

USMCA Review Dairy Priorities

BACKGROUND

- Mexico and Canada are the United States’ two largest dairy export destinations. USMCA has been critical in preserving zero tariff access into Mexico, accounting for over a quarter of all dairy exports annually. The United States should prioritize preservation of this critical access while addressing areas that need improvement in the upcoming 2026 USMCA Joint Review.
- USMCA provisions were designed to expand U.S. market access into the Canadian market and introduced new disciplines on Canada’s use of its dairy pricing programs to intentionally distort trade. Mexico also committed to protect common cheese names like “parmesan” and “feta” from restrictions. Unfortunately, the agreement in practice has fallen short on both fronts. Effective use of the USMCA Review provides an important opportunity to address these areas so that the agreement can live up to its full potential.

CANADA’S ABUSE OF DAIRY TRQ RULES

- Canadian policies continue to reserve the vast majority of the TRQ shares for Canadian dairy processors, while denying access to retailers and food service operators. This runs contrary to USMCA’s intent and blocks meaningful market access for U.S. dairy products.
- The attempts to throttle access to the Canadian market that was negotiated in good faith, coupled with the lack of sufficient penalties for non-use of the TRQs, has resulted in persistently low fill rates across several dairy product categories:

Whey Powders	Fluid Milk	Skim Milk Powder	Cheeses for Industrial Use
27%	34%	7%	64%
Cumulative fill rate from July 2020 to July 2025	Cumulative fill rate from July 2020 to July 2025	Cumulative fill rate from July 2020 to July 2025	Cumulative fill rate from July 2020 to December 2025

- In light of the flagrantly misguided second USMCA dispute settlement panel ruling that allowed Canada to continue circumventing the intent of the USMCA agreement, NMPF and USDEC urge the U.S. government to leverage all available tools during the 2026 USMCA sunset review process to address TRQ administration procedures that continue to award the vast majority of dairy quota access to Canadian processors while shutting retailers and food service providers out of access entirely and tightly limiting availability for importers/distributors.



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CANADA DAIRY EXPORT SURCHARGE LOOPHOLES

- Canada appears to be intentionally shifting dairy protein production processes to evade USMCA export surcharges that were put in place to constrain Canada's exports of artificially low-priced dairy protein products. USMCA's disciplines specifically cited skim milk powder (HTS 0402.10), milk protein concentrates (HTS 0404.90) and infant formula (HTS 1901.10). USTR made clear in announcing these results that Canada had "committed to adopt measures designed to limit the impact of any surplus skim milk production on external markets."
- The export threshold and surcharge system for dairy proteins was a vital complement to the USMCA dairy pricing program reforms. While USMCA eliminated Canada's price classes 6 and 7, Canada created a new class 4a under which certain dairy proteins are now classified, permitting the problematic pricing structure to continue. The USMCA export surcharges were implemented to limit the distortionary effect of the pricing structure on the international market.
- While the export thresholds have been effective to date in limiting exports of the three tariff lines specifically cited in the text, they have not been effective in "limit[ing] the impact of any surplus skim milk production on external markets" due to Canada's export of other products that dispose of these skim milk solids onto global markets through alternate tariff codes.
- Canadian exports of milk protein isolates (MPIs) and certain skim milk powder blends manufactured under the new Class 4a have been sharply increasing. These exports evade USMCA's dairy protein export surcharge system yet have a similar negative impact on U.S. dairy protein producers. These products are increasingly being shipped to the United States. USMCA updates are needed to plug Canada's bad-faith use of these loophole routes.

MEXICO COMMON CHEESE NAME COMMITMENTS

- Mexico has recently taken steps to finally implement USMCA side letters related to the use of common cheese names like "feta" and "parmesan" which are aimed at guarding against the European Union's misuse of geographical indications to monopolize generic terms. Additional steps to protect access for the full range of U.S. cheeses remain important as the EU-Mexico Free Trade Agreement and its GI provisions near implementation.

The U.S. government must leverage the 2026 USMCA Joint Review to address Canada's attempts to evade both its dairy market access commitments and dairy protein export disciplines, in addition to ensuring Mexico maintains access to its market for all U.S. cheese exports.