National Milk Producers Federation's

Import Watch

Third Quarter 2007

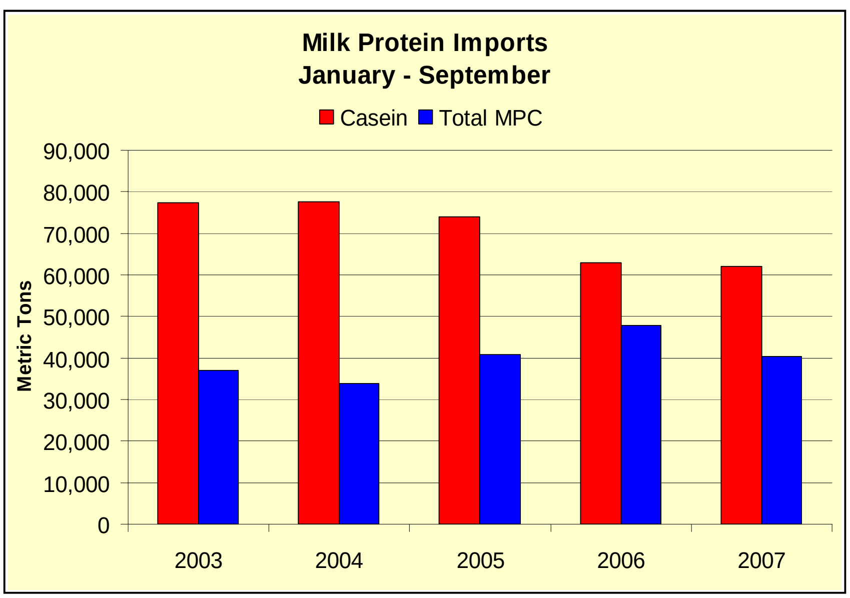
Import levels reflect world, U.S. supply, demand

The cumulative level of dairy product imports is a good indicator of both world and U.S. supply and demand through the first nine months of 2007.

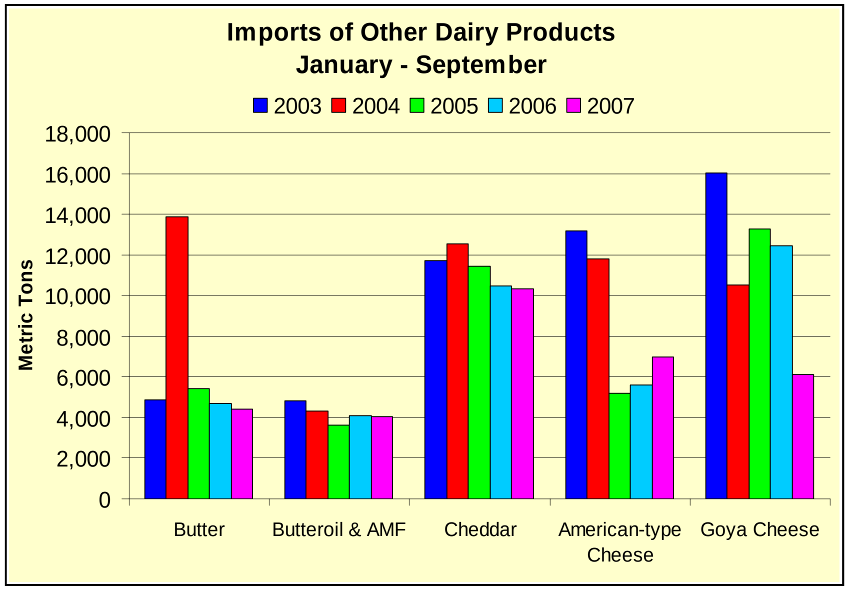
The drop in casein and milk protein concentrate (MPC) imports is a clear indicator of the world demand for protein.

Casein imports are down 20% from their peak in 2004. MPC imports are down 16% compared to the first nine months of 2006. This has less to do with U.S. supply and demand and more to do with availability. European Union, the major source of casein to the U.S., has reduced subsidies. In additions, increased demand for dairy products relative to supply has impacted product available for export.

The same situation holds true for imports of other dairy products to the U.S. for the first nine months of 2007, compared to previous years.



In comparing this year to past years through the third quarter, for all products except for American-type cheese — butter, butteroil and anhydrous milk fat, cheddar cheese, Goya cheese — all are at the lowest level in 2007. This affirms the contention that milk production in the rest of the world is down while demand is up.



The result is that world prices are at a level where the U.S. is competitive in the world marketplace in exporting commodity cheeses, butter and anhydrous milk fat.

The question is what lies ahead. Milk production in New Zealand reaches its peak during this time of year and should impact dairy product availability. In addition, the EU is expected to raise production quotas allowing more milk to be produced in response to the strong demand in EU member countries.

The expansion of milk production in the U.S. will result in somewhat lower U.S. dairy commodity prices. Add in the weak U.S. dollar and the expected continuing strong demand for dairy products in the world marketplace, especially milk proteins, it is very likely that imports will increase in the months ahead.

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Commodities [Annual Quota] (2007 Safeguard Level)		Jan-Sep 2007 Metric Tons	Jan-Sep 2006 Metric Tons	Jan-Sep 2006-07 Growth Rate	% of 2007 Quota/Safeguard Reached*
QUOTA PRODUCTS					
Butter					
In-quota	[6,977 MT]	4,237	4,414	-4%	61%
Over-quota		157	250	-37%	
TOTAL [1]	(11,502 MT)	*4,394*	*4,664*	-6%	***38%***
Butter Substitutes (Butteroil & AMF)					
In-quota	[6,080 MT]	3,786	3,805	-1%	62%
Over-quota		130	116	12%	
TOTAL [1]	(8,426 MT)	*3,915*	*3,921*	0%	***44%***
Cheddar					
In-quota	[13,256 MT]	9,555	10,173	-6%	72%
Over-quota		763	276	176%	
TOTAL [1]	(12,657 MT)	*10,318*	*10,449*	-1%	*66%*
American-type Cheese					
In-quota	[3,523 MT]	2,136	2,006	6%	61%
Over-quota		4,821	3,618	33%	
TOTAL [1]	(12,209 MT)	*6,957*	*5,624*	24%	*54%*

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-Sep 2007 Metric Tons	Jan-Sep 2006 Metric Tons	Jan-Sep 2006-07 Growth Rate	Jan-Sep 2005-07 Growth Rate
NON QUOTA PRODUCTS				
Butter Substitutes (<45% Butterfat)	11,879	10,059	18%	-20%
Casein	61,998	62,924	-1%	-16%
MPC (more than 40%, less than 90% protein)	33,432	40,845	-18%	6%
MPC (90% or more protein)	6,924	7,070	-2%	-27%
Total MPC	40,356	47,915	-16%	-16%
Chocolate Block	82,181	83,216	-1%	-11%
Goya Cheese	6,122	12,431	-51%	-55%

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

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