



National Milk Producers Federation's

# Import Watch

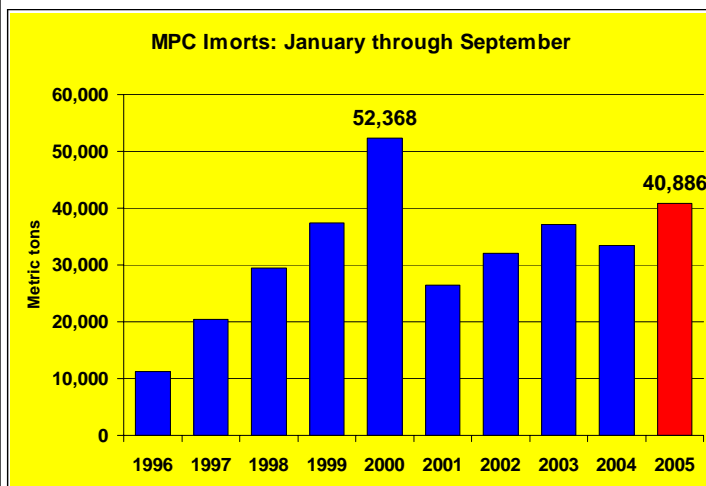
3rd Quarter 2005

## Safeguard levels and FTAs, MPCs, chocolate block

In the issue of *Import Watch*: Imports of milk protein concentrate (MPC) are on the rise, free trade agreements (FTAs) affect import safeguards and an analysis of the impact of chocolate block imports on dairy.

### MPC imports climbing

Considering the strong world price for skim milk powder, an observer might think it strange that total imports of MPC for the first three quarters of 2005 are at the second highest level reached in the past 10 years.



Imported MPCs have become a key ingredient in a number of processed foods besides in non-standardized dairy products. Coffee whiteners, bakery goods, snack foods, sauces, dips, dressings, soups, sausage products — all are produced using imported MPCs. The demand for these products is growing and so is their demand for MPC.

On the positive side for U.S. dairy producers, the cost of imported dairy proteins have climbed to the point where MPC can be produced competitively here.

An example is the price of imported casein. USDA's *Dairy Market News* lists the price of imported rennet casein between \$3.20 to \$3.35 a pound. It takes about 2.7 pounds of nonfat dry milk to make one pound of

casein. Dividing \$3.20 per pound of casein by the average \$0.99 U.S. price of nonfat dry milk yields a factor 3.23. In other words, imported casein is more expensive than domestic nonfat dry milk on a protein basis.

The high price of casein also explains why MPC imports are on the rise. It is generally less expensive than casein, but has nearly the same functionality.

### Free trade agreements affect safeguard levels

In the last *Import Watch* a lengthy explanation of how safeguard levels for dairy imports can change from year to year was given. However, there is another reason that some safeguard levels are significantly lower this year than last — free trade agreements.

The most recent FTA with a significant producer of dairy products was signed last year with Australia. As a result, the safeguard levels do not include dairy imports from Australia. Nor do imports of dairy products from Australia count against reaching the safeguard. That is why dividing total cheddar imports by the safeguard level results in 94.2%, but the percent of safeguard reached is shown as only 74%.

### About chocolate block

*Import Watch* has received inquiries about the impact of increased imports of Chocolate Block (CB) on the dairy industry. Although CB imports have increased in recent years, analysis indicates that this is a sugar circumvention problem, more than a dairy problem.

CB is a generic term for a wide range of chocolate-based products. They range from dark chocolate containing 3% butterfat, to milk chocolate product containing as much as 31.5% butterfat. While there is no break down of the chocolate block imports, NMPF economists estimate that on average, the dairy content of the imported CB is equivalent to approximately 10% whole milk powder.

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Commodities [2005 Annual Quota] (Safeguard Level)	Jan-Sep 2005 Metric Tons	Jan-Sep 2004 Metric Tons	Jan-Sep 2004-05 Growth Rate	% of 2005 Quota/Safeguard Reached *
<b>QUOTA PRODUCTS</b>				
<b>Butter</b>				
In-quota [6,977 MT]	5,199	5,746	-10%	75%
Over-quota	209	8,130	-97%	
<i>TOTAL</i> <sup>1</sup> (12,278 MT)*	5,408	13,876	-61%	42%
<b>Butter Substitutes (Butteroil &amp; AMF)</b>				
In-quota [6,080 MT]	3,138	3,914	-20%	52%
Over-quota	483	410	18%	
<i>TOTAL</i> <sup>1</sup> (7,295 MT)*	3,621	4,324	-16%	45%
<b>Cheddar</b>				
In-quota [13,256 MT]	11,209	11,176	0%	85%
Over-quota	228	564	-60%	
<i>TOTAL</i> <sup>1</sup> (12,128 MT)*	11,436	11,740	-3%	74%
<b>American-type Cheese</b>				
In-quota [3,523 MT]	3,154	2,199	43%	64%
Over-quota	2,015	9,623	-79%	
<i>TOTAL</i> <sup>1</sup> (23,337 MT)*	5,169	11,822	-56%	18%

1. Special Safeguard tariffs can be imposed when total imports, both in-quota and over-quota, exceed the applicable trigger level.

\* Neither the Safeguard Level nor the % of the Safeguard Level include countries with which the US has FTAs.

Commodities	Jan-Sep 2005 Metric Tons	Jan-Sep 2004 Metric Tons	Jan-Sep 2004-05 Growth Rate	Jan-Sep 2003-05 Growth Rate
<b>NON QUOTA PRODUCTS</b>				
Butter Substitutes (<45% Butterfat)	14,796	24,653	-40%	38%
Casein	74,047	77,567	-5%	-4%
Chocolate Block	92,553	77,284	20%	27%
Goya Cheese	13,277	10,531	26%	-17%
MPC	40,886	33,414	22%	10%

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Based on this, it is estimated that 2004 imports of 231 million pounds of CB contained 6 to 9 million pounds of butterfat and 13 to 16 million pounds of solids not fat. On a percentage basis that is equal to 0.0014% of butterfat production and 0.0001% nonfat solids production. This extremely small amount would make it very difficult to successfully challenge imports of this category of products.

Canada is the largest exporter of CB to the U.S. The dairy content of imported chocolate block from Canada could very well contain US produced butterfat. While Canada is sending the U.S. chocolate block, the U.S. is sending large quantities (8 million pounds in 2004) of butterfat to Canada. ■

## Future Issues of *Import Watch*

*Import Watch* is published every three months by the National Milk Producers Federation. Issues covering the following time periods will be available by the following dates:

- 4th quarter 2005 and year-end, March 1, 2006
- 1st quarter 2006, June 1, 2006
- 2nd quarter 2006, September 1, 2006
- 3rd quarter 2006, December 1, 2006

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