Required Report: Required - Public Distribution **Date:** October 18, 2021

Report Number: BR2021-0042

Report Name: Dairy and Products Annual

Country: Brazil

Post: Brasilia

Report Category: Dairy and Products

Prepared By: Saulo Nogueira

Approved By: Evgenia Ustinova

Report Highlights:

Post estimates milk production in 2021 will decrease by 0.5 percent, to 24.85 million metric tons (MMT). In 2022, production is forecast to grow one percent, reaching 25.1 MMT. Brazil's 2021 factory milk consumption is expected to fall 0.8 percent, to 16.51 MMT due to rising production costs and unstable dairy consumption, considering the economic uncertainties in the country. In 2022, factory consumption is expected to increase 0.9 percent, reaching 16.67 MMT. As for dairy products, 2021 saw growing production costs and lackluster demand, mainly because of rising prices and the lower household incomes. Nonetheless, production levels of cheese, butter, and milk powder (both whole and nonfat) had small increases during the year, in part due to the ending of lockdowns and the return of operations of the food service industry. In 2022, dairy production and demand should remain relatively unchanged.

Fluid Milk

Dairy, Milk, Fluid	2020		2021		2022	
Brazil	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Cows In Milk	16200	16400	16400	16646		16896
Cows Milk Production	23505	24965	24000	24845		25093
Other Milk Production	3000	3050	2970	2980		3004
Total Production	26505	28015	26970	27825		28097
Other Imports	0	0	0	0		0
Total Imports	0	0	0	0		0
Total Supply	26505	28015	26970	27825		28097
Other Exports	0	0	0	0		0
Total Exports	0	0	0	0		0
Fluid Use Dom. Consum.	11010	11155	11100	11120		11231
Factory Use Consum.	15310	16650	15690	16510		16666
Feed Use Dom. Consum.	185	195	180	195		200
Total Dom. Consumption	26505	28000	26970	27825		28097
Total Distribution	26505	28000	26970	27825		28097

Units: 1000 MT (except Cows in milk: 1000 Heads).

Product classification HTS: 0401.10; 0401.20.

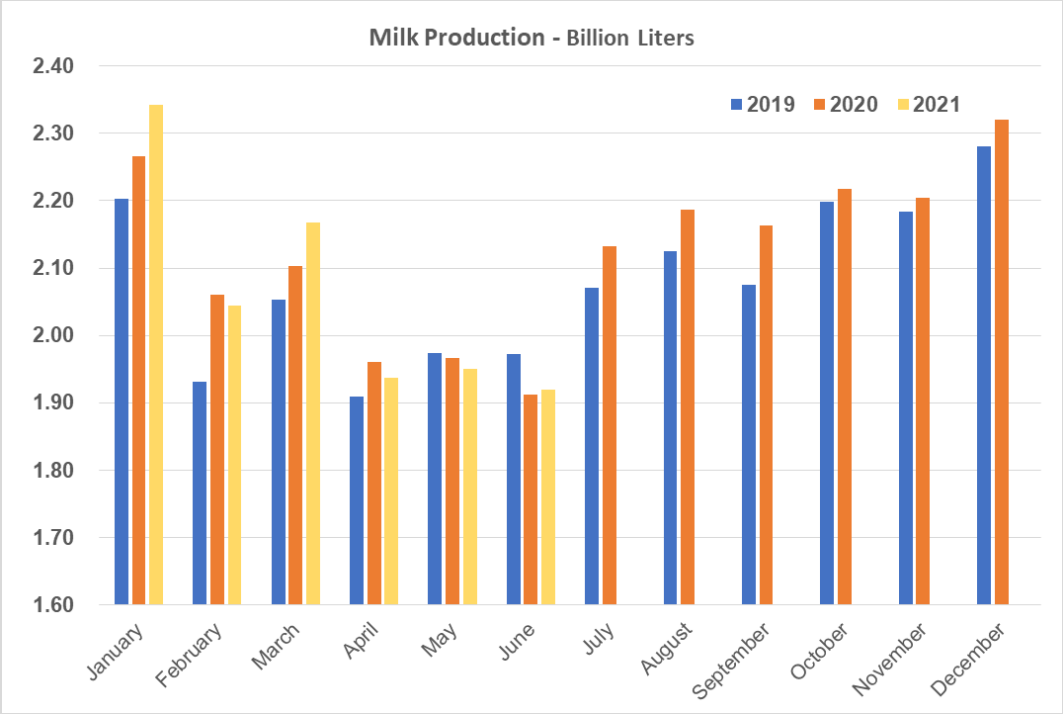
Note: PS&D data for fluid milk are reported in 1,000 metric tons and not in 1,000 kiloliters. One liter of cow's milk weighs approximately 1.03 kg.

Production

Post estimates milk production in 2021 will reduce by 0.5 percent, to 24.85 million metric tons (MMT). In 2022, on the other hand, production is expected to grow 1 percent, reaching 25.1 MMT. Brazil's milk production tends to follow cyclical weather patterns that impact pasture conditions, which is the main cattle feed used in Brazil (whether grass or grazed forage), especially in open pasture and semi-confinement systems. There are many milk producers with a wide range of production practices and management strategies. Farm systems vary from low input grazing to high input confinement systems. Typically, there is a fall in production during the Brazilian autumn months, i.e. from April until June, due to the dry season that results in poorer pasture conditions. Conversely, milk production is greater during the summer months, when heavier rainfall provides abundant pasturelands. Notably, despite the uncertainty caused by the spread of the COVID-19 virus throughout the country in first half of last year, the overall milk production for 2020 was higher than 2019.

In 2021, milk production is following a pattern similar to that of 2020, with the exception of January and March, when production was around 100 million liters greater than that time the

previous year. Although the initial stage of the pandemic crisis caused a noticeable reduction in demand for dairy products from food service channels, especially restaurants, demand from household consumption increased. Dairy producers have adapted themselves to the new context brought by the pandemic, either by diverting their production to different sales channels, or by changing their product's features, such as size and packaging. The social distancing policies adopted in the country made most of the population spend more time at home, where they consumed more food bought in supermarkets. The increase in dairy consumption by most Brazilians, however, occurred mainly during months when the government provided a crisis relief support payment - known as the 'Corona-voucher', of values ranging from 200 to 600 Reais. According to industry representatives, this financial support made an important difference in the consumption of dairy products.



Data Source: IBGE – Pesquisa Trimestral do Leite

Herd Size

Brazil's cow herd size has been falling since 2013, more recently due to the high carcass prices that incentivized ranchers to sell their animals. This has reduced the number of milk-producing cows from around 39 million in 2013 to 29 million in 2020, i.e. a 25 percent drop in seven years. The cattle size is expected to fall further in 2021, around 1.5 percent to 28.58 million heads. In line with the decrease in the number of beef cows last year, the number of milk cows decreased 0.6 percent from 2019 to 2020, and Post expects a 1.5 percent growth in 2021. Milk production is expected to grow 0.5 percent in 2021, reaching 25.1 MMT. (For a more detailed explanation on the cow herd dynamics see 2021 Brazil Annual GAIN Report on Livestock - BR2021-0032)

The onset of the pandemic crisis increased Brazil's inflation, including for agricultural

production costs in general. For the milk and dairy producers, the costs increased for feed (mainly corn and soybeans), fertilizers, diesel, electric energy, and transportation costs. For the dairy producers, an additional concern has been the rising electricity costs, in part because of low water levels at the hydroelectric power dams. The impact of the rising feed costs has been large, especially to milk producers that use semi- or fully confined production systems, while farmers that use open pastures for grazing did not experience this rise in costs for feeding their cows. In the State of Paraná, Post observed dairy farmers who were considering and using feed other than corn or soybeans due to the rising costs, most considering different forage types (that are grown in the region). Nonetheless, a noticeable portion of small milk producers are abandoning the activity because they are operating at a loss/deficit, while others are selling their cows to pay their debts. This has been the case especially in the south of Brazil, where the higher land costs and opportunity-costs of lands are making farmers switch from cattle raising/milk production to growing crops. Soybeans and corn are easier to grow and export, global demand is less volatile and high, and prices of these crops are currently at high levels.

Regional Production and Productivity

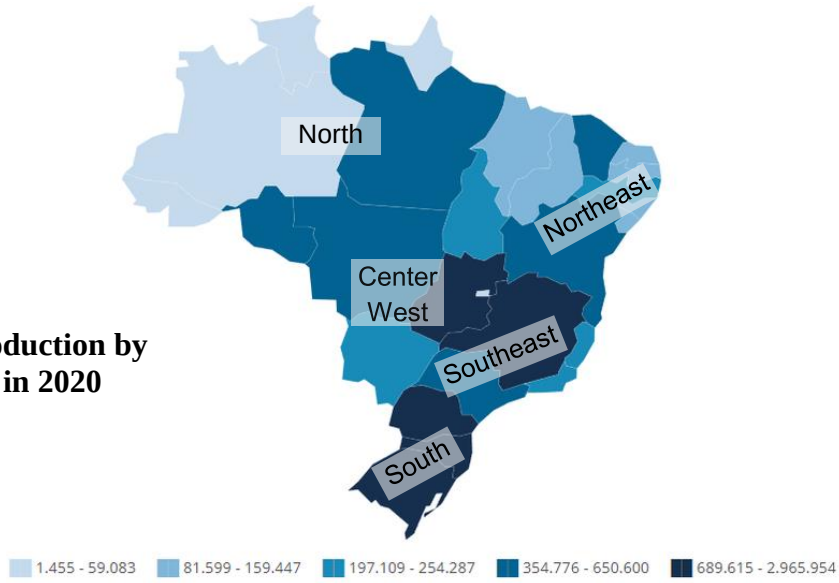
Milk is produced in all states, across the five regions of Brazil, as shown in the map below. However, most of the production - around 70 percent of Brazil's milk production - is concentrated in the South and Southeast regions (the darker colored states of the map). According to the IBGE, total milk production in 2020 was 30.1 million liters (31 MMT), an increase of 2.1 percent compared to the previous year. In 2020, the South produced 9.9 million liters of cow milk (10.2 MMT), which is 33 percent of national production, while the Southeast produced 11.1 million liters (11.4 MMT), which is 36.9 percent of national production. The southeastern state of Minas Gerais is Brazil's largest milk producer, accounting for 29 percent of total milk production in 2020. Rio Grande do Sul and Paraná accounted for 13 percent and 10 percent, respectively.

Milk Production by Region in 2020

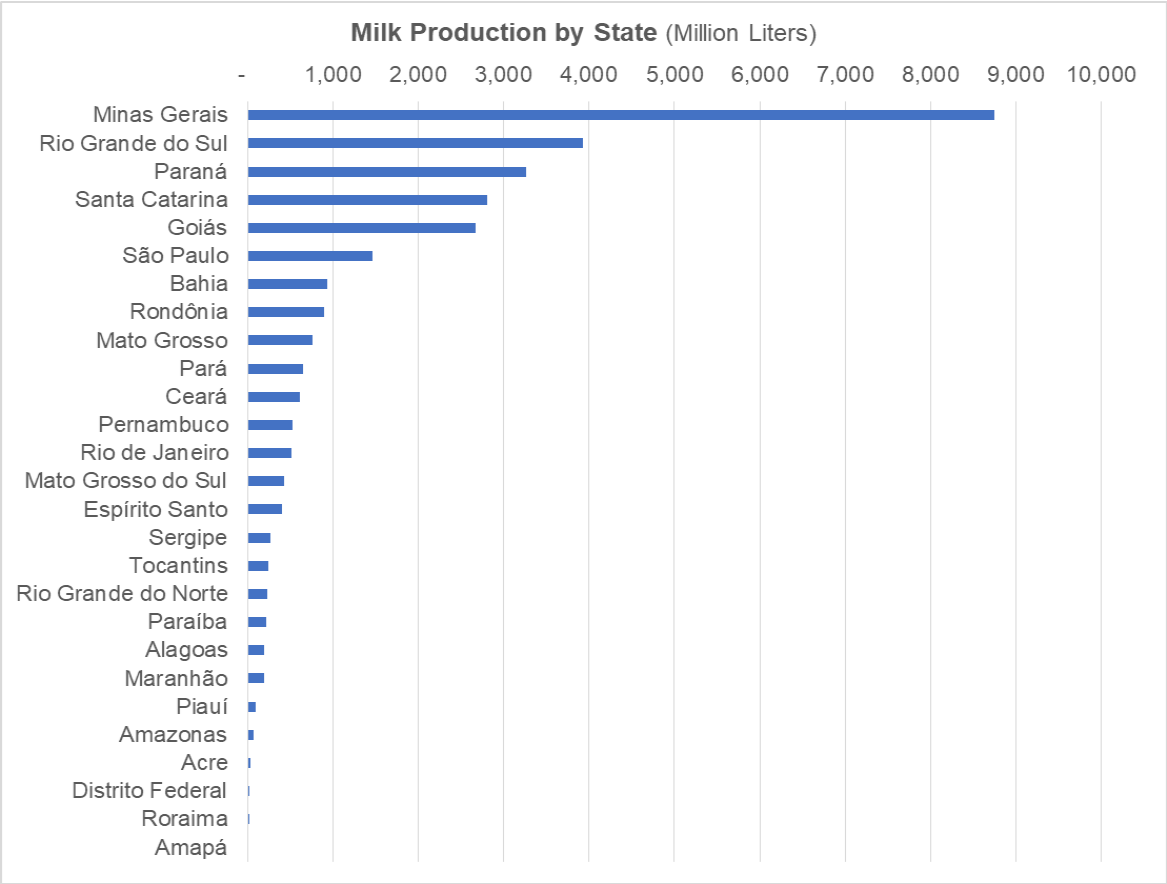
Region	Million Liters
Southeast	11,124
Northeast	3,253
North	1,906
Center-West	3,874
South	9,999
Total	**30,156**

Data source: IBGE

Milk Production by State in 2020



Values in 1000 Liters.
Data source: IBGE.



Data Source: IBGE

There are currently an estimated 1,822 dairies in Brazil. The state of Minas Gerais has the largest number of dairies, as well as some of the largest operations in the country, with farm sizes averaging up to 100 hectares. In contrast, the state of Parana has less than half the number of large operations as Minas Gerais. Rio Grande do Sul is the third-largest milk-producing state by volume, due to a large number of medium and small properties, where dairy farms have an average size of 30 hectares.

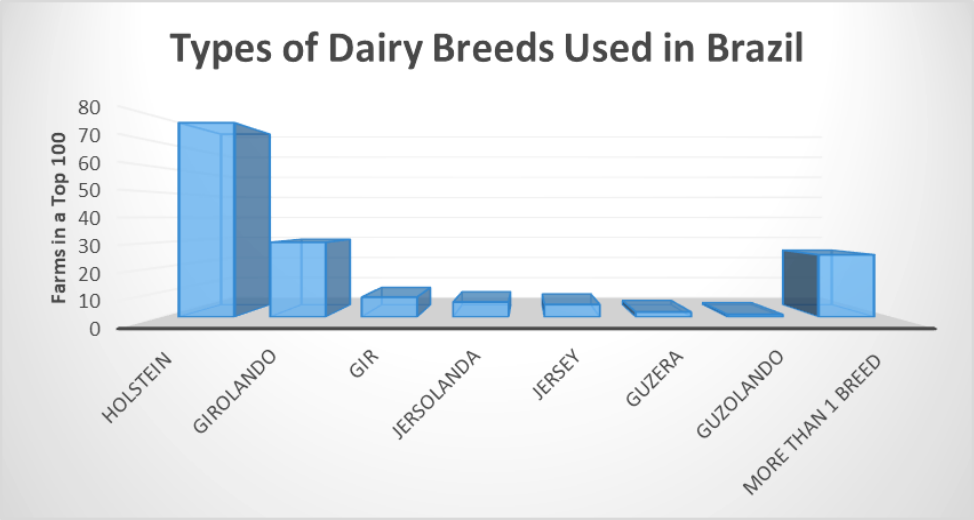
Region	Liters/head per day
South	10.70
Southeast	7.58
Center-West	4.90
Northeast	2.22
North	1.69
Brazil	**6.02**

Data Source: IBGE

The productivity of cows varies considerably depending on the region of the country. While in the South, each cow produced an average 10.7 liters per day as of 2020, in the north cows generated merely 1.7 liters per day each. Different breeds, pasture availability and quality, supplemental feed and production techniques explain these differences. According to IBGE, the average productivity per cow in Brazil (liter/animal/day) has been rising since 2012 and was 6.0 liters por cow per day in 2020.

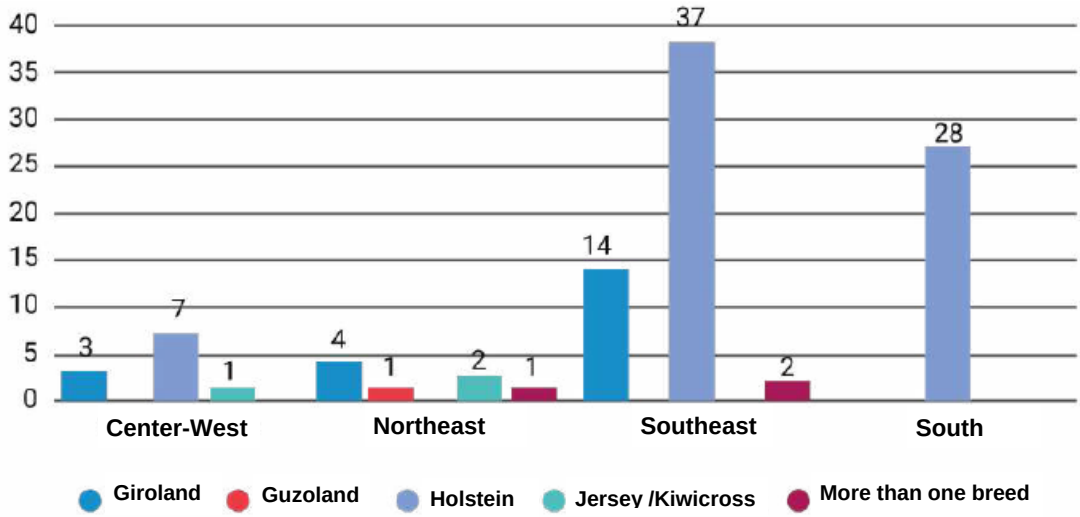
Cow Breeds

According to research done by Milkpoint in 2021, milk producers prefer the Holstein breed, which is present in 72 of the 100 largest farms in the country. The Girolando breed is used by 21 of the top 100 dairies. A quarter of the 100 biggest dairies report using more than one breed on their farm. With improving genetics and the use of the Holstein breed, productivity is on the rise. Post visited dairy farms in the State of Paraná, where producers used Holstein to ensure higher levels of productivity, necessary to compete in the competitive milk sector. Brazil is not a significant importer of live cattle, but a major importer of beef and dairy cattle genetics, and the United States has been the traditional supplier.



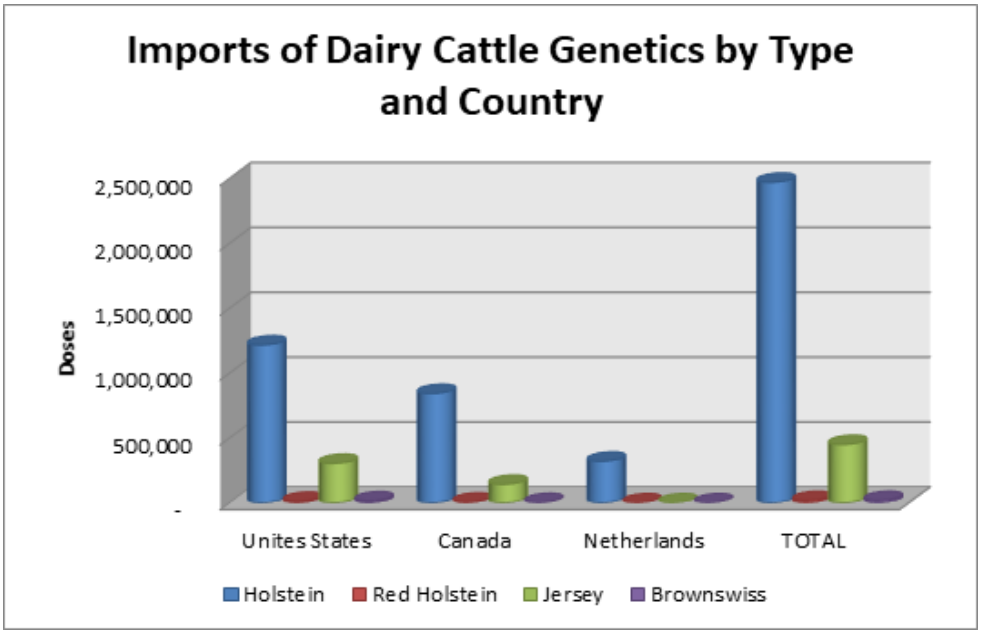
Data Source: MilkPoint (Levantamento Top 100, 2021).

Cow breeds used in different Regions in the top 100 milk producers - 2020



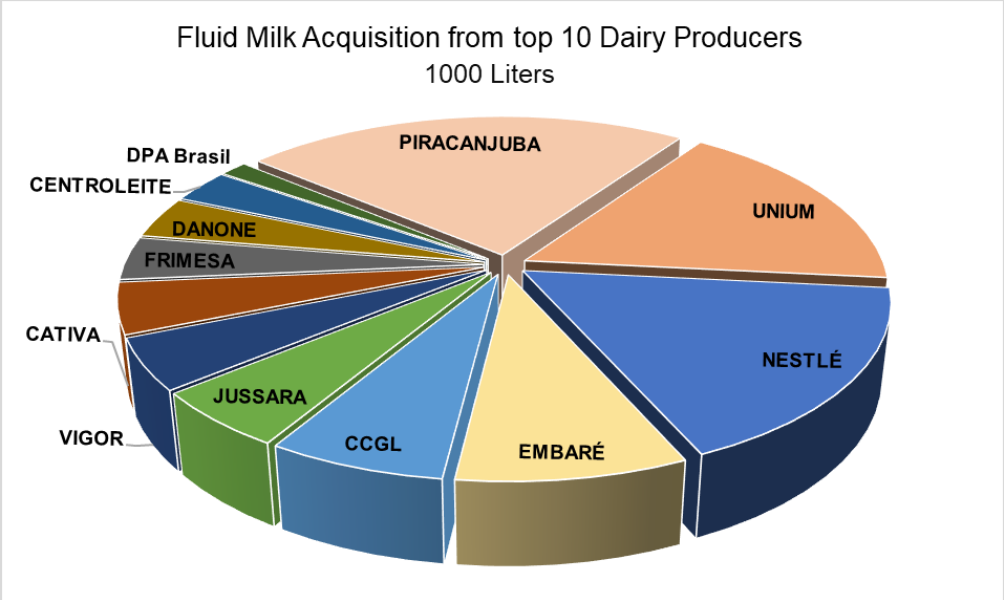
Data Source: Milkpoint.

Most of the dairy farms in Brazil are confinement operations, while 14 percent have a pasture-based system, and 22 percent have mixed systems ('semi-confinado'). In the Northeast region, cows generally have access to pasture, while in the South and Southeast regions, where most Brazilian milk is produced, it is more common to use a confined feeding system, with animals not exposed to grazing throughout the year. Dairy cows on large properties located in the South and Southeast regions are commonly housed in free-stall barns. The compost dairy barn is another system used in many dairy farms and some experts recommend this as a housing method to prevent mastitis. Other farms use the more economical system of loose housing, which is defined as a system where animals are kept loose except for milking and at the time of treatment.



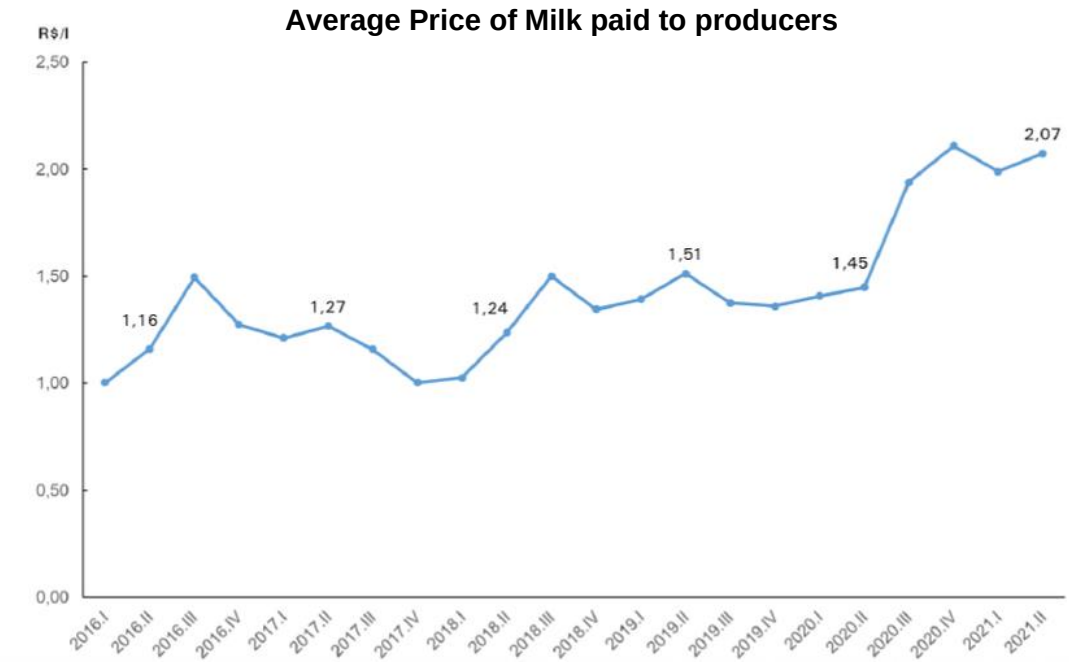
Data Source: Brazilian Artificial Insemination Association (ASBIA)

The Brazilian dairy sector has undergone a consolidation process in recent years, which has continued during the pandemic crisis. The pie chart below shows the 10 largest dairy producers in terms of milk acquisition. Recently, the consolidation of national companies allowed them to outgrow the large French multinational Nestlé.



Data Source: Embrapa (Anuário do Leite)/Leite Brasil

Prices

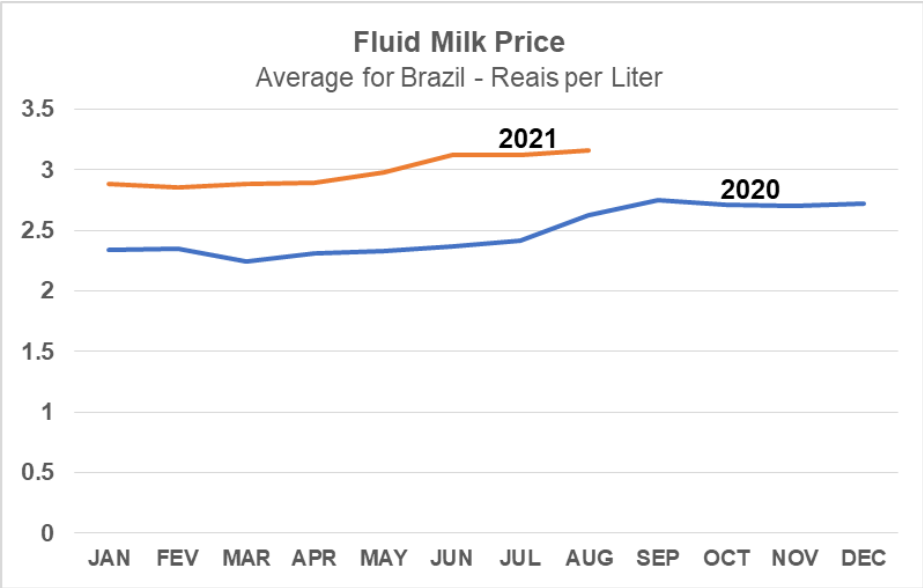


Data Source: CEPEA/Esalq.

Historically, milk prices paid to producers follow a specific seasonality, related to rainfall and, consequently, the availability of pastures. Since 2016, milk prices (paid to producers) has grown slowly until early 2020. Since the onset of the Covid-19 crisis, however, prices increased at a faster rate, as shown in the graph. The average domestic price of a liter of milk

increased from R$ 1.45 in the first quarter of 2020, up to R$ 2.07 in the second quarter of 2021 (CEPEA/Esalq). Several factors explain this rise: unfavorable climate conditions, uncertain demand levels, rising feed and production costs. The prices levelled off in 2021 as demand fell due to the lower incomes, associated with the economic slowdown and the end of the 'Corona-vouchers'.

As shown in the graph, milk prices increased only slightly in the second half of 2020, but reached a level around 20 percent higher in the first half of 2021. A reason for the milk prices not increasing more in 2020 was the increasing imports of milk powder and cheese during the year. Milk prices are likely to continue growing slowly until the end of 2021, as there are no clear signs of feed costs, production costs, and general inflation falling soon.



Data Source: CEPEA/Esalq

The UHT milk price rose more than regular milk during the pandemic, especially in 2020, resulting in a larger price difference between the two types of milk. For instance, the UHT was R$ 0.81 per liter more expensive than regular milk in September 2020, whereas there was no price difference between the two in January-February 2020. A possible explanation is the greater demand for UHT /long-shelf-life milk during a pandemic crisis, as there is generally a fear of food shortages.

Consumption

Post estimates fluid milk consumption in 2021 will remain relatively stable, rising by only 0.2 percent, to 28.07 MMT, a revised forecast from Post's previous projection. For 2022, Post forecasts fluid milk consumption to increase by one percent year-over-year, to 28.35 MMT, considering that Brazil is still likely to be recovering from an economic recession.

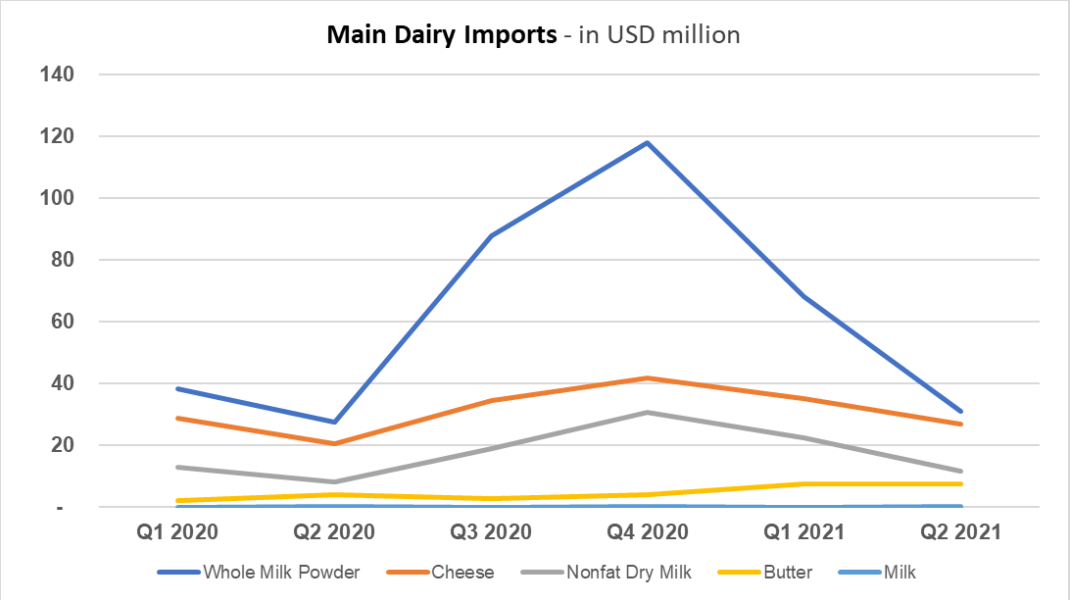
Milk Alternatives – In Brazil there are several milk categories that are growing in popularity, such as the "dairy drinks". These are products composed of no more than 50 percent fluid milk and contain flavorful ingredients (such as chocolate, strawberry flavor, starch, fruit juice), in the formulation. This segment has been growing, as reported in the previous GAIN report (BR2020-0042), and will likely continue doing so in the coming years. The popularity of other "milk alternatives" continues to expand, resulting in retailers dedicating more shelf space to these products instead of fluid milk.

Condensed Milk - This segment has an important share in the Brazilian dairy sector, using over 1 billion liters of milk per year for its production. Its consumption rose in 2020, including during the pandemic crisis, by 4.5 percent, in terms of volume, and the average prices also increased due to the higher demand from households.

Cream - This product also experienced a growth in sales during the pandemic crisis. In 2020, sales increased 5.5 percent in volume and 3 percent in value. This increase is mainly due to the 'Corona-voucher', which allowed families to spend more on food consumption.

Dairy Trade

The COVID-19 pandemic altered some dairy consumption patterns in Brazil, which also impacted trade. The beginning of the pandemic witnessed a growing demand for dairy products, especially for long-lasting UHT milk, as social-distancing measures became more widely adopted. The upper-middle class increased their consumption of various dairy products, including imported cheese, as shown by in the graph below. Imports of dairy powder spiked in second half of 2020 and the beginning of 2021 due to growing consumer demand for foods, which made dairy producers use milk powder in manufacturing their dairy products. More on the implications of the pandemic on Brazil's agriculture and dairy sectors is described after this 'Milk section' of the report.

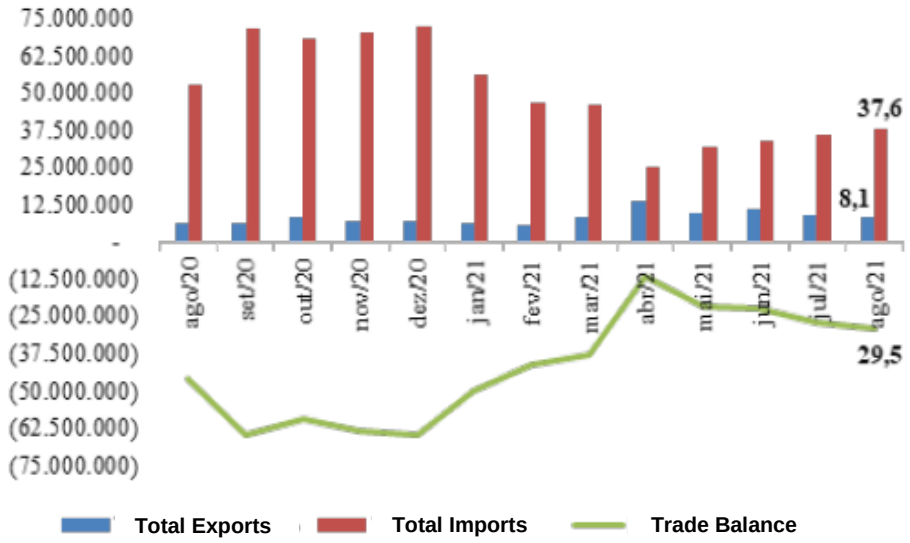


Data Source: Secretariat of Foreign Trade (Secex) - Ministry of Economy

Brazil imports and exports insignificant volumes of fluid milk, while small volumes of packaged UHT milk are imported from Argentina and Uruguay. Brazilian food processors import milk powder due to its shelf life, quality, and versatility. Brazil exports milk cream (classification HS 0401.10), which can be considered a type of 'fluid milk', however, it is not

considered as part of this 'Fluid milk' section's category. Nonetheless, Brazil exported on average 8 thousand MT per year of milk cream over the past five years. Brazil`s trade balance for dairy products has been negative for many years, although in 2021 the deficit has become smaller (see graph below). However, this reduction in the deficit is due to smaller import values, rather than due to growing exports.

Dairy Trade Balance (in US Dollars)



Data Source: Secretariat of Foreign Trade (Secex) - Ministry of Economy

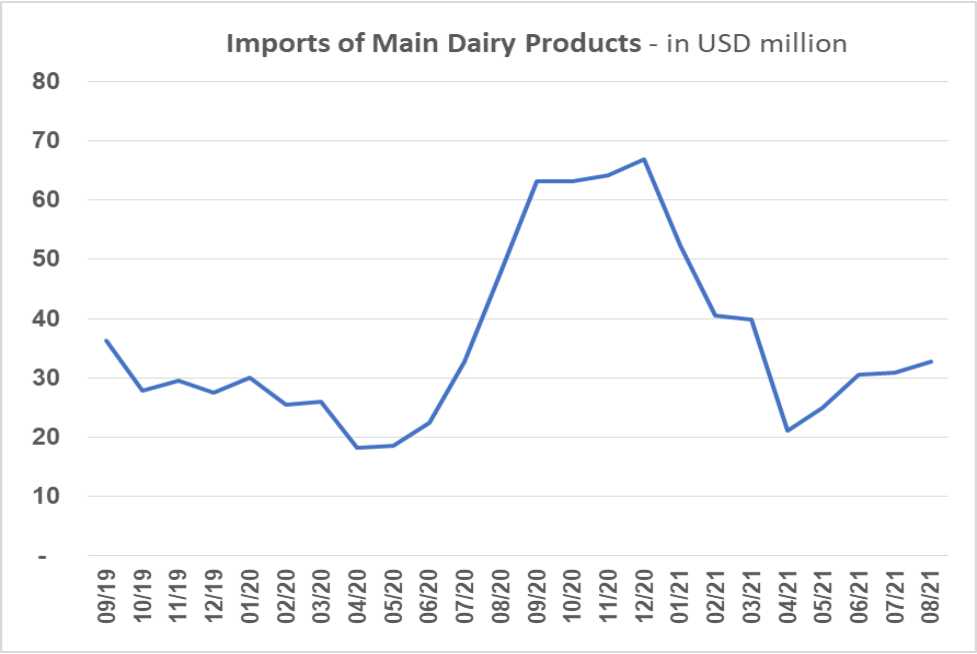
Stocks

Current milk and dairy product stocks held by major dairy companies are considered operating stocks to meet short-term demand – usually between one to three months' worth of stocks. There are no government-held stocks of milk or milk products in Brazil.

Brazilian Dairy industry

Most dairy manufacturers do not focus on a single product, but rather have around three types of dairy products that they produce, according to the market conditions. This flexibility is essential, given that consumer demand is relatively elastic according to price changes, which in turn is dependent on variables that are hard to predict, such as prices of animal feed, electricity, transportation costs, exchange rates, among others. In other words, the dairy industry plans their production for the short-term, and adapts output of the production lines according to the market's behavior. Most maintain around 3 to 4 months' worth of products stocks, which they can administer according to the demand from sales channels.

As milk is the main ingredient for producing dairy products, the price of milk is determinant for the industry's decision of production volumes, pricing, and, consequently, profitability. By acquiring milk at reasonable costs, the dairy producer can offer its different dairy products also at reasonable prices. On the other hand, if the price of milk is high, the industry will need to increase its prices of dairy products it produces. As most dairy goods have higher price elasticity, raising prices of dairy goods can cause noticeable reduction in consumer demand.



Data Source: Secretariat of Foreign Trade (Secex) - Ministry of Economy

Brazil's imports of the main dairy products (milk, cheese, butter, WMP and SFMP) grew from July 2020 until March of 2021, as shown in the graph. The monthly values almost doubled during the peak of this increase of imports, from around US$ 30 million to US$ 60 million. Most experts believe the Corona-voucher was a key factor, as it provided households with enough disposable income to afford these dairy products. Coincidently, when the government's financial support was reduced, and ceased, in the beginning of 2021, dairy imports fell, most likely because of falling demand from consumers.

Brazil's dairy sector is not competitive in the global market and so exports are small. The sector used to export milk, cheese, and whole milk powder, but the latter fell significantly as Venezuela (the largest buyer) reduced its imports from Brazil. The fact that milk is the main item exported by the sector indicates that the sector is not capable of processing the raw material into dairy products competitively enough for exporting.

Brazil's Economy in 2021 and 2022

Although Brazil's economy was growing at a reasonable pace until 2020, the pandemic crisis caused economic damage and made Brazil's GDP fall 4 percent in 2020. The uncertainty surrounding the pandemic, together with social distancing and lockdowns, caused business

activities to slow down, and the private sector suffered significantly. Sectors that consume much food, such as tourism, events, restaurants and food services reduced their demand, including dairy products. However, household demand for dairy items grew during this period, as much of the population staid home and prepared their meals. Therefore, dairy product sales from supermarkets grew, especially due to the additional financial resources that the Corona-voucher provided to the lower-middle classes.

In 2021, the situation changed somewhat. As the lockdowns ended and the population began leaving their homes, business offices reopened, and restaurants received more customers, the country's economy began to improve. Currently banks expect Brazil's GDP to grow 5 percent in 2021, although there has been some uncertainty regarding the percentage of growth. The government reduced the value of the Corona-vouchers (to half and a third of the original value [R$ 600]), which reduced the purchasing power of households, especially the lower and middle-income groups. A consequence has been a reduction in supermarket and food spending ever since. Another issue has been the inflation in Brazil. Although prices were rising since before the pandemic, especially of agricultural inputs, electricity, fuels and transportation costs, these experienced even higher inflation since the end of 2020. The direct implications include higher agricultural production costs and, therefore, higher prices of agricultural commodities, including dairy products.

It is worth noting, however, that Brazil's agriculture was the only sector whose GDP did not fall in 2020 and continues growing in 2021. All signs indicate that the sector will continue increasing economically in 2022. Nonetheless, inflation has been a serious concern for the sector, as it has caused an increase in production costs and prices. The outcomes include a reduction in consumer demand/spending on food, and a lower competitiveness of Brazil's agricultural products for exporting. Inflation has continued increasing in the second half of 2021, and economists believe it will likely continue through to 2022, although perhaps at a slightly slower rate. In 2022, besides inflation, Brazil`s economy is expected to grow only around 1.5 percent, and the Presidential Elections could bring political uncertainty, which may reduce investments in the country. On the other hand, as is common in election years, the government may offer specific programs to support poorer families and raise household income, especially during the Election period, to allow for greater consumer spending. If that does occur, the dairy sector may experience an increase in product demand.

Cheese

Dairy, Cheese	2020		2021		2022	
Brazil	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Beginning Stocks	0	0	0	0	0	0
Production	750	790	760	790		788
Other Imports	31	31	35	34		36
Total Imports	31	31	35	34		36
Total Supply	781	821	795	824		824
Other Exports	4	4	5	5		0
Total Exports	4	4	5	5		5
Human Dom. Consumption	777	817	790	819		819
Other Use, Losses	0	0	0	0		0
Total Dom. Consumption	777	817	790	819		819
Total Use	781	821	795	824		824
Ending Stocks	0	0	0	0		0
Total Distribution	781	821	795	824		824

Units in 1000 MT.
Note: cheese classification HTS: 0406.

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 surveys of sector associations.

Post estimates cheese production in CY 2021 to remain stable at 790 thousand MT. In 2022, production is projected to remain relatively unchanged, with a 0.3 percent reduction, to 788 thousand MT. In recent years, the increase in cheese production was mainly driven by the food service and restaurant sectors. Also, until 2019, cheese prices were more affordable. The pandemic crisis saw inflation rise and cheese prices became unaffordable to many households. Nonetheless, the government financial support (Corona-voucher) ensured that cheese consumption increased in 2020, as households could pay for this dairy product. And so, cheese production grew in 2020, while imports remained unchanged. In 2021, the rising cost of milk made cheese production reduce somewhat, especially because there was uncertainty as to whether the population would be able to afford purchasing cheese, given that the Corona-voucher was reduced, and later suspended, this year. Nonetheless, economic recovery in 2021, with return to travel, in-person school, and the food service industry ensured an additional demand for cheese, which has been met by imports. Indeed, cheese imports is expected to grow around 10 percent this year. Normally, cheese production uses around 35 percent of all milk production in the country.

Consumption

Currently, Brazilians consume 5.5 kilograms of cheese per person/year. As industry representatives point out, this is below the volume of 9 kg/year recommended by the UN Food and Agriculture Organization (FAO), meaning there is much potential for consumption growth.

'Requeijão'

There is a preference for fresh white cheeses in Brazil. Over recent years, fast food service industries increased their demand for "specialty" cheeses (gruyere, camembert, brie, gouda, and cheddar). Demand from the Brazilian fast-food industry fell in 2020, mainly due to the pandemic's lockdowns that occurred throughout the country, which shuttered some restaurantsfor several months. However, their sales recovered since then as these establishments are more affordable to the lower-middle class, and the economic crisis reduced income available. Processed cheeses are also well consumed in Brazil, especially the "requeijão," a type of spreadable, pasteurized processed cheese. It has a variety of uses, including for breakfast, dinner meals and snacks. The other popular types of cheeses in Brazil are mozzarella, "queijo prato" (plate cheese), and "minas frescal" (fresh white cheese). Mozzarella remains the most popular type of maturated and unprocessed cheese consumed in Brazil, accounting for 47 percent of total unprocessed cheese sales in volume. Queijo prato is a Brazilian soft cheese, (similar to the Danish cheese 'Danbo'), which is one of the most popular cheeses in Brazil, used especially in sandwiches and lunch dishes.

Queijo prato

Image Source: *Wikipedia*

Queijo minas frescal

Image Source: *Wikipedia*

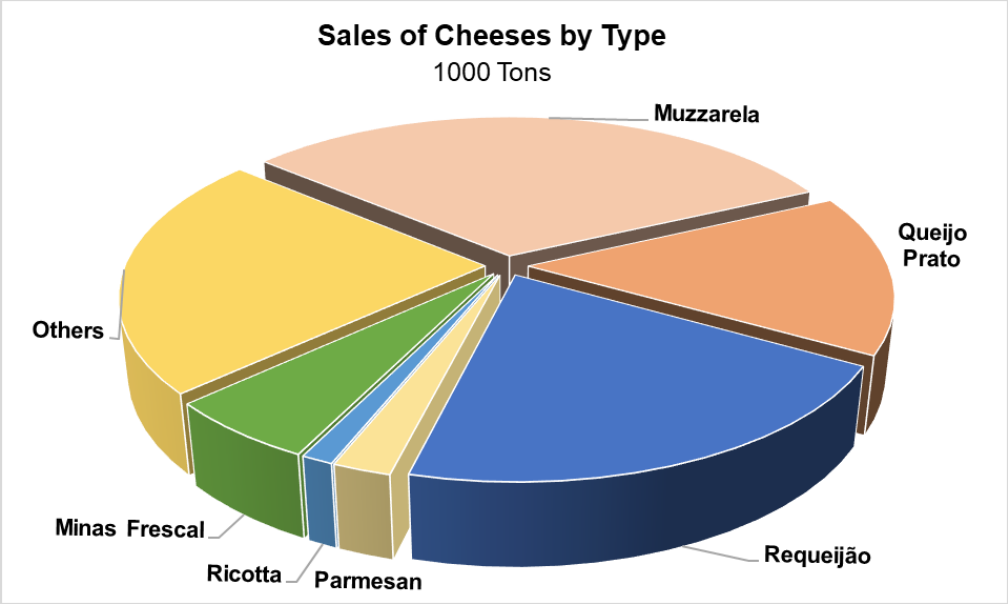
There is fierce competition within the cheese sector, characterized by a high degree of fragmentation. The bulk of sales are concentrated in products offering only low margins, such as mozzarella, "queijo prato," and other semi-hard cheeses, which together account for 70 percent of all sales. This has stimulated manufacturers to invest in value-added products such as unprocessed cheese fortified with fiber or probiotics and reduced-fat spreadable processed cheese fortified with fiber.

The cheese sector in Brazil is dominated by domestic manufacturers that are launching new products in line with Brazilian needs. Even before the pandemic crisis, the industry was already reducing product size, for example, in order to make them more affordable to

consumers, and to facilitate its consumption in smaller quantities.

Some cheese manufacturers are strengthening their business through acquisitions or joint ventures. This is likely to stimulate small and medium-sized companies to improve their operations by investing in machinery, broadening distribution channels, reducing costs and diversifying their product portfolio. Some of these medium-sized companies are investing in new types of artisanal cheeses, such as:

- "Canastra," a hard cheese of Minas Gerais with geographical indication recognition;
- "Tulha," a hard cheese with a red peel and aged 12 months; and
- "Giramundo," a sweet artisanal cheese with a red peel colored by beets and aged 5 months.

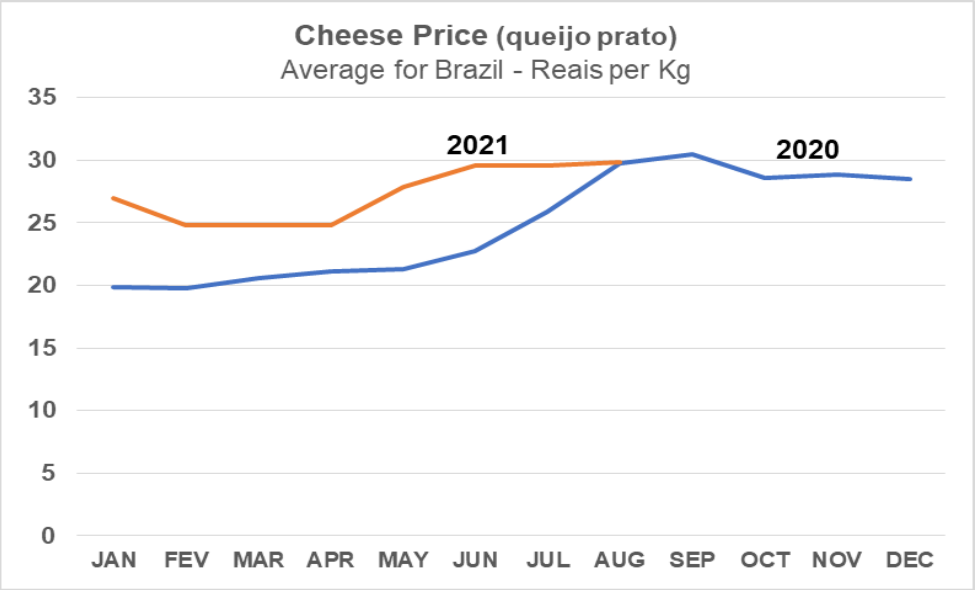


Data Source: Euromonitor International

During the 2020 portion of the pandemic, sales of artisanal cheese fell 0.5 percent in Brazil. The main reason being the reduction in average household income and given that artisanal cheese is not considered an essential 'staple' food. Many of these small producers faced financial difficulties and closed their operations, while others are having to find alternative ways to sell their products, such as through e-commerce sales channels.

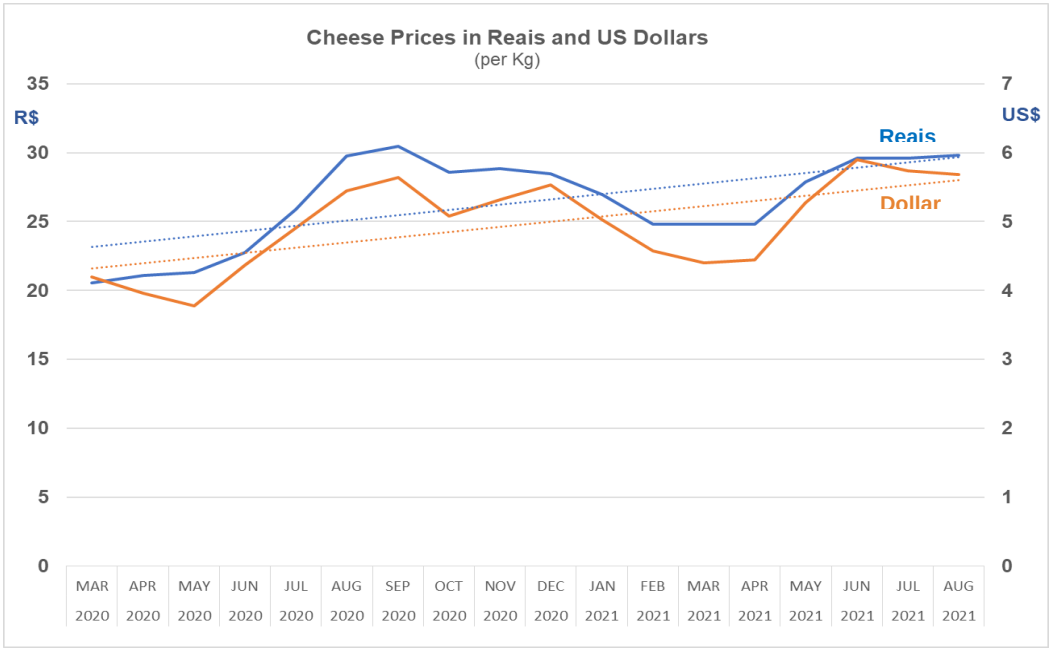
Prices

Cheese prices have increased considerably since the beginning of the pandemic crisis, experiencing a 50 percent rise from January mainly due to increasing cost of milk and other production costs (electricity, transportation, etc.). As shown in the graph below, prices of the queijo prato, the second main cheese consumed in the country, increased around 20 percent between June and September of 2020, when prices levelled off. Average prices increased again somewhat in April of 2021 and is currently around R$ 30 per kilogram. Prices of mozzarella cheese, the most consumed cheese, followed a very similar pattern.



Data Source: CEPEA/Esalq

Converting the prices to US dollars, as shown in the graph below, indicates that the price of cheese (prato) also increased in USD at a similar rate to that in Reais. From March 2020 until August 2021, the price in Reais increased from R$ 20.6 to R$ 29.8, a 45 percent increase, while in US dollars it went from US$ 4.20 to US$ 5.68, a 35percent increase. The Brazilian currency devalued 7.1 percent during the same period, i.e. the currency exchange only had a small influence in the respective values of the price in the foreign currency (USD). The higher cheese prices in US dollars may be providing an incentive for foreign suppliers to export to Brazil, as the returns will be higher.



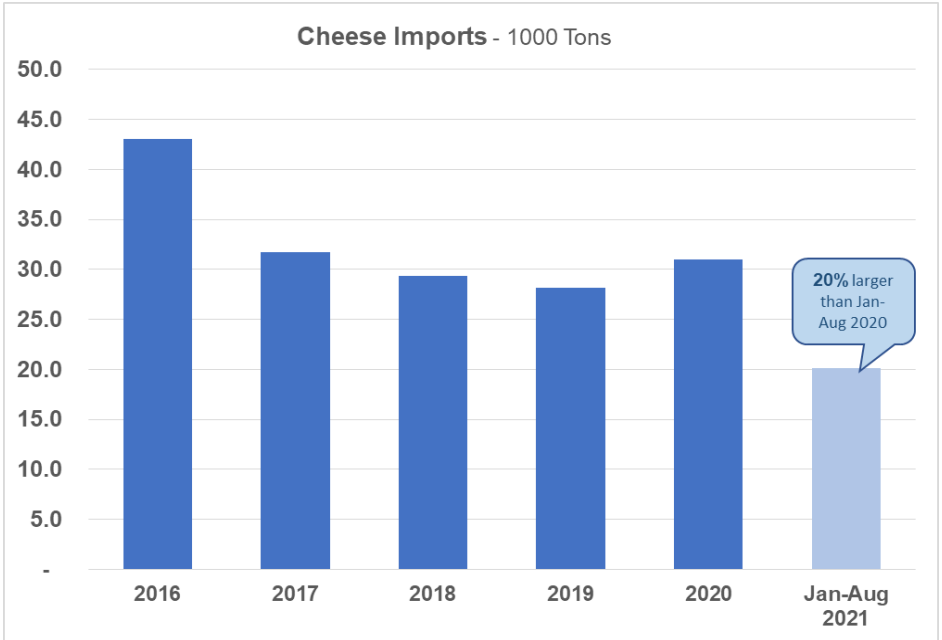
Data source: CEPEA/Esalq

Trade

Imports

Imported cheese makes up around 4 percent of Brazil's total cheese supply. Post expects cheese imports in CY 2021 to reach 34 thousand MT, an increase of 10 percent over 2020. As explained above, the economic recovery and the loosening of quarantine restrictions has made demand for cheese grow during this year. In 2022, imports are projected to increase around 6 percent, reaching 36 thousand MT. Argentina and Uruguay remain the main suppliers of cheese to Brazil, due to preferential tariff treatment within the MERCOSUL trade union. Cheese imports from Argentina and Uruguay account for 62 percent and 31 percent of market share, respectively, in 2020. Most imports are of low-cost cheeses, mainly mozzarella, parmesan, and "prato" cheese. The United States supplies only a small amount of cheese imports, around 31 MT in 2020, often bulk cheeses for further processing or high-valued cheeses for specialty stores in Brazil.

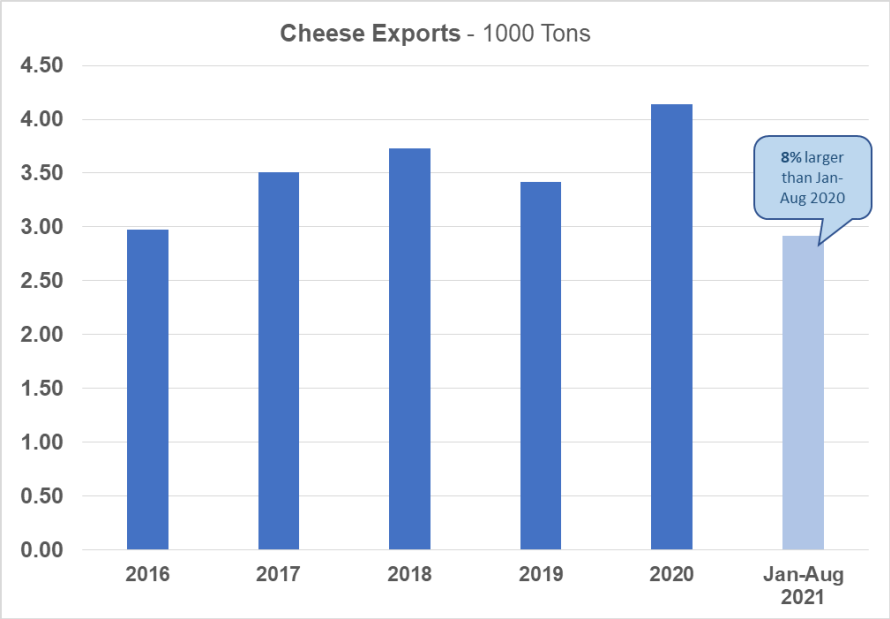
Brazil imported an average of 32.7 thousand MT of cheese annually, valued at US$ 133 million, over the past 5 years. As shown in the graph below, imports fell every year from 2016 till 2019, in part because of the devalued Real currency (which makes imported goods more expensive), but grew 7 percent in 2020 and are expected to increase around 10 percent in 2021, due to the growing demand related to the economic recovery and growing food services. Imported cheese is often priced up to three times higher than domestic varieties. The high price of imported product is due to 28 percent import tariff (Mercosur's import tariff for cheeses) that importers pay, as well as the devalued Brazilian currency.



Data source: Secretariat of Foreign Trade (Secex) - Ministry of Economy

Exports

The Brazilian dairy sector is not an important exporter in the global market, due to the high degree of fragmentation, lack of standardized products, as well as inability to compete at various price points. Companies perceive exporting as an occasional, opportunistic activity, depending on surplus product availability. Cheese is one of the main dairy products exported by Brazil, accounting for 26 percent of total dairy exports. On average, Brazil exported US$ 16.6 million of cheese per year from 2016 until 2020, with values and volumes at an upward trend.



Data Source: Secretariat of Foreign Trade (Secex) - Ministry of Economy

Cheese exports have been growing over the recent years, reaching 4.1 thousand MT in 2020, worth US$ 18.8 million. Brazil's devalued currency, the Real, has facilitated cheese exports. Most products are of low-cost cheese, and exporters have targeted specific countries like Russia and Taiwan. For 2021, Post expects exports to reach around 5 thousand MT, and remain unchanged in 2022.

Stocks

There are no government stocks of cheese in Brazil.

Butter

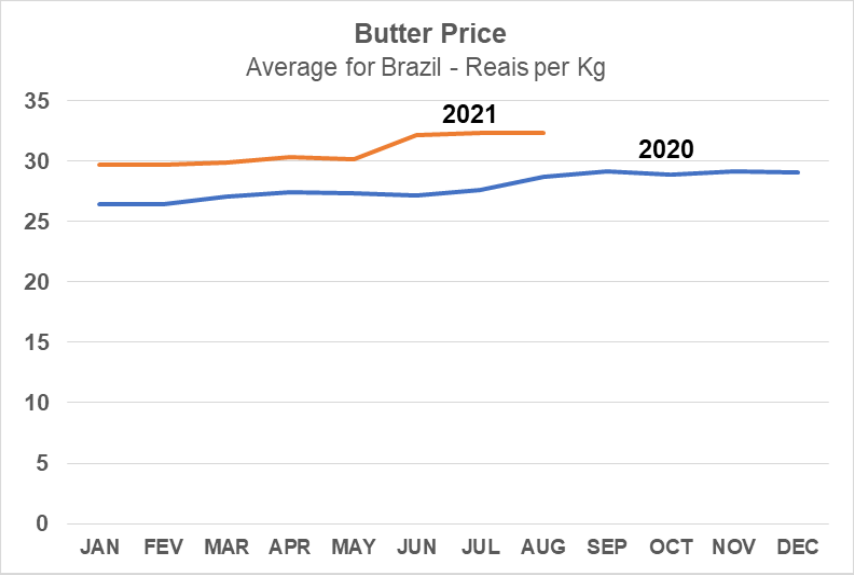
Dairy, Butter	2020		2021		2022	
Brazil	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Beginning Stocks	0	0	0	0		0
Production	80	82	81	82		83
Other Imports	3	3	5	7		6
Total Imports	3	3	5	7		6
Total Supply	83	85	86	89		89
Other Exports	0	0	0	0		0
Total Exports	0	0	0	0		0
Domestic Consumption	83	85	86	89		89
Total Use	83	85	86	89		89
Ending Stocks	0	0	0	0		0
Total Distribution	83	85	86	89		89

Units in 1000 MT.
Note: Butter classification HTS: 0405.

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 surveys of sector associations.

In 2020, butter production fell by 5.6 percent, to 82 thousand MT, reflecting the economic crises and the scarcity of milk supplies in the market. It was also a consequence of the COVID-19 situation, which caused lockdowns that limited industry processing of milk. In 2021, butter production should remain stable at 82 thousand MT. Although the country's economic recovery and the increasing demand from restaurants and food service industry, due to the loosening of quarantine restrictions, should generate greater demand for butter consumption, part of this increase will be met by imports. In 2022, production should increase slightly, reaching 83 thousand MT, as households should slowly increase food consumption.



Data Source: CEPEA/Esalq.

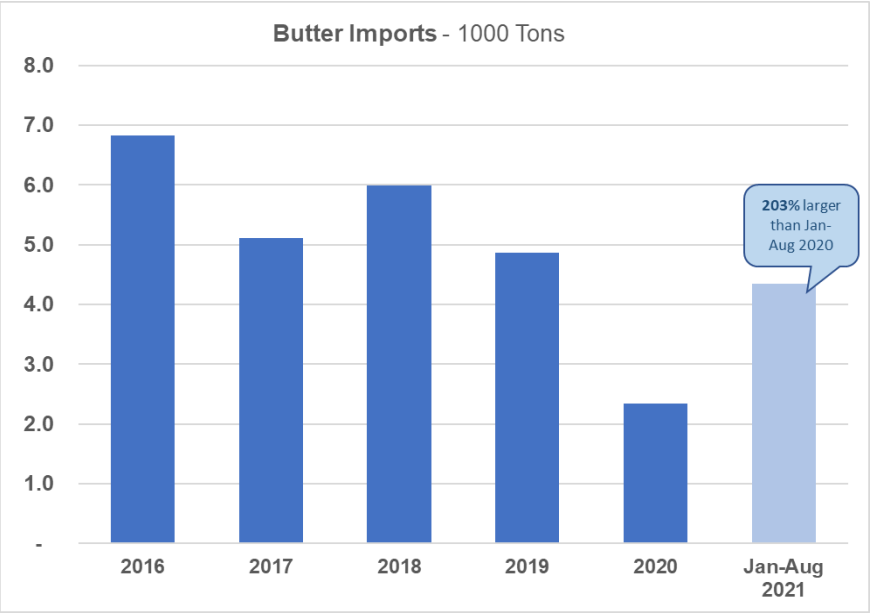
Consumption

The raw material for butter production is milk fat (Brazilian milk generally contains around 3 to 3.5 percent fat). Thus, 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 wholemilk (UHT milk) generates excess fat, since the product is standardized at around 3 percent fat.

Brazil does not produce significant volumes of skim milk, as whole milk accounts for about 75 percent of milk consumed in the country. As the production of skim milk is limited, the supply of fat to manufacture butter and other items is restricted. As mentioned previously, Brazil is a large consumer of "requeijão," and milk fat is primarily destined to produce this processed cheese spread. In 2020, due to the economic recession and falling income, consumers looked for cheaper alternatives to substitute the more expensive butter. In 2021, butter sales are recovering, as consumer spending in the food service sector recovers from the lockdowns. Demand for butter should remain stable through 2022, given that general dairy production costs should continue to increase, making dairy products prices rise, while consumer spending on food should remain stable.

Trade

Brazil typically imports around 5.5 thousand MT of butter annually for industrial and retail purposes, as production in the country is limited. The main supplier is Argentina. Due to the pandemic-induced economic recession and weakened Brazilian real, imports decreased by 60 percent in 2020, to 2.2 thousand MT. In 2021, imports will likely return to the trade levels seen in 2018, reaching around 7 thousand MT, due to the growing demand from consumers and food services. The import volumes so far in 2021 point in that direction: imports from January to August were 4.2 thousand MT, an increase of 203 percent in relation to the same period of 2020. As for 2022, imports should level-off, likely reducing to around 6 thousand MT, due to the smaller GDP increase expected (Brazil's Central bank projects 1.7 percent growth), and the economic and pandemic uncertainties relating to 2022.



Data Source: Secretariat of Foreign Trade (Secex) - Ministry of Economy

Export volumes of butter are insignificant. Brazil mainly produces butter for its own consumption and so there is little surplus butter production to export.

Stocks

There are no government stocks of butter in Brazil.

Whole Milk Powder

Dairy, Dry Whole Milk Powder	2020		2021		2022	
Brazil	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Beginning Stocks	0	0	0	0		0
Production	570	590	580	594		595
Other Imports	81	84	60	90		89
Total Imports	81	84	60	90		89
Total Supply	651	674	640	684		684
Other Exports	1	1	8	0		0
Total Exports	1	1	8	6		7
Human Dom. Consumption	650	673	632	678		677
Other Use, Losses	0	0	0	0		0
Total Dom. Consumption	650	673	632	678		677
Total Use	651	674	640	684		684
Ending Stocks	0	0	0	0		0
Total Distribution	651	674	640	684		684

Units in 1000 MT.
Note: Dry Whole Milk Powder classification HTS: 0402.21; 0402.29.

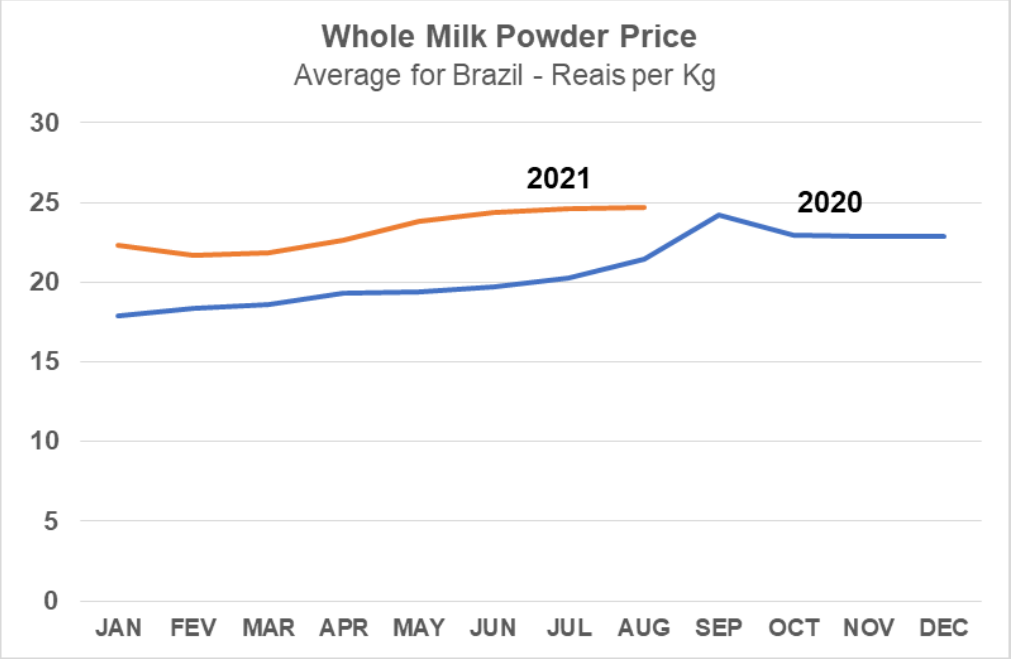
Production

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 surveys of sector associations.

After production of whole milk powder (WMP) fell in 2020, to 590 thousand MT, Post estimates production to grow to 594 thousand MT in 2021. This increase will likely be driven by market demand, as the Brazilian economy recovers and greater demand from households and food service industry. In 2022, production levels should remain relatively unchanged, at 595 thousand MT, given that the economy should remain relatively stable.

The production of whole milk powder is directly related to milk production, which is its main ingredient. And so, the production performance depends on the milk production in the country. In Brazil, milk production is usually lower between March and August, and prices rise, because pastures are drier, thus lower feed volumes, during this period in Brazil's Southeast and

Central-West regions. However, in 2020, prices did not return to the normal lower levels, due to the peculiar conditions of the pandemic crisis. Another important factor that resulted in higher milk/dairy prices has been the increased cost of production. Corn and soybean prices have risen constantly since 2020, whereby corn price increased from around R$ 50 (approx. US$ 9.6) per 60 kg bag in March 2020 to almost R$ 100 (approx. US$ 19.2) per 60 kg bag in July of 2021; soybean prices increased around 60 percent during the same period. The purchasing power of dairy farmers, as in the case of most farmers, decreased during the pandemic crisis.



Data source: CEPEA/Esalq

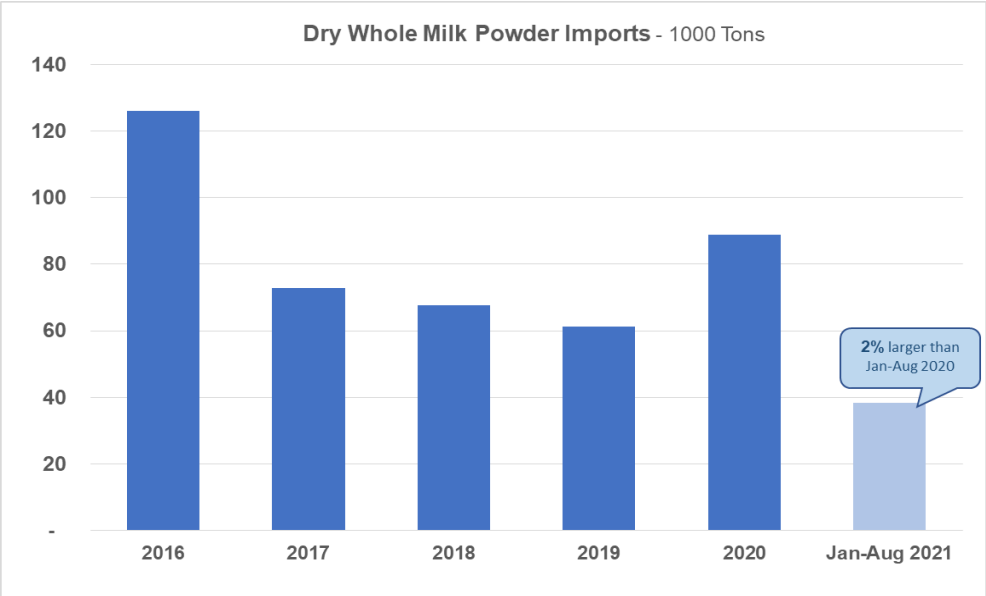
Consumption

Post forecasts 2021 powdered milk consumption to increase by 0.7 percent, to 678 thousand MT. As explained above, this increase is due to the economic recovery and growing demand from food service industry. This increase is limited by the relatively higher price of WMP, comparing to fluid milk or UHT milk. In 2022, Post expects consumption to remain relatively unchanged, due to the economic stability expected.

Powdered milk has several usages in baking and the food industry, while its long shelf-life makes it practical for use by both industry and food services. Whole powder milk and nonfat dry milk (NFDM) can substitute milk in most recipes, is more practical to use in cooking and can remain edible for over 18 months (when properly stored). The economic recovery in 2021 has generated more demand for both types of dry milk (WMP and NFDM), as households have increased (though slightly) their disposable income and food services are increasing their activities.

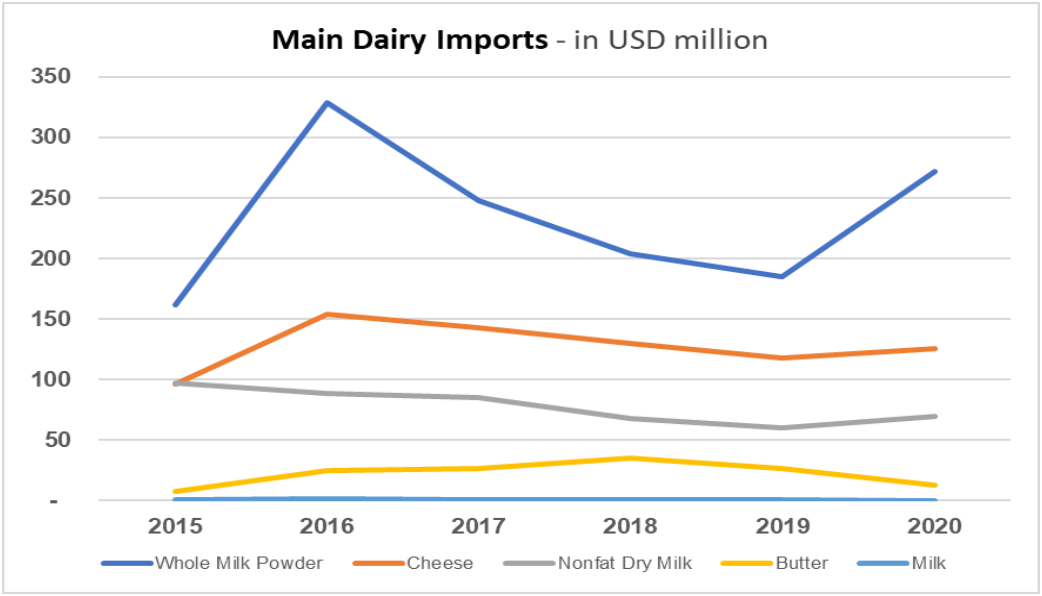
Trade

Whole milk powder continues to be the main dairy product imported by Brazil, around 84 thousand MT in 2020, accounting for 60 percent of total dairy imports. For 2021, Post forecasts WMP imports to increase by 7 percent, to 90 thousand MT, due to the growth in demand from household consumption and food service industry. The import volumes acquired from Argentina and Uruguay represented 93 percent of the total milk powder imported by Brazil in 2020. As for 2022, Post expects import volumes to remain relatively unchanged, as the economy should stabilize.



Data Source: Secretariat of Foreign Trade (Secex) - Ministry of Economy

As shown in the graph below, whole milk powder is the dairy product most imported by Brazil. WMP imports reached US$ 330 million in 2016 and US$ 270 million in 2020. In 2020, WMP imports represented 57 percent of all dairy imported by Brazil.



Data Source: Secretariat of Foreign Trade (Secex) - Ministry of Economy

Regarding exports, Brazil exported 1.2 thousand MT of WMP in 2020, an increase of 334 percent over 2019. Post expects exports to increase even more in 2021, reaching around 6 thousand MT. Brazil's exports of WMP have been falling over the past few years, mainly because Venezuela, which used to import significant volumes, reduced its purchases due to the country's severe economic and political crisis.

Stocks

There are no government stocks of whole milk powder in Brazil.

Nonfat Dry Milk

Dairy, Milk, Nonfat Dry	2020		2021		2022	
Brazil	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Beginning Stocks	0	0	0	0		0
Production	149	161	155	164		165
Other Imports	26	30	25	32		33
Total Imports	26	30	25	32		33
Total Supply	175	191	180	196		198
Other Exports	0	0	0	0		1
Total Exports	0	0	0	0		1
Human Dom. Consumpt	175	191	180	196		197
Other Use, Losses	0	0	0	0		0
Total Dom. Consumptio	175	191	180	196		197
Total Use	175	191	180	196		198
Ending Stocks	0	0	0	0		0
Total Distribution	175	191	180	196		198

Units in 1000 MT.
Note: Nonfat Milk Powder classification HTS: 0402.10.

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 surveys of sector associations.

Post forecasts nonfat dry milk (NFDM) production in 2021 to increase by 1.9 percent, to 164 thousand MT, mainly due to the country's economic recovery and the increase in consumer spending on food and the recovery of the food service industry after the period of lockdowns in

2020. In 2022, Post expects production to remain relatively unchanged, as the economy is expected to remain relatively stable.

Consumption

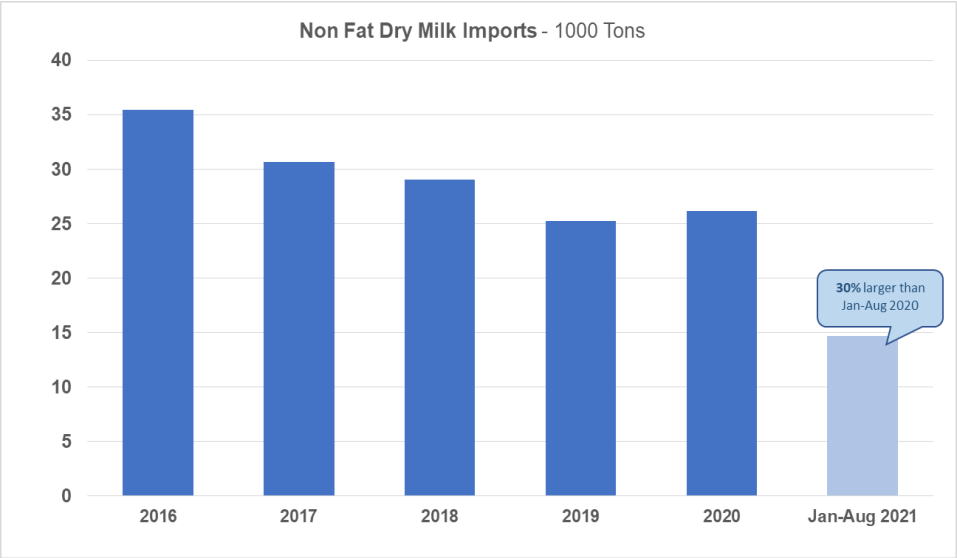
Post forecasts CY 2021 nonfat dry milk consumption to increase by 2.6 percent, to 196 thousand MT, due to the economic recovery and higher income availability of households. In 2022, consumption should remain almost unchanged, in line with the economic stability expected.

Similar to WMP, nonfat dry milk has various usages in baking and the food industry, while its long shelf-life makes it practical for use by both industry and food services. The economic recovery in 2021 has generated more demand for both types of dry milk (WMP and NFDM), as households have increased (though slightly) their disposable income and food services are increasing their activities.

Trade

Post forecasts CY 2021 nonfat milk powder imports to increase by 6.7 percent, reaching 32 thousand MT, due to higher consumer demand. In 2022, imports are projected to increase only 3.1 percent, to 33 thousand MT, as consumer spending should only experience a mild increase. Brazil's nonfat dry milk imports largely come from Argentina and Uruguay, which together account for 97 percent of total imports. Depending on the type, some companies import from the United States to meet specific demand, such as special milk for infant formulas or milkfor special diets. Nonetheless, the import volumes from the US have been falling over recent years, and is expected to fall further in 2021, reaching merely 100 MT.

Brazil does not have a competitive industry or surplus NFDM supplies to export.



Data Source: Secretariat of Foreign Trade (Secex) - Ministry of Economy

Stocks

There are no government stocks of nonfat dry milk in Brazil.

Attachments:

No Attachments