Throwing Stones from a Glass House: Understanding the US Narrative on Canada Dairy Policy

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AGRI-FOOD ECONOMIC SYSTEMS

The Issue

In the summer of 2025, the economic and geo-political situation facing Canada is fluid. The international geo-political and security order, which Canada helped build, has significantly eroded and there are multiple active conflicts throughout the world, some of which Canada has clear interests and has involvement in. Canada faces economic pressure through trade from China, currently focused on the canola complex. It faces potent trade action from the US- notably Section 232 tariffs on steel and aluminum, and on the non-US portion of automotive export value to the US. The threats from the US are building. Stiff objections from the US have sidelined the Canadian digital services tax, and in early July the US threatened an increase in tariffs against Canada to 35 percent by August 1st, apparently on products not compliant with USMCA/CUSMA (previously at 25 percent), pending a trade deal with Canada. Many of Canada's key trading partners- Mexico, Japan, South Korea, the EU- have been issued similar threats by the US, and some (notably the EU) have threatened retaliation against the US. Japan has recently agreed with the US to a 15 percent tariff on US imports from Japan, along with commitments to purchase US agri-food products. The EU has also just agreed to a US tariff of 15 percent, along with some import and investment commitments with the US.

And then there is supply management in Canada- specifically, milk supply management- aspects of which are a historical irritant with the US and are now raised frequently and menacingly as an example of the US being treated unfairly by Canada. President Trump has been a vocal critic of Canada's over-quota dairy tariffs; the US dairy industry has complained about being unable to fill Canada's dairy tariff-rate quotas (TRQs- the volume set aside that can be imported under zero or nominal tariff) that it has with Canada. Mr. Trump sees the US as having been treated unfairly by Canada in this regard.
The merits of these criticisms and threats are rarely questioned, and Canada has broadly played defense on the matter. This is consistent with supply management being a domestically-focused approach to agricultural marketing; without a strong interest in dairy exports, there has been less incentive to push back.

However, it presents the danger that the publics in Canada and the US take these criticisms at face value, rather than on relative merits and with a more informed and balanced perspective, and views become emboldened against Canadian dairy policy without a more complete understanding. It is a detailed, multifaceted issue, that has evolved in a complex political economic evolution over many years, focusing on perceived Canadian transgressions that can be exploited as vulnerabilities and concessions. But US dairy policy has vulnerabilities of its own. These need to be grasped in order to interpret the US narrative, and to understand the stability of Canadian and US positions.

This policy note provides an overview of elements of US dairy and trade policy relative to Canada's, in the interest of informing a more balanced discussion.

Broad Aspects of Milk Marketing Policy in Canada and the US

There are many important similarities between dairy policy in Canada and the US. Both countries price milk collected from farms in end-use classes- with the highest price paid for milk used to make fluid beverage products; a lower price for milk used to

make cheese; and the lowest price for milk that is dried into milk powders. In both Canada and the US, provisions exist for pooling of producer milk revenue from sales across end-use classification.

In both Canada and the US, the value of milk picked up at the farm is adjusted for its components- butterfat, and skimmed milk solids (protein, lactose, and other nutrients). These milk components are in essentially fixed proportions in cows' milk. In both Canada and the US, consumer preferences for products rich in butterfat versus skimmed solids differ from the natural composition in milk, with the strength of demand focused on butterfat, and softer demand for skimmed solids. Both Canada and the US have barriers to imports that facilitate the operating of their respective milk marketing systems.

There are also clear differences. The focus of market regulation that facilitates classified pricing and pooling in Canada is the farm- through provincial marketing boards, regional pooling arrangements, and agreements among producers, provincial governments, and federal governments. In the US, the focus of market regulation that facilitates classified pricing and pooling is fluid milk processing- administered through regional Federal Milk Marketing Orders. Processors in the broader suite of manufactured dairy products (like cheese, butter, ice cream, etc.) participate in milk revenue pools voluntarily, and processor returns from pooling trickle down to dairy producer prices.

Milk marketing in Canada is undertaken by provincial milk marketing boards under producer, provincial government, and federal government agreements. All producer milk is pooled. In the US, eleven different milk marketing orders pool milk, covering distinct geographies, comprising about 75 percent of production; about 25 percent of milk in the US lies outside milk marketing orders and is unregulated.

In Canada, the broad price mechanism for milk at the farm is drawn from the farm cost of production, and from this the values for end-use classes and milk components are derived, implemented by a support price for butter. In the US, wholesale commodity markets for dairy products such as cheddar cheese, butter, and skim milk powder form the basis for end-use class and component values. In Canada, the prospect of market surpluses is controlled through production/marketing quotas; in the US, the forces of supply and demand modulate market surpluses.

Access for Imports as Share of Domestic Market

Canada and the US protect their dairy markets with tariffs and TRQs. However, the extent of market openness established through TRQs differs. Canada has dairy market access under its WTO obligations, as well as under trade agreements with the EU (Comprehensive Economic and Trade Agreement-CETA); under the Comprehensive and Progressive Agreement on Trans-Pacific Partnership (CPTPP); and under the USMCA/CUSMA. The US provides TRQ access to its dairy markets through its WTO commitments, and through trade agreements including USMCA/CUSMA; US-Australia; US-Israel; US-Colombia, and US-Panama. When the TRQ access under WTO obligations and specific bilateral/plurilateral trade agreements are combined, each country's openness to imports can be interpreted relative to the size of its domestic dairy market.

Table 1 below provides this comparison. The table shows that US domestic disappearance of the dairy staples listed in the table is much higher than that in Canada- roughly proportional to population. But US TRQ access is about double that of Canada's, and Canada's TRQ access for skim milk powder is higher than that of the US. The level of access that Canada offers to its dairy market via TRQs is thus proportionately much higher than the US.

TRQ Fill Rates

Another indicator of relative openness to trade under TRQs is the extent to which the volumes allowed with TRQ are actually used for imports, or the TRQ fill rate. Estimating the fill rate involves comparing actual import volumes with the TRQ volume allowed, on an HS code basis. This is summarized below in Table 2 for the US and Table 3 for Canada.

Table 2 presents TRQ fill rates and associated tariff codes for the US for 2022-2024. The data in the table were obtained from US CBP reports and cross-referenced with the US tariff schedule and are a sample, and are not exhaustive. The data show a range of fill rates of US dairy product TRQs. Some of the quotas are fully filled, especially the TRQs under US WTO commitments. Others are only moderately filled, particularly under newer trade agreements like USMCA/CUSMA and US-Australia. Other TRQs are hardly filled at all, particularly for skim products, and smaller export suppliers like Israel, Panama, and Colombia.

Table 3 presents TRQ fill rates for tariff groupings for Canada in 2023-24. Canada has also experienced a range of fill rates. Canada had very high fill rates on butter/cream and cheese in 2023-24 across trade agreements, and generally on the longest established agreements-WTO, and also CETA, which carries an obligation that the TRQs be filled. In other cases, Canada's TRQ fill rates were lower for skim products such as skim milk powder and products of natural milk constituents (which contains milk protein concentrates) and for newer trade agreements.

TRQ Allocation

The allocation of dairy TRQs by Canada has been a matter of controversy and challenge by the US; however, TRQ allocation is actually a point of remarkable similarity in Canadian and US dairy trade policy. In the US, import licenses under the dairy TRQs are administered by the USDA Foreign Agricultural Service.[1] To hold an import license for dairy products, a person must be doing business in the US, and have an agent located in the US. Three types of licenses are issued- historical, non-historical (lottery), and designated. An historical license is granted to importers of record, subject to minimum import volume and transaction thresholds, that operate US processing plants; in some cases, historical import licenses can be awarded to exporters of record. Non-historical import licenses are allocated to importers of record on an annual application basis. Designated import licenses are issued to US importers identified by exporting countries with designated TRQs. Licensees must use at least 85 percent of their import license or their license will be reallocated, or if necessary, they can surrender a portion of their import license volume to comply with the 85 percent rule.

In Canada, import permits are administered by Global Affairs Canada. Under the Export Import Permits Act, import permits are issued to Canadian residents. Permit holders must be active in the dairy industry as a processor or as a distributor. If less than 95 percent of a TRQ allocation is used under an import permit, the allocation is decreased in subsequent year and the unused volume is reallocated.[2] In all cases, underfills of permits are redistributed.

The specifics of TRQ allocation can differ by product and by trade agreement- for example, under USMCA/CUSMA, the US employs first-come, first-served allocation of import permits under TRQ. Canada employs an allocation mechanism, with the allocation of import permits for butter under TRQ among processors, further processors, and distributors, based on historical output.

[1] See detailed rules in the US Federal Register https://www.federalregister.gov/documents/2015/07/27/2015-18122/dairy-tariff-rate-quota-import-licensing-program

[2] See, for example, the TRQ administration for cheese under CPTPP https://www.international.gc.ca/trade-commerce/controls-controles/notices-avis/1119.aspx?lang=eng

The Canadian TRQ for imports of butter under WTO-Global access is allocated to the Canadian Dairy Commission, and 2000 tonnes of this TRQ is designated to New Zealand. Cheese TRQ is allocated to processors and distributors under CPTPP and USMCA/CUSMA, based on processor output and sales. Cheese import permits under the WTO-Global TRQ are allocated to existing permit holders, with 69.9 percent of the TRQ designated for imports from EU member countries.

US Milk Pooling and Implicit Subsidy

In Canada, all milk revenue is pooled across classes by provincial marketing boards and under regional pooling arrangement to arrive at a single, blended base price received by farmers within a province. In the US, under Federal Milk Marketing Orders, revenue from farm sales of milk in fluid use (milk beverages) must be pooled, but it is voluntary for milk used in dairy manufacturing, and not all milk production is regulated under federal orders.[3]

Under Federal Milk Marketing Orders there is a regulated minimum price for milk in fluid use that is normally the highest among milk classes. Milk used in other uses, such as in cheese manufacturing, can enter the pool voluntarily. A cheese processor generally has an incentive to do so, as the regulated minimum price for milk used to make cheese is normally lower than the fluid price, and when revenues are pooled, cheese processors expect to be recipients from the pool[4]. Occasionally, when prices of US dairy products increase rapidly, the price of milk used in dairy manufacturing (like cheese) can temporarily rise above the fluid milk price- which would result in the cheese processor being a contributor to the pool. Anticipating this, since pooling is voluntary for dairy manufacturers, a cheese manufacturer can withdraw its milk volume from the pool (de-pooling), and return its milk volume to the pool again later when it will once again be pool recipient.

The implication is that dairy manufacturing is a beneficiary of pooling under Federal Milk Marketing Orders- manufacturers are normally recipients from the pool, and they can always withdraw if they face the prospect of being a contributor. This occurs by virtue of the government regulations establishing pooling and minimum milk class prices. It contains the characteristics of a subsidy- to dairy processors, commonly used to fund producer prices in milk procurement- and one that has not been declared nor notified by the US.

Sanitary and Phyto-Sanitary Regulation of Dairy Imports

Both Canada and the US are signatories to *Codex Alimentarius*, an international agreement that establishes common concepts on regulation of food safety and quality and best practices.[5] This provides the collective basis upon which countries approve food product imports from others, and develop reciprocal technical agreements on product food safety and quality that facilitate trade- even as countries can exceed Codex standards, or cater to their own regulations and standards to meet their own individual domestic needs. This is the essence of

[3] For a complete discussion, see "Basic Milk Pricing Concepts for Dairy Farmers- A3379" by Ed Jesse and Bob Crop. University of Wisconsin Extension. 2008.

[4] For example, in June 2025 for Federal Milk Marketing Order 30, the Class I (fluid) price was $20.46/cwt; Class II (soft products) was $18.43/cwt; Class III (cheese) was $18.92/cwt, and Class IV (butter and milk powders) was $18.30/cwt https://www.fmma30.com/ClassPrice/2025/ClassPrice--06-25.pdf . The base value of the pooling benefit to a cheese processor in June 2025 was $.28/cwt https://www.fmma30.com/PPD/2025/PPD0625.pdf

[5] See, for example, the Codex Alimentarius *Standard for Milk Powders and Cream Powder* https://www.fao.org/fao-who-codexalimentarius/sh-proxy/en/?lnk=1&url=https%253A%252F%252Fworkspace.fao.org%252Fsites%252Fcodex%252FStandards%252FCXS%2B207-1999%252FCXS_207e.pdf

WTO Agreement on Sanitary and Phytosanitary Standards (Article 4-equivalence).

US standards for dairy imports contain something of a different approach. Under the *Pasteurized Milk Ordinance*, administered by the Food and Drug Administration (and some US states on behalf of the FDA), the US requires Grade A milk for the manufacture of a broad range of dairy products[6]. The US has not established equivalence agreements with other countries relative to this standard. Instead, for dairy products imported into the US to meet this standard, there are three options for compliance available to exporters[7]:

- Have an accredited US agency (e.g., a state Department of Agriculture) inspect the foreign dairy supply chain (farm through processing) to US Grade A milk standard.
- The exporting country could adopt and implement the US Grade A milk standard.
- The US could explore arrangements for equivalence between exporting country standards and US Grade A.

The latter of these options has not occurred in the 25 years since the FDA guidance leading to these options was developed[8]- leaving exporters to the US with the costly option of hiring US inspectors for whole supply chain inspection to US standards, or for the exporting country to adopt US Pasteurized Milk Ordinance standards for both domestic and export markets.[9]

At the same time, the US is in the process of implementing changes to FDA regulation that weaken the integrity of the Pasteurized Milk Ordinance.[10] It was recently determined that the FDA will stop proficiency testing of milk testing laboratories and turn this responsibility over to states, dairy processors, and private labs- each with a range of resources and expertise. This presents potential concerns to dairy product safety and quality- both within the US market, and markets abroad that import US dairy products.

Observations

Structurally, many aspects of milk marketing in Canada and the US are actually quite similar. But the differences are crucial.

Canada lacks wholesale dairy product markets for use in farm milk pricing, and instead falls back on farm cost of production for milk pricing; managing a cost of production that is competitive with those elsewhere, and providing reasonable returns to producers, is an ongoing challenge for Canada. US milk prices vary with dairy product commodity prices, and can be highly variable as a result, requiring government stabilization program support (such as the Dairy Margin Coverage Program) that is not part of Canadian dairy policy.

Canada's quota system mitigates surpluses relative to domestic requirements that might otherwise result from its price mechanism. As a result, consistent with

[6] Milk; acidified milk; cultured milk; concentrated milk; sweetened condensed milk; non-fat dry milk (including fortified); evaporated milk; dry whole milk; heavy cream; light cream; light whipping cream; sour cream; acidified sour cream; egg nog; half and half; yogurt; cottage cheese; whey and whey products.

[7] https://ncims.org/programs/international-certification-program/

[8] https://gams.fda.gov/active/M-I-00-4_FINAL.pdf

[9] FDA guidance updated in 2023 states that "The FDA has been engaged in equivalence discussions on grade A dairy with Canada, the European Union, and New Zealand" but it is unclear the status of this https://www.fda.gov/food/international-cooperation-food-safety/equivalence-and-food-safety

[10] See "Suspension of FDA's Grade "A" Milk Proficiency Testing Program – A Comprehensive Analysis" by Leonard Polzin https://farms.extension.wisc.edu/articles/suspension-of-fdas-grade-a-milk-proficiency-testing-program-a-comprehensive-analysis/

WTO rules clarified in past trade disputes, Canadian dairy exports are small and structurally limited- by production quotas (on butterfat), the fact that butterfat and skim components are naturally produced in fixed proportions, the pricing required to make Canadian product export competitive versus its cost of production, and volume ceilings on specific dairy exports under USMCA/CUSMA. The US does not have a mechanism to limit its production from its price mechanism, and the surpluses created by its marketing system move onto domestic and international markets.

The technical aspects of revenue pooling in milk marketing are actually quite different between the US and Canada. Pooling shares revenue across end uses in a single price; but by making pooling voluntary for US dairy manufacturers under Federal Milk Marketing Orders, the sharing is one-way and dairy manufacturers can't lose. Conferring an advantage to a specific industry by virtue of government regulation smacks of subsidy.

Remarkably, it is on trade policy aspects, where Canada and the US have some of the greatest similarities, that the US has raised its greatest concerns. Both the US and Canada use a system of TRQs to manage dairy market access for imports. But the extent of this access relative to the domestic market is much smaller for the US than it is for Canada.

The US has complained that it has been unable to fully fill some of the TRQs it has with Canada. There are some Canadian TRQs with low fill rates, but this is also the case for the US. And this must be understood in the context of market balance. The fill rates for products most in demand in Canada and the US are high, slanting heavily toward butterfat-dense products. Serving the demands for butterfat from domestic milk production confronts the challenge of marketing the accompanying production of skim, and as a result the market for skimmed products is adequately served in Canada. Just as it would be challenging to export lamb to New Zealand, or corn to Iowa, filling the Canadian TRQ for a product like skim milk powder is a challenge, because Canada is adequately served. But the same situation applies to the US, which is also adequately served in terms of skimmed milk-based products- and it has its own low TRQ fill rates that demonstrate it. More broadly, US fill rates of the USMCA/CUSMA TRQs with imports from Canada are abysmally low.

A 2021 USDA-ERS study of agri-food TRQ fill rates, based on 1995-2015 data for large agri-food trading nations.[11] The study found overall average fill rates of 56 percent. The observed size of US dairy TRQs was observed to be relatively small, and many of the fill rates for dairy TRQs were quite low, with butter and certain cheese TRQs more heavily filled. Many of the US dairy TRQs were well below the 56 percent average fill rate. This is consistent with the observations in this note.

The US has complained that Canadian dairy TRQs are allocated to dairy processors, who are broadly less inclined to fill the TRQ. But the US allocates its dairy TRQ to processors and importer/exporters of record. Import licenses in the US are allocated based on imports of record, effectively on a use-it-or-lose-it basis. Canada allocates its import permits based on output/sales, also with a use-it-or-lose-it provision. In both the US and Canada, provisions exist to redistribute unused TRQ volumes. The similarities are uncanny.

It is difficult to reconcile the treatment of imports under the US Pasteurized Milk Ordinance as something other than overreach and disguised protectionism. Canada and the US have a long and deep history of mutual recognition of food standards and equivalence, even if their respective systems and standards are not entirely the same. The Pasteurized

[11] Jayson Beckman, Fred Gale, and Tani Lee. Agricultural Market Access Under Tariff-Rate Quotas, ERR 279, January 2021. U.S. Department of Agriculture, Economic Research Service.

Milk Ordinance represents a stark departure from equivalence that clearly increases the cost of US imports relative to domestic product. For the subject dairy products, surely many exporters see the US market as not worth the trouble. At the same time, the US is injecting new risk into the Pasteurized Milk Ordinance, and the safety of dairy foods more generally, by undermining its integrity through cuts to proficiency testing. It is thus requiring foreign suppliers of subject products to align with a lesser system that will increase the likelihood of a food safety problem in dairy foods in both the US, and countries importing from the US.

Conclusion

Canada has chosen to largely maintain a defensive posture relative to US criticisms of Canadian dairy policy. But the US is the subject of many of precisely the same protectionist criticisms that it makes of Canadian dairy policies. And US dairy policy goes further- exporting its surpluses without a mechanism to limit production; implicitly supporting dairy manufacturing through a one-sided pooling system; simultaneously forcing others into its Grade A milk standard for many products, and then weakening the standard and posing associated food safety risks.

In international relations, the pot can call the kettle black- but doing so doesn't build trust, goodwill, or alliances, and weakens credibility. Surely the fact that are aspects of dairy trade policy are actually very similar between Canada and the US presents an opportunity for alignment- and something the two countries could work together and build upon.

Canada has been content to live next to the glass house represented by US dairy policy and respond to attacks rather than throw stones. But with so much in play now in Canada-US relations, and the risk that some in Canada may turn on Canada's own system, guided by this one-sided American narrative, the record needs to be set straight. Canadians and Americans should understand that the US is in no position to lecture or condescend to Canada on dairy protectionism, and the sooner we appreciate that, the sooner we can get to a more meaningful dialogue.

Table 1 Tariff-Rate Quotas as a Share of Domestic Disappearance; Canada vs. US, 2023

	Domestic disappearance		Total TRQ		Total TRQ/Domestic Disappearance	
	US	Canada	US	Canada	US	Canada
	Tonnes		Tonnes			
Butter	990,023	144,672	23,843	11,524	2.4%	8.0%
Cheese	6,129,705	549,439	60,866	29,281	1.0%	5.3%
SMP	385,488	30,041	11,735	13,750	3.0%	45.8%

Sources: USDA-ERS, Statistics Canada. Table 32-10-0054-01 Food available in Canada; Statistics Canada Q1 Population Estimates; US Tariff Schedule; GAC Annual Report on the Export-Import Permits Act

Table 2 US Dairy TRQ Fill Rates, Selected US Tariff Groupings

	Trade Agreement	HS Code Reference	TRQ Volume (tonnes)	TRQ Fill Rate		
				2022	2023	2024
Canadian Cheddar Cheese	WTO Global	0406.10.24, 0406.20.31, 0406.20.65, 0406.30.24, 0406.30.65,0406.90.08 and 0406.90.76	833	7%	43%	47%
Whole Milk	WTO Global	0401.20.20	11.3 million litres	100%	92%	100%
Dairy Products	WTO Global	0402.29.10,0402.99.70, 0403.20.10, 0403.90.90, 0404.10.11, 0404.90.30, 0405.20.60, 1517.90.50, 1704.90.54, 1806.20.81, 1806.32.60,1806.90.05, 1901.10.21,1901.10.41,1901.10.54, 1901.10.64, 1901.20.05, 1901.20.45, 1901.90.61, 1901.90.64, 2105.00.30, 2106.90.06, 2106.90.64, 2106.90.85 and 2202.99.24	Australia- 1,016	21%	8%	11%
			Belgium and Denmark- 154	100%	100%	75%
			Jamaica- 3.6	0%	0%	0%
			Any Country- 2,935	100%	100%	100%
Butter, Cream, and Cream Powder	USMCA/CUSMA	0401.50.75, 0402.21.90, 0403.90.65, 0403.90.78, 0405.10.20, 0405.20.30, 0405.20.70, 0405.90.20, 2106.90.26 or 2106.90. 36	3,000	0%	0%	11%
Cheese	USMCA/CUSMA	0406.10.XX; 0406.20.XX; 0406.30.XX; 0406.40.XX; 0406.90.XX; 1901.90.36	10,416	1%	2%	3%
Skim Milk Powder	USMCA/CUSMA	9823.02.01 through 9823.02.04(0402.10.50 or 0402.21.25)	5,000	0%	0%	0.1%
Other Dairy Products	USMCA/CUSMA	9823.08.02 through 9823.08.38	1,267	100%	100%	100%
Skim Milk Powder	AUSFTA	9822.04.15 through 0402.10.50 or 0402.21.25	170		0%	0.1%
Butter	AUSFTA	9822.04.10 through 0405.10.20	2,544		13%	47%
Other Milk Powders	AUSFTA	0402.21.50, 0403.90.45, 0403.90.55, 0404.10.90, 2309.90.28 or 2309.90.48	8,103		0%	0%
Cheese	Panama FTA	Panama Free Trade Chapter 99 US Note 6a through 0406.XX	898	0%	0%	0.1%
Butter	Colombia FTA	9918.04.04 through 0405.10.20	10,847	7%	5%	2%
Butter	Israel FTA	9908.04.01 through 0401.50.75, 0403.90.78 or 0405.10.20	466	0%	0%	0%
Cheese	Israel FTA	9908.04.05 through 0406.XX	1534	0%	0%	0%

Source: US Tariff Schedule; US Customs and Border Protection TRQ Reports https://www.cbp.gov/trade/quota/tariff-rate-quotas

Table 3 Canadian Dairy TRQ Fill Rates, Selected Tariff Groupings, 2023-24

		Access (tonnes)	Within Access Imports (tonnes)	Fill Rate
Butter	WTO Global	3274	3,272	99.93%
Products of Natural Milk Constituents	WTO Global	4,345	3,427	78.87%
Cheese	WTO Global	20,412	19,373	94.91%
Cheese	CETA	16,000	15,132	94.58%
Industrial Cheese	CETA	1,700	1,344	79.08%
Butter	CPTPP	4,500	4,437	98.60%
Skim Milk Powder	CPTPP	7,500	144	1.92%
Products of Natural Milk Constituents	CPTPP	4,040	96	2.36%
Cheese	CPTPP	3,661	3,587	97.97%
Industrial Cheese	CPTPP	8,055	43	0.53%
Butter	USMCA	3,750	3,048	81.27%
Skim Milk Powder	USMCA	6,250	209	3.34%
Products of Natural Milk Constituents	USMCA	2,300	174	7.58%
Cheese	USMCA	5,208	5,164	99.15%
Industrial Cheese	USMCA	5,208	3,086	59.26%

Source: GAC, Annual Report on the Export-Import Permits Act