



Import Watch

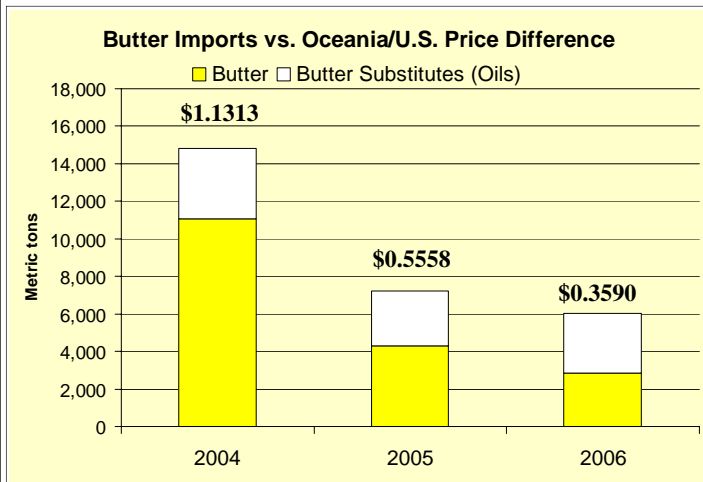
Second Quarter 2006

Imports continue to lag behind 2005, new safeguards released

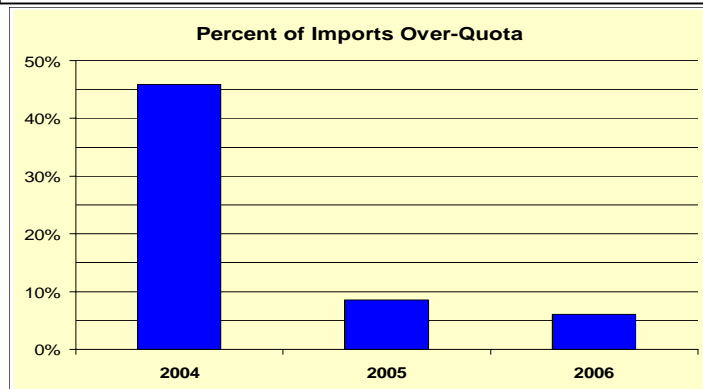
Dairy product imports continue to lag behind the quantity of products imported the first six months of 2005. As in the first quarter of 2006, domestic dairy product prices continue to impact commodity imports.

Narrow price difference = fewer imports

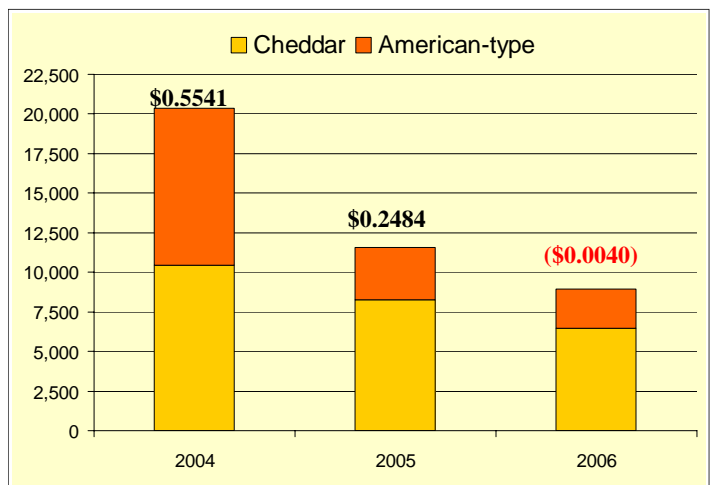
The chart below shows the total imports of butter and butter substitutes for the first six months of each of the three years shown. Also shown is the difference between the average Oceania price per pound and the average NASS butter price for the first half of each year.



Not surprisingly, the higher the difference between the Oceania price and the U.S. price, the higher the level of imports. The percentage of over-quota imports also follows the difference in prices. (Below)



On the cheese side of quota imports, American-type cheeses appear to be much more price sensitive than cheddar cheese imports. As the chart below shows, imports of cheddar cheese fell 38% the first six months of 2006 compared to the first six months of 2004.

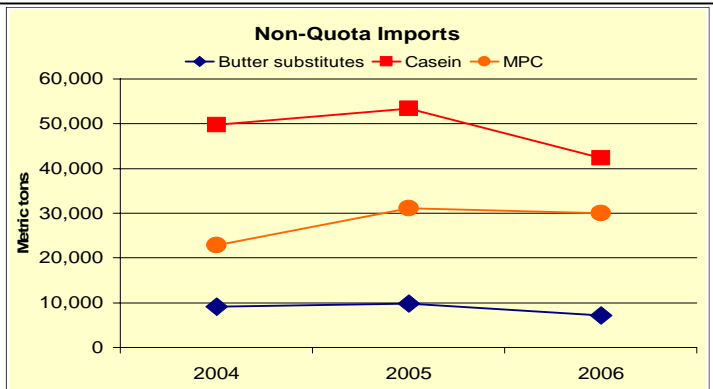


American-type cheese imports, by comparison, dropped 75%. While in-quota imports changed little on a volume basis between the first six months of 2004 compared to the same period in 2006, over-quota imports of American-type cheeses plummeted from 8,240 metric tons down to 1,271 metric tons.

Non-quota imports not as price sensitive

Imports of casein, MPC and non-quota butter substi-

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Commodities [Annual Quota] (2006 Safeguard Level)	Jan-Jun 2006 Metric Tons	Jan-Jun 2005 Metric Tons	Jan-Jun 2005-06 Growth Rate	% of 2006 Quota/Safeguard Reached*
QUOTA PRODUCTS				
Butter				
In-quota [6,977 MT]	2,641	4,195	-37%	36%
Over-quota	191	150	27%	
<i>TOTAL</i> ¹ (11,549 MT)	2,832	4,345	-35%	23%
Butter Substitutes (Butteroil & AMF)				
In-quota [6,080 MT]	3,102	2,454	26%	37%
Over-quota	96	467	-79%	
<i>TOTAL</i> ¹ (8,745 MT)	3,198	2,921	9%	27%
Cheddar				
In-quota [13,256 MT]	6,418	8,163	-21%	59%
Over-quota	60	65	-9%	
<i>TOTAL</i> ¹ (12,356 MT)	6,477	8,229	-21%	45%
American-type Cheese				
In-quota [3,523 MT]	1,184	1,522	-22%	37%
Over-quota	1,271	475	168%	
<i>TOTAL</i> ¹ (15,607 MT)	2,456	1,997	23%	30%

I. 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-Jun 2006 Metric Tons	Jan-Jun 2005 Metric Tons	Jan-Jun 2005-06 Growth Rate	Jan-Jun 2004-06 Growth Rate
NON QUOTA PRODUCTS				
Butter Substitutes (<45% Butterfat)	7,208	9,758	-26%	-21%
Casein	42,298	53,357	-21%	-15%
MPC	29,998	31,089	-4%	31%
Chocolate Block	53,849	58,601	-8%	20%
Goya Cheese	8,235	8,667	-5%	7%

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tutes are not as sensitive to the difference between the U.S. price and the world price. The level of imports is more dependent on world supply and U.S. demand.

Safeguard levels adjusted

The safeguard level is the three-year rolling average of the combination of in-quota and over-quota imports of certain dairy products. When these safeguard levels are exceeded, USDA has the option of implementing significantly higher tariffs on any further imports during the year.

NMPF requested that USDA impose safeguard tariffs on American-type cheese imports in 2002 and on butter imports again in 2004.

The 2006 safeguard levels are 729 metric tons (mt) lower for butter, 1,450 mt higher for butter substitutes, 228 mt higher for cheddar cheese and 7,730 mt lower for American-type cheeses than in 2005.<<<

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:

- 3rd quarter 2006, December 1, 2006
- 4th quarter 2006, March 1, 2007

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