



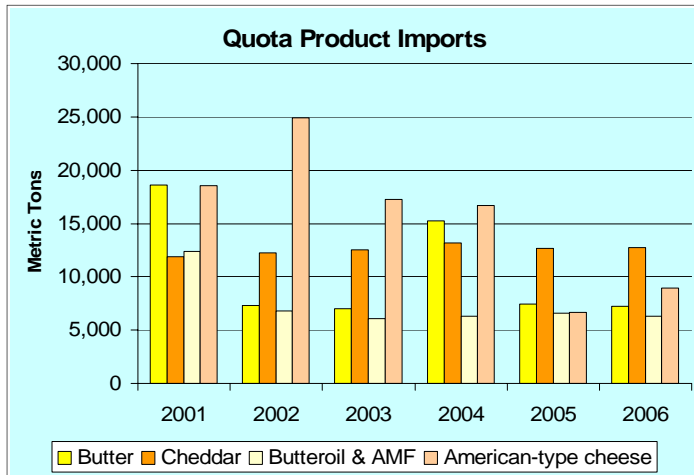
Import Watch

Fourth Quarter 2006

2006 dairy imports down compared to 2005

Most dairy product imports tracked by *Import Watch* were lower in 2006 compared to 2005. However, while the amount of some imports increased compared to a year ago, the majority of dairy products imported are trending lower when previous years

Quota dairy product imports



Import Watch tracks four dairy products that are imported under quota: butter, butter oils including anhydrous milk fat, Cheddar cheese and American-type cheese. The imports of these products can directly affect the total supply of products available domestically and, therefore, can impact producer milk prices.

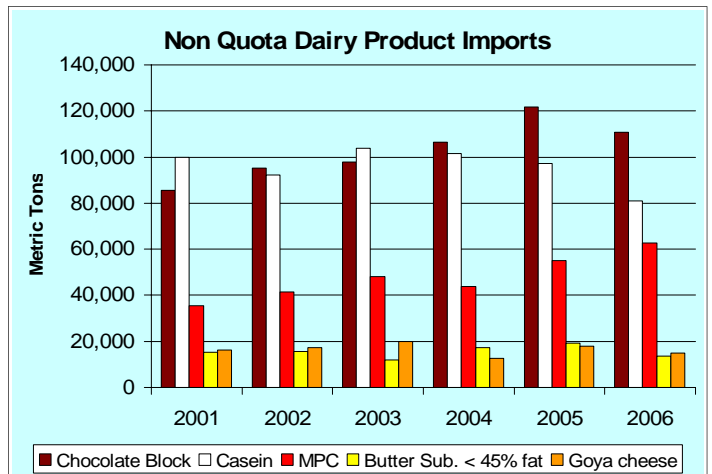
Over-quota imports of quota products are also tracked since both imports under quota and over quota count against the safeguard levels established in the General Agreement on Trade and Tariffs. Should the safeguard level of a product be exceeded, as occurred with butter imports in 2001, USDA has the option of imposing higher tariff levels in order to discourage additional imports of that product.

In 2006, none of the products tracked exceeded their safeguard level. Cheddar cheese came the closest reaching 84% of the level allowed. It should be noted that dairy products from countries with which the U.S. has free trade agreements (FTA) don't count

against the safeguard level. That is why, even though total 2006 Cheddar cheese imports exceeded the safeguard level, when adjusted for imports from FTA countries, the actual level was only 84%.

Comparing 2006 imports of dairy products covered by quota shows both Cheddar and American-type cheese above 2005 levels. However, only 2006 Cheddar cheese imports are above the average for the previous five years. The remainder of the products imported under quota were all less than the five-year average and reflect a downward trend.

Non quota dairy product imports



Five non-quota dairy product imports are also tracked by *Import Watch*: butter substitutes, casein, MPCs, chocolate block and Goya cheese.

Because quotas and safeguard levels don't restrict the imports of these products, the quantities exported to the U.S. can and do fluctuate depending on world supply. Combined imports of MPCs and casein in 2006 were 8,000 metric tons less than what were imported in 2005. Butter substitutes less than 45% butterfat content, Goya cheese and chocolate block imports all came in at a lower level than in 2005.

(Continued on back)

Commodities [Annual Quota] (2006 Safeguard Level)	Jan-Dec 2006 Metric Tons	Jan-Dec 2005 Metric Tons	Jan-Dec 2005-06 Growth Rate	% of 2006 Quota/Safeguard Reached*
QUOTA PRODUCTS				
Butter				
In-quota [6,977 MT]	6,913	6,823	1%	91%
Over-quota	345	570	-39%	
<i>TOTAL</i> ¹ (11,549 MT)	7,258	7,392	-2%	58%
Butter Substitutes (Butteroil & AMF)				
In-quota [6,080 MT]	6,088	6,066	0%	98%
Over-quota	207	503	-59%	
<i>TOTAL</i> ¹ (8,745 MT)	6,294	6,569	-4%	71%
Cheddar				
In-quota [13,256 MT]	12,304	12,257	0%	75%
Over-quota	450	402	12%	
<i>TOTAL</i> ¹ (12,356 MT)	12,754	12,660	1%	84%
American-type Cheese				
In-quota [3,523 MT]	3,065	3,392	-10%	66%
Over-quota	5,877	3,252	81%	
<i>TOTAL</i> ¹ (15,607 MT)	8,942	6,644	35%	53%

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 Safeguard Level include countries with which the U.S. has FTAs.*

However, the metric tons of product imported do include product from countries with which the U.S. has FTAs.

Commodities	Jan-Dec 2006 Metric Tons	Jan-Dec 2005 Metric Tons	Jan-Dec 2005-06 Growth Rate	Jan-Dec 2004-06 Growth Rate
NON QUOTA PRODUCTS				
Butter Substitutes (<45% Butterfat)	13,749	19,086	-28%	-21%
Casein	80,938	97,220	-17%	-20%
MPC	62,728	55,101	14%	43%
Chocolate Block	110,893	121,892	-9%	4%
Goya Cheese	15,037	17,964	-16%	19%

(Continued from front)

Looking longer range, imports of casein, Goya cheese and butter substitutes in 2006 all were less than the average level imported in the previous five years. That was not the case for MPC and chocolate block imports which were slightly higher than average.

CWT exports offset imports

In 2006, Cooperatives Working Together (CWT) assisted in exporting over 41 million pounds of U.S. dairy products. This helped to offset, in part, dairy product imports. Specifically, CWT accepted bids for 6,436 metric tons of cheese including 3,693 metric tons of cheddar cheese. CWT also assisted in exporting 6,435 metric tons of butter and 4,744 metric tons

of anhydrous milk fat. ■

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:

- 1st quarter 2007, June 1, 2007
- 2nd quarter 2007, September 1, 2007
- 3rd quarter 2007, December 1, 2007
- 4th quarter 2007, March 1, 2008

Please contact Jim Tillison, Senior VP Special Projects, with questions and comments, 703-469-2375.