply and Demand Data Statistics:

Dairy, Milk, Fluid Market Begin Year Brazil	2016		2017		2018	
	Jan 2016		Jan 2017		Jan 2018	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Cows In Milk	17430	17430	17850	17650	0	17950
Cows Milk Production	22726	22726	24208	23550	0	23980
Other Milk Production	9850	3121	10050	3337	0	3277
Total Production	32576	25847	34258	26887	0	27257
Other Imports	1	1	1	1	0	1
Total Imports	1	11	1	1	0	1
Total Supply	32577	25858	34259	26888	0	27258
Other Exports	0	8	1	8	0	8
Total Exports	0	8	1	8	0	8
Fluid Use Dom. Consum.	10141	9600	10948	10000	0	10010
Factory Use Consum.	22086	15900	22900	16500	0	16850
Feed Use Dom. Consum.	350	350	410	380	0	390
Total Dom. Consumption	32577	25850	34258	26880	0	27250
Total Distribution	32577	25858	34259	26888	0	27258
(1000 HEAD) ,(1000 MT)						

Commodities:

Dairy, Cheese

Production:

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

Post forecasts cheese production in 2018 to increase by over 1 percent to 780 MT, due mainly to higher domestic demand for cheese, principally from the fast-food industry. This increase is also driven by exports to Russia. The relative small growth, compared to the previous year, is due to the high inflation that affected all costs involved in the production and commercialization of cheese. This scenario is contributing to higher-value growth compared to the performance in terms of volume.

Consumption:

Current Brazilian cheese consumption is estimated at 3.23 kilos per person per year, below the recommended value by the Food and Agriculture Organization of the United Nations (FAO) of 9 kilos/person/year. Consumption of fresh cheese is expected to continue to increase in 2018, but most of the increase in demand will continue to come from the fast-food industry and institutional and domestic consumers of other “specialty” cheeses (gruyere, camembert, brie, gouda, and cheddar). The Brazilian fast-food industry mainly includes a large number of pizzerias, snack shops, and bakery stores.

Processed cheese is one of the preferred types of cheeses by the Brazilian population. A huge contributor to the performance is “requeijao”, a type of spreadable pasteurized processed cheese. This processed cheese has a variety of uses, including breakfast, dinner and snacks, which explains the highest sales growth of 12 percent in 2016, reaching sales of US\$ 1,4 billion (R\$ 4.2 billion).



“Requeijao”
Photo: Wikipédia

The other popular types of cheeses in Brazil are mozzarella, “queijo prato” (plate cheese) and “minas frescal” (white fresh cheese).



Plate cheese (queijo prato)
Photo: *Wikipédia*



White fresh cheese (queijo minas frescal)
Photo: *Wikipédia*

There is fierce competition within the cheese sector, characterized by a high degree of fragmentation and the bulk of sales are concentrated in products offering only low margins such as mozzarella and “queijo prato” and other semi-hard cheese. This has stimulated manufacturers to invest in value-added products such as unprocessed cheese fortified with fiber or prebiotics and reduced-fat spreadable processed cheese fortified with fiber.

The cheese sector in Brazil is fragmented with domestic manufacturers dominating sales and launching new products in line with Brazilian needs. Pack size reduction, for example, is one of the strategies used by the industry to avoid increasing prices of their products and therefore maintain sales in terms of units.

Opportunities for U.S. Cheese Manufacturers:

Brazil’s cheese industry has limited diversity and room for growth. Domestic cheeses are the main supplier in the market with imported cheese marked up to 3 times as much as domestic. The high prices are explained by the import tariff and other taxes that importers need to pay. The U.S. cheese industry has opportunities for growth in the Brazilian market and should take advantage of only having two major countries already in the market (Argentina and Uruguay).

Prices:

Local Cheese Production

Cheese Types	Price - US\$	Description	Price – R\$
Minas Padrao	US\$19/kg	Semi-soft white cheese	R\$59.90/kg
Queijo Prato	US\$13.30/kg	Soft yellow cheese	R\$41.90/kg
Queijo Prato Light	US\$24.75/kg	Light yellow cheese	R\$79.90/kg
Queijo Grana Padano	US\$31.70/kg	Hard, slow-ripened, semi-fat Parmesan	R\$99.90/kg
Queijo Reino	US\$31.70/kg	Matured, semi-hard cheese	R\$99.90/kg

Source: Local supermarket – August 15, 20117

Imported Cheeses

Cheese	Price - US\$	Price - R\$
Cheddar (United Kingdom)	US\$50.80/kg	R\$159.00/kg
Gorgonzola (Italy)	US\$28.5/kg	R\$89.90/kg
Brie (France)	US\$10.45/kg	R\$32.90/kg
Gouda (Netherlands)	US\$3.81/100g	R\$11.99/100g
Dutch Cheese - <i>Holandes Cabra Frans</i> (Cured Goat cheese)	US\$5.37/100g	R\$16.90/100g

Source: Local supermarket – August 15, 20117

Trade:

Imports:

Cheese imports in 2017 and 2018 are projected to decrease as local production increases and imported product is expensive. Argentina and Uruguay remain the main suppliers of cheese to Brazil, due to the preferential tariff treatment under the MERCOSUL agreement.

Another reason is that Brazil searches for low-cost cheeses produced in these two countries, mainly mozzarella, parmesan and “prato cheese”. Mozzarella is being used in the foodservice sector, while parmesan and “prato” are being sold at retail stores.

Brazil Import Statistics							
Commodity: 0406, Cheese And Curd							
Calendar Year: 2014 - 2016							
Partner Country	Unit	2014		2015		2016	
		USD	Quantity	USD	Quantity	USD	Quantity
World	T	115,876,854	20,658	95,679,636	21,549	153,418,489	43,074
Argentina	T	50,740,798	9,839	41,784,418	10,778	75,955,644	21,735
Uruguay	T	33,642,443	7,381	31,382,160	7,851	58,893,444	18,642
EU 28	T	29,863,838	3,171	21,225,382	2,717	16,609,100	2,329
United States	T	1,133,666	236	836,845	168	1,436,344	348
New Zealand	T	-	-	-	-	52,414	20

Source of Data: SECEX – Foreign Trade Secretariat

Exports:

Exports of cheese are projected to increase slightly in 2017, but at a slower rate compared to 2016. Brazil is not a strong cheese exporter, but companies are trying to improve in terms of machinery and are trying to open new markets. In 2016 Russia opened the cheese and milk powder market to Brazil by registering some dairy plants to export to that country. This explains the increase in cheese production in 2017 and in the increase in exports.

Brazil Export Statistics							
Commodity: 0406, Cheese And Curd							
Year To Date: January - September							
Partner Country	Unit	2015		2016		2017	
		USD	Quantity	USD	Quantity	USD	Quantity
World	T	7,648,702	1,757	8,757,654	2,056	12,920,829	2,549
Chile	T	2,201,246	713	2,089,131	598	2,915,117	634
Argentina	T	617,590	196	927,328	238	2,300,572	602
Russia	T	536,352	118	2,600,965	577	2,699,400	446
Paraguay	T	993,679	244	838,909	238	1,299,470	310
Taiwan	T	1,951,858	231	1,356,270	213	2,087,848	255
United States	T	409,027	79	494,348	100	700,636	132
Uruguay	T	71,611	16	106,243	24	478,875	99
Angola	T	267,638	50	223,879	44	283,757	43
Ghana	T	280,562	52	85,343	19	136,316	26
Cape Verde	T	936	-	26,123	4	11,361	2
United Arab Emirates	T	-	-	-	-	5,097	1

Source of Data: SECEX – Foreign Trade Secretariat

Production, Supply and Demand Data Statistics:

Dairy, Cheese Market Begin Year Brazil	2016		2017		2018	
	Jan 2016		Jan 2017		Jan 2018	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Beginning Stocks	0	0	0	0	0	0
Production	745	745	760	772	0	780
Other Imports	43	43	38	30	0	30
Total Imports	43	43	38	30	0	30
Total Supply	788	788	798	802	0	810
Other Exports	3	3	3	3	0	3
Total Exports	3	3	3	3	0	3
Human Dom. Consumption	785	785	795	799	0	807
Other Use, Losses	0	0	0	0	0	0
Total Dom. Consumption	785	785	795	799	0	807
Total Use	788	788	798	802	0	810
Ending Stocks	0	0	0	0	0	0
Total Distribution	788	788	798	802	0	810

(1000 MT)

Commodities:

Dairy, Butter

Production:

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

Butter production is projected to increase by 1 percent in 2018 to 85 MT, reflecting an increase in domestic demand, despite strong competition from margarine, which has lower prices.

Consumption:

The period from January through September 2017, butter tablets and butter pots have become a luxury item in the supermarket shelves. The reason is higher prices for the product and the difficulty to find the product in the shelves. The domestic shortage of the product can be explained by a number of factors, but the most important is the lack of fat availability. Butter prices increase around 17 percent in 12 months from August 2016 to August 2017.

Prices:

Type	US\$/kilogram
Salted	12.71
Unsalted	10.93

Notes: (1) Prices for Sao Paulo market, as of 10/20/2017.

(2) Average Exchange Rate for Oct 2017: US\$ 1.00=R\$3.15

The raw material for the production of butter is milk fat. Usually the milk contains around 3.0 - 3.5 percent of fat. The production of skim milk powder generates a surplus of fat, which is used to manufacture “requeijão”, butter, cream cheese and sour cream. Even the production of long-life whole milk (UHT milk) generates fat, since there is a standardization of the product.

However, Brazil does not produce significant volumes of skim milk as 75 percent of milk consumed is whole milk. As the production of skim milk is not sufficient, the supply of fat to manufacture butter and other items is restricted. As already reported, Brazil is a good consumer of “requeijao” and most of the fat is destined to this item.

Another important factor is the migration of consumers from vegetable fat to dairy fat. This is happening due to the change in consumer’s perception of the effects of butter on body health.

The lack of product in the market, leded some companies to import butter, and the consequence was the high prices in the shelves. Considering this scenario and the attractive prices, the

industry is focusing efforts to transform some of the fluid milk into fat; as the fluid milk category is not generating profit this year.

Trade:

Export volumes of butter are insignificant in general. Brazil mainly produces butter for its own consumption and occasionally, depending on market conditions, exports low volumes.

Brazil imported butter for industrial and retail purposes. Imports reached 6,829 MT, an increase of almost 300 percent in 2016 compared to the previous year. In September 2017 imports already reached 4,809 MT, almost double volume from typical numbers imported in 2015 and 2014.

Production, Supply and Demand Data Statistics:

Dairy, Butter Market Begin Year Brazil	2016		2017		2018	
	Jan 2016		Jan 2017		Jan 2018	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Beginning Stocks	0	0	0	0	0	0
Production	82	82	84	84	0	85
Other Imports	7	7	8	7	0	7
Total Imports	7	7	8	7	0	7
Total Supply	89	89	92	91	0	92
Other Exports	0	0	1	0	0	0
Total Exports	0	0	1	0	0	0
Domestic Consumption	89	89	91	91	0	92
Total Use	89	89	92	91	0	92
Ending Stocks	0	0	0	0	0	0
Total Distribution	89	89	92	91	0	92

(1000 MT)

Commodities:

Dairy, Dry Whole Milk Powder

Production:

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

Post forecasts total powdered milk (both whole and nonfat) production to increase by 2 percent in 2018. The following factors support higher Brazilian powdered milk production in 2018:

- a. Recently Brazil suspended imports from Uruguay and requested traceability records to prove that the milk come from this country, as reported in the fluid milk section.
- b. Higher allocation of government funds for social programs at the federal and state levels, due principally to 2018 being a general election year.
- c. There is a new milk powder plant localized in Rio Grande do Sul, that was launched in 2016 and will enter into production shortly, and should increase overall production capacity.

Trade:**Exports**

Between January and September 2017, Brazil exported US\$ 77 million. Sweetened condensed milk represented 43 percent of the total valued at US\$ 50 million and milk powder represented 15 percent valued at US\$ 14 million. Their market share has inverted when compared to the same period in 2016 when Brazilian exports reached US\$ 52 million, 48 percent for milk powder and 24 percent for sweetened condensed milk.

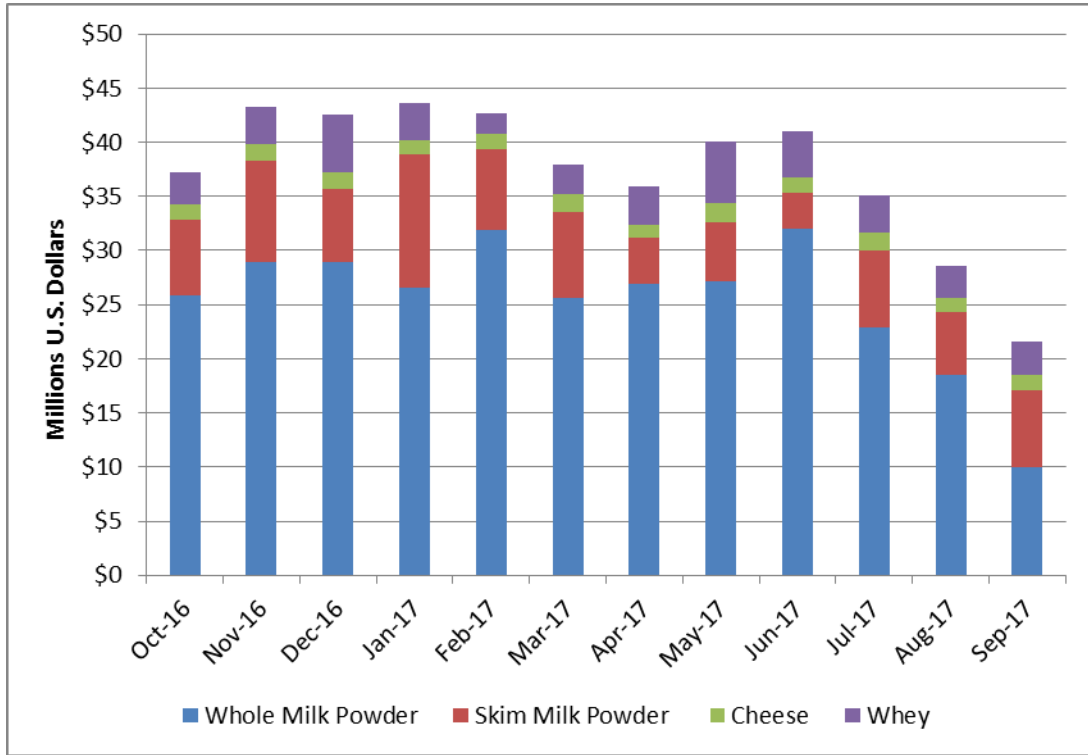
The reason for this factor is the weak milk powder sales to Venezuela. In 2016 the country imported 49 percent of total milk powder exports and in 2017 the country imported only 16 percent. Companies had to search for other markets and diversify products. Brazil is exporting sweetened condensed milk to 22 different countries, including Africa, Middle East and Latin America countries. Currently international milk powder prices are around US\$ 3,000/MT. During Sep – Oct 2017, the average exchange rate was R\$ 3.15 which was not favorable for imports. The increase in milk production is leading to reduce domestic prices and the national product become more competitive.

Imports

Argentina and Uruguay are the major suppliers of powdered milk to Brazil. This scenario can change in 2018 if Brazil decides to continue the suspension of imports from Uruguay.

High domestic milk production and soft demand has resulted in limited milk powder imports. Brazil's dairy imports during September 2017 totaled US\$ 9 million, down 75 percent compared to the same month from 2016.

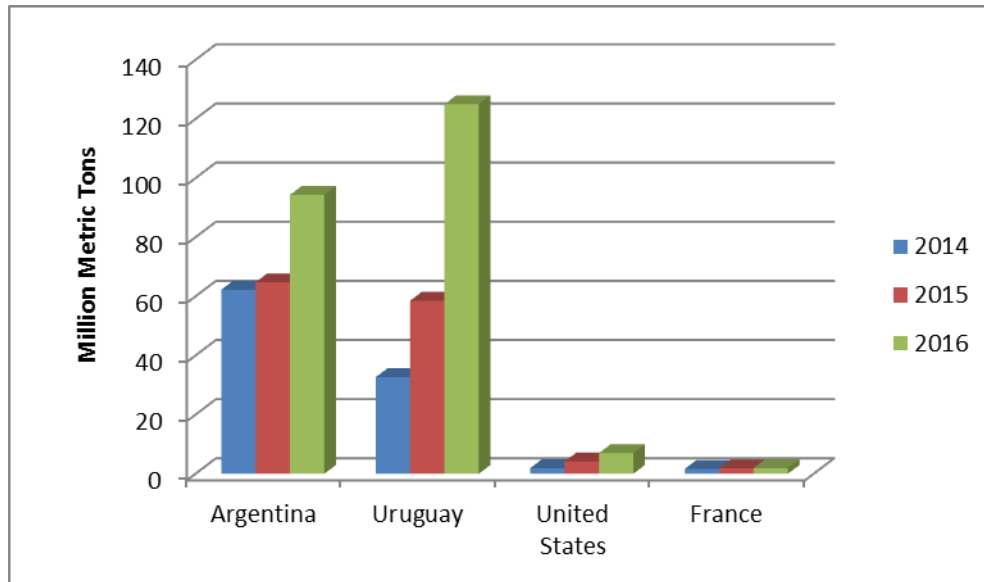
Chart: Brazil Dairy Imports – Value



Source: Global Trade Atlas

The United States continues to be competitive in other dairy ingredients such as sweet whey powder, whey protein concentrate and lactose, accounting for 3 percent of total imports in 2016.

Chart: Total Dairy Imports in Volume (MMT)



Source: Global Trade Atlas

Production, Supply and Demand Data Statistics:

Dairy, Dry Whole Milk Powder Market Begin Year	2016		2017		2018	
	Jan 2016		Jan 2017		Jan 2018	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Brazil						
Beginning Stocks	0	0	0	0	0	0
Production	545	550	585	598	0	610
Other Imports	126	126	100	70	0	60
Total Imports	126	126	100	70	0	60
Total Supply	671	676	685	668	0	670
Other Exports	14	14	21	5	0	6
Total Exports	14	14	21	5	0	6
Human Dom. Consumption	657	662	664	663	0	664
Other Use, Losses	0	0	0	0	0	0
Total Dom. Consumption	657	662	664	663	0	664
Total Use	671	676	685	668	0	670
Ending Stocks	0	0	0	0	0	0
Total Distribution	671	676	685	668	0	670

(1000 MT)

Dairy, Milk, Nonfat Dry Market Begin Year Brazil	2016		2017		2018	
	Jan 2016		Jan 2017		Jan 2018	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Beginning Stocks	0	0	0	0	0	0
Production	153	153	157	159	0	162
Other Imports	35	35	35	30	0	28
Total Imports	35	35	35	30	0	28
Total Supply	188	188	192	189	0	190
Other Exports	0	0	0	0	0	0
Total Exports	0	0	0	0	0	0
Human Dom. Consumption	188	188	192	189	0	190
Other Use, Losses	0	0	0	0	0	0
Total Dom. Consumption	188	188	192	189	0	190
Total Use	188	188	192	189	0	190
Ending Stocks	0	0	0	0	0	0
Total Distribution	188	188	192	189	0	190
(1000 MT)						