



USDA Foreign Agricultural Service

GAIN Report

Global Agriculture Information Network

Template Version 2.09

Required Report - Public distribution

Date: 10/20/2008

GAIN Report Number: BR8632

Brazil

Dairy and Products

Annual Dairy Report

2008

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Report Highlights:

Brazil's fluid milk production is forecast to increase by five percent in 2009 to 30 billion liters down from an eight percent increase in production this year, mostly due to projected record exports of dairy products and moderate growth of the domestic market. The impact of the world financial crisis on Brazil's dairy sector is unclear at this moment, although the current devaluation of the Brazilian currency is favoring dairy exporters. However, concerns remain about the increased costs of production combined with the recent decline in milk prices paid to producers.

Includes PSD Changes: Yes
Includes Trade Matrix: No
Annual Report
Brasilia [BR1]
[BR]

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Note: Data included in this report is not official USDA data. Official USDA data is available at <http://www.fas.usda.gov/psd>

Executive Summary

Post projects a moderate growth in milk production in 2009 after strong growth in the current year due to record producer prices combined with increasing productivity and higher domestic and export demand. The forecast for moderate growth in milk production in 2009 is based on higher export demand boosted by a higher devaluation of the Brazilian currency and a moderate economic growth which will likely maintain the current level of consumers' real income. However, there are some concerns within industry regarding the overall impact of the current world financial crisis on the Brazilian economy next year. These concerns include a possible increase in input costs for dairy production and shortage of credit for investments by major dairies, combined with a recent decline in milk prices received by producers.

Commodity Outlook, Fluid Milk

Production

Note: Official milk production data in Brazil does not include non-commercial and "informally" marketed milk, which represents about 33 percent of total milk production. Post estimates are based on interviews with trade and government sources and include commercial, as well as non-commercial and informally marketed milk.

Post forecasts fluid milk production in 2009 to increase to 30.3 billion liters, up 5 percent from the current year. The most important factor boosting milk production is the increase in exports due to the devaluation of the Brazilian currency and expected flat domestic consumption. The increase in production also reflects higher productivity, mostly derived from higher investments from milk producers associated with large Brazilian companies, and assumes good weather conditions in the major producing areas.

However, prices received by milk producers have begun to decline in the last quarter of 2008 due to current excess production. It is also uncertain how the current world financial crisis could impact the Brazilian economy in 2009 and affect milk and dairy production. One of the positive effects so far for dairy exporters is the current devaluation of the Brazilian currency which will likely boost exports of dairy products and reduce imports. However, the rising cost of milk production combined with declining milk prices received by producers may impact on the overall chain of milk and dairy production in 2009.

Consumption

Total consumption of fluid milk is forecast to increase by 3 percent in CY 2009. The increase is derived mostly from consumption for industrial use. The increase in the employment rate and in the purchasing power of Brazilian consumers is expected to be moderate next year due to the impact of the world financial crisis on the Brazilian economy.

According to trade sources, consumption of Ultra High Temperature (UHT) milk will continue to increase in 2009, and is expected to reach 92 percent of total fluid milk consumption in Brazil. The increase in consumption of UHT is due to several factors, including greater convenience to consumers, carton packaging (not glass or plastic), no need for refrigeration, and competitive pricing. Brazilian supermarkets sell predominantly UHT milk, leaving "C" and "B" type refrigerated fresh milk to be sold by the traditional mom-and-pop bread and convenience stores, but at lower volumes.

An important aspect of domestic fluid milk consumption is the increasing competition from non-dairy products, such as soymilk and other specialty lactose-free products. As more companies enter this specialty market, prices decline and consumption increases. Health concerns are behind the major increase in these non-dairy products.

Prices

São Paulo: Monthly Average Price Received by Producers				
for Fluid Milk, Type C, per Liter, Jan-Sep 2005-08:				
Month	2005	2006	2007	2008
Jan	0,5305	0,4280	0,5112	0,6513
Feb	0,5383	0,4512	0,5186	0,6837
Mar	0,5507	0,4609	0,5496	0,7110
Apr	0,5906	0,4985	0,5732	0,7554
May	0,6136	0,5216	0,6176	0,7776
Jun	0,6232	0,5257	0,6507	0,8050
Jul	0,5820	0,5425	0,7096	0,7925
Aug	0,5230	0,5546	0,7638	0,7637
Sep	0,5071	0,5460	0,7843	0,7173
Year Average	0,5621	0,5032	0,6310	0,7397
(in U.S.\$)	0.22	0.23	0.32	0.44

Source: Cepea

Trade

Brazil imports insignificant volumes of fluid milk. Most of the imports consist of packaged UHT milk sold by companies from Argentina and Uruguay with commercial interests in Brazil. However, Brazil is expanding exports of condensed milk to a diversified market, including Venezuela, Philippines, Paraguay, and the United States.

Tariff Rate Table

Tariff Number (HTS)	Product Description	Rate (%) (1)	Other Info
0401.10.10	Milk and Cream, UHT	14	Mercosul: Zero
0401.10.90	Milk and Cream, UHT	12	Mercosul: Zero

Note: (1) MERCOSUL's Common External Tariff (CXT). The CXT is applied to all imports other than from MERCOSUL. These tariffs are assessed on the CIF value of the product.

Stocks

There are no government stocks of milk or milk products in Brazil.

Policy

The new Agricultural and Livestock Plan for the 2008/2009 season announced in July 2008, by the federal government allocates nearly US\$50 billion in total credit for the agricultural sector, up 11 percent from the previous year. The credit lines are split into two major categories: first, operation and marketing credit of US\$31 billion; and, second investment credit at US\$9 billion.

Dairy cattle producers and dairies can benefit from the following programs, with subsidized interest rates (6.75 percent per year), to increase productivity and overall milk production:

- a) MODERAGRO. This program was revised last year and incorporated several previous investment credit programs. For the 2008/2009 marketing year, the total amount of funds allocated under this program is over US\$500 million. The program was initially designed for pasture improvement and was modified to include soil erosion and conservation of lowlands. MODERAGRO also incorporated a previous program called PROLEITE, which is designed to modernize milk producer's operations, provide incentives for cooling milk at the farm, transportation, and silage.
- b) MODERFROTA. This program is designed to finance farm equipment in general. Total funds allocated under this program for 2008/2009 are US\$1.6 billion.
- c) MODERINFRA. This program allows dairy producers to build or rebuild silos and warehouses on their farms. The program was recently modified to include irrigation systems. Funds allocated to this program during 2008/2009 are US\$625 million.

Milk producers are also 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 by producers and cooperatives. This benefit, however, is only available for a few states in Brazil, mostly in the center-west and south regions.

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

Commodity Outlook, 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 2009 to increase by nearly five percent boosted mostly by project record exports of cheese and continued firm domestic demand for cheese, principally from the fast-food industry, although at a slower rate.

Consumption

Human consumption of fresh cheese is expected to continue to increase in 2009, although at a moderate rate reflecting lower consumer confidence. However, most of the increase in demand will continue to come from the fast-food industry, institutional, and domestic consumers of other "specialty" cheeses (Gruyere, Gouda, and Cheddar).

Prices

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

Type	US\$/Kilogram
Minas (fresh farmer type)	5.95
Mozzarella	5.32
Provolone	6.77
Parmesan	8.53

Notes: (1) Prices for Sao Paulo market, as of 10/20/2008.
 (2) Current Exchange Rate: US\$ 1.00=R\$2.17

Trade

Cheese imports in 2009 are expected to drop from the 2008 level because of the devaluation of the Brazilian currency. Argentina and Uruguay remain as the main suppliers of cheese to Brazil, basically because of the preferential tariff treatment deriving from the MERCOSUL Agreement.

Record exports of cheese are projected for 2009. The main reason for increased exports is the increasing competitiveness of the Brazilian products, because of the devaluation of the Brazilian currency.

Tariff Rate Table

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

Commodity Outlook, 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 2.3 percent in CY 2009, reflecting an increase in domestic demand, despite strong competition from margarine. Production of margarine is expected to rise above one million metric tons in 2009, up 5 percent from 2008. Imports and exports of butter are insignificant in terms of volume, and are primarily done with Mercosul partners, mostly Argentina and Uruguay.

Prices

Type	US\$/kilogram
Salted	No quote
Unsalted	4.47

Notes: (1) Prices for Sao Paulo market, as of 10/20/2008.

(2) Average Exchange Rate: US\$ 1.00=R\$ 2.17

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.

Commodity Outlook, Powdered Milk

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 total powdered milk production to increase by nearly 10 percent in 2009 to 780,000 metric tons, of which 82 percent is whole milk powder (WMP), and 18 percent is nonfat dry milk powder (NDM). The following factors support higher Brazilian powdered milk production in 2009:

- a) Expansion of production capacity due to the long-term investment funds provided by the National Bank of Economic and Social Development (BNDES) at subsidized interest rates.
- b) Higher sanitary standards for imported milk, combined with higher import tariffs and import prices, which reduced imports of subsidized milk and led multinational and Brazilian companies to invest in powdered milk production.
- c) Higher allocation of government funds for social programs at the federal and state levels; and,
- d) Higher exports, mostly whole milk powder.

Consumption

Post forecasts powdered milk consumption to increase in 2009 nearly four percent, in view of the moderate forecast in economic growth. In addition, the federal government will likely continue to allocate funds for social programs designed to fight poverty and hunger.

Prices

Average wholesale prices of powdered milk, by type, are:

Type	US\$/kilogram
Whole milk powder	16.74
Nonfat dry milk powder	No quote

Notes: (1) Prices for Sao Paulo market, as of 07/20/2008.
(2) Average Exchange Rate: US\$ 1.00=R\$ 1.60

Trade

Imports of powdered milk (both whole and nonfat) in 2009 are estimated to decline in view of the devaluation of the Brazilian currency. Argentina and Uruguay are the major suppliers of powdered milk to Brazil, accounting together for 86 percent of total imports, comprised mostly of whole milk powder (83 percent of the total imported). The United States is not competitive in the Brazilian market for powdered milk, but it is competitive for other dairy products such as whey powder and lactose.

Tariff Rate Table

Tariff Number (HTS)	Product Description	Rate (%) CXT *	Other Info
0402.21.10	Whole Milk Powder (1)	16	Mercosul: 27%
0402.21.20	Nonfat Milk, Powder (1)	16	Mercosul: 27%
0404.10.00	Whey Powder (2)	14	Mercosul: 27%

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

Notes:

- (1) Effective June 1, 2001, milk powder was included in the "exception list" of the Common External Tariff (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 percent tax is charged to all markets in addition to the import tariff of 16 percent to all markets, including MERCOSUL members.
- (2) Effective August 26, 2002, whey powder was included in the "exception list" of the Common External Tariff (CXT), of MERCOSUL, per Resolution 21, of the Foreign Trade Chamber (CAMEX), published in the Diario Oficial (Brazil's Federal Register) on August 26, 2002. The 27 percent tax is charged in addition to the Import Tariff of 14 percent to all markets, including MERCOSUL members.
- (2) In addition to the above tariffs, the Brazilian Foreign Trade Board (CAMEX) published the final report of their official dumping investigation, with the following results:

Country	Companies	Applied Rates (%)
New Zealand	New Zealand Dairy Board	3.9
	All other companies	3.9
European Union	All companies, except Arla Foods	14.8
	Ingredients Amba (see note below) Cerealín S.A.	16.9
Uruguay	All companies (see note below)	16.9

Note: Argentina, and later Uruguay, negotiated with Brazilian officials a minimum export price for powdered milk exports to Brazil. Arla Foods Ingredients Amba from Denmark also negotiated a minimum export price. The minimum price was established at US\$ 1,900 per metric ton, FOB, and calculated using USDA's price list.

Stocks

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

Policy

Please see section under Fluid Milk

Tables

PSD: Dairy, Milk, Fluid

Dairy, Milk, Fluid Brazil	2007			2008			2009		
	2007			2008			2009		
	Market Year Begin: Jan 2007			Market Year Begin: Jan 2008			Market Year Begin: Jan 2009		
	Annual Data Displayed		New Post	Annual Data Displayed		New Post	Annual Data Displayed	Jan	
			Data			Data		Data	
Cows In Milk	15925	15925	15925	16700	16700	16700		17023	(1000 HEAD)
Cows Milk Production	26750	26750	26750	28890	28890	28890		30335	(1000 MT)
Other Milk Production	0	0	0	0	0	0		0	(1000 MT)
Total Production	26750	26750	26750	28890	28890	28890		30335	(1000 MT)
Other Imports	10	10	5	10	10	3		2	(1000 MT)
Total Imports	10	10	5	10	10	3		2	(1000 MT)
Total Supply	26760	26760	26755	28900	28900	28893		30337	(1000 MT)
Other Exports	2	2	2	2	2	1		2	(1000 MT)
Total Exports	2	2	2	2	2	1		2	(1000 MT)
Fluid Use Dom. Consum.	14582	10170	10170	15756	10680	10674		11230	(1000 MT)
Factory Use Consum.	11645	16057	16052	12582	17658	17658		18505	(1000 MT)
Feed Use Dom. Consum.	531	531	531	560	560	560		600	(1000 MT)
Total Dom. Consumption	26758	26758	26753	28898	28898	28892		30335	(1000 MT)
Total Distribution	26760	26760	26755	28900	28900	28893		30337	(1000 MT)
CY Imp. from U.S.	0	0	0	0	0	0		0	(1000 MT)
CY. Exp. to U.S.	0	0	0	0	0	0		0	(1000 MT)

PSD: Dairy, Cheese

Dairy, Cheese Brazil	2007			2008			2009			
	2007			2008			2009			
	Market Year Begin: Jan 2007			Market Year Begin: Jan 2008			Market Year Begin: Jan 2009			
	Annual Data Displayed		New Post	Annual Data Displayed		New Post	Annual Data Displayed		Jan	
			Data			Data			Data	
Beginning Stocks	0	0	0	0	0	0		0	(1000 MT)	
Production	580	580	580	640	640	630		660	(1000 MT)	
Other Imports	5	5	4	5	5	5		4	(1000 MT)	
Total Imports	5	5	4	5	5	5		4	(1000 MT)	
Total Supply	585	585	584	645	645	635		664	(1000 MT)	
Other Exports	7	7	8	10	10	8		10	(1000 MT)	
Total Exports	7	7	8	10	10	8		10	(1000 MT)	
Human Dom. Consumption	578	578	576	635	635	627		654	(1000 MT)	
Other Use, Losses	0	0	0	0	0	0		0	(1000 MT)	
Total Dom. Consumption	578	578	576	635	635	627		654	(1000 MT)	
Total Use	585	585	584	645	645	635		664	(1000 MT)	
Ending Stocks	0	0	0	0	0	0		0	(1000 MT)	
Total Distribution	585	585	584	645	645	635		664	(1000 MT)	
CY Imp. from U.S.	0	0	0	0	0	0		0	(1000 MT)	
CY. Exp. to U.S.	1	1	0	0	0	0		0	(1000 MT)	

PSD: Dairy, Butter

Dairy, Butter Brazil	2007			2008			2009			
	2007			2008			2009			
	Market Year Begin: Jan 2007			Market Year Begin: Jan 2008			Market Year Begin: Jan 2009			
	Annual Data Displayed		New Post	Annual Data Displayed		New Post	Annual Data Displayed		Jan	
			Data			Data			Data	
Beginning Stocks	0	0	0	0	0	0		0	(1000 MT)	
Production	82	82	82	85	85	84		86	(1000 MT)	
Other Imports	2	2	1	2	2	1		1	(1000 MT)	
Total Imports	2	2	1	2	2	1		1	(1000 MT)	
Total Supply	84	84	83	87	87	85		87	(1000 MT)	
Other Exports	2	2	3	2	2	4		5	(1000 MT)	
Total Exports	2	2	3	2	2	4		5	(1000 MT)	
Domestic Consumption	82	82	80	85	85	81		82	(1000 MT)	
Total Use	84	84	83	87	87	85		87	(1000 MT)	
Ending Stocks	0	0	0	0	0	0		0	(1000 MT)	
Total Distribution	84	84	83	87	87	85		87	(1000 MT)	
CY Imp. from U.S.	0	0	0	0	0	0		0	(1000 MT)	
CY Exp. to U.S.	0	0	0	0	0	0		0	(1000 MT)	

PSD: Dairy, Dry Whole Milk Powder

Dairy, Dry Whole Milk Powder Brazil	2007		2008		2009		
	2007		2008		2009		
	Market Year Begin: Jan 2007		Market Year Begin: Jan 2008		Market Year Begin: Jan 2009		
	Annual Data Displayed		Annual Data Displayed		Annual Data Displayed		
		New Post Data		New Post Data	Jan Data		
Beginning Stocks	0	0	0	0	0	0	(1000 MT)
Production	505	505	526	535	535	580	640 (1000 MT)
Other Imports	20	20	19	20	20	20	15 (1000 MT)
Total Imports	20	20	19	20	20	20	15 (1000 MT)
Total Supply	525	525	545	555	555	600	655 (1000 MT)
Other Exports	27	27	42	32	32	75	110 (1000 MT)
Total Exports	27	27	42	32	32	75	110 (1000 MT)
Human Dom. Consumption	498	498	503	523	523	525	545 (1000 MT)
Other Use, Losses	0	0	0	0	0	0	0 (1000 MT)
Total Dom. Consumption	498	498	503	523	523	525	545 (1000 MT)
Total Use	525	525	545	555	555	600	655 (1000 MT)
Ending Stocks	0	0	0	0	0	0	0 (1000 MT)
Total Distribution	525	525	545	555	555	600	655 (1000 MT)
CY Imp. from U.S.	0	0	0	0	0	0	0 (1000 MT)
CY. Exp. to U.S.	0	0	0	0	0	0	0 (1000 MT)

PSD: Dairy, Nonfat Dry

Dairy, Milk, Nonfat Dry Brazil	2007			2008			2009			
	2007			2008			2009			
	Market Year Begin: Jan 2007			Market Year Begin: Jan 2008			Market Year Begin: Jan 2009			
	Annual Data Displayed		New Post	Annual Data Displayed		New Post	Annual Data Displayed		Jan	
			Data			Data			Data	
Beginning Stocks	0	0	0	0	0	0		0	(1000 MT)	
Production	128	128	128	135	135	133		140	(1000 MT)	
Other Imports	4	4	4	5	5	6		5	(1000 MT)	
Total Imports	4	4	4	5	5	6		5	(1000 MT)	
Total Supply	132	132	132	140	140	139		145	(1000 MT)	
Other Exports	5	5	4	8	8	1		2	(1000 MT)	
Total Exports	5	5	4	8	8	1		2	(1000 MT)	
Human Dom. Consumption	127	127	128	132	132	138		143	(1000 MT)	
Other Use, Losses	0	0	0	0	0	0		0	(1000 MT)	
Total Dom. Consumption	127	127	128	132	132	138		143	(1000 MT)	
Total Use	132	132	132	140	140	139		145	(1000 MT)	
Ending Stocks	0	0	0	0	0	0		0	(1000 MT)	
Total Distribution	132	132	132	140	140	139		145	(1000 MT)	
CY Imp. from U.S.	0	0	0	0	0	0		0	(1000 MT)	
CY. Exp. to U.S.	0	0	0	0	0	0		0	(1000 MT)	