USMCA Overview of Dairy-Relevant Outcomes

The U.S.-Mexico-Canada free trade agreement is poised to bring improvements to the North American dairy trade by expanding exports and bringing down trade barriers, benefiting America's dairy farmers and processors. The agreement will provide a $314.5 million economic boost in U.S. dairy exports, according to the U.S. International Trade Commission.

Under the agreement, tariff-rate quota access for dairy products into Canada will expand. However, Canada will not allocate any portion of the quota to a producer group or limit access to an allocation to processors. Beyond increased TRQ access, USMCA facilitates important reforms to non-tariff barriers:

Canada's Class 7 Reform

The agreement includes several elements in this space. USDEC and NMPF will continue to monitor enforcement of the provisions.

- Mandates that Classes 6 & 7 be eliminated six months after implementation of USMCA. Following that, Canada will reclassify the products and establish prices based on their end use except for skim milk powder (SMP), milk protein concentrate (MPC), and infant formula;
- Aside from animal feed uses for SMP, MPC, and infant formula, Canada will price the nonfat solids used to manufacture those products at prices no lower than the following formula:
    - [USDA nonfat dry milk price] minus [Canada's applicable processor margin] multiplied by [Canada's yield factor];
- USMCA seeks to discipline Canada's exports of SMP, MPC, and infant formula by assessing a surcharge on Canadian exports that exceed specified levels;
    - SMP / MPC – 55,000 MT in Year 1; 35,000 MT in Year 2; Annual growth of 1.2% after year 2;
        - Penalty surcharge of $0.54 (Canadian) per kilogram on any additional exports over that level in a marketing year;
    - Infant Formula – 13,333 MT in Year 1; 40,000 MT in Year 2; Annual growth of 1.3% after Year 2;
        - Penalty surcharge of $4.25 (Canadian) per kilogram on any additional exports over that level in a marketing year;
    - The agreement does not spell out how those proceeds will be handled by Canada;
- Additional requirements:
    - Review of the provisions at 5 years and thereafter every two years to allow for removal or modification if mutually agreed;
    - Ability to modify the export limit terms if mutually agreed;
    - Transparency disciplines;
    - Consultation on any future pricing class changes.

Geographical Indications (GIs)

- Establishes a new due process system for countries considering GIs that provides those opposing a GI with greater tools to object to a term's restriction;
  - It would avoid future scenarios such as the Canada-EU FTA where the country simply acquiesced to a long GI list without any public notice or input;
- Establishes a non-exhaustive list of commonly used cheese names that may not be restricted by Mexico moving forward;
  - This list includes terms such as mozzarella, cheddar, swiss, and others but omits some such as parmesan, romano, and others;
- Clarifies that those "prior users" eligible for continued use of certain common names (such as parmesan) under the EU-Mexico FTA include all portions of the supply chain: producers, importers, exporters, marketers, and distributors;
- Mandates that the Parties try to reach a "mutually agreeable solution" before recognizing any GIs under trade agreements with another country.

Sanitary & Phytosanitary Provisions

- USMCA provides for greater transparency and more scientific grounding for countries' Sanitary and Phytosanitary (SPS) rules while also creating a forum to resolve concerns that still arise.