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The U.S.-Mexico-Canada Agreement:
Evaluating North American Competitiveness

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Introduction

Chairman Crapo, Ranking Member Wyden, and members of the committee, thank you for the opportunity to testify before you today on the importance of the U.S.-Mexico-Canada Agreement (USMCA) for the U.S. dairy industry, and what improvements are needed for the agreement to fully deliver on its promise for American dairy farmers.

My name is Ted Vander Schaaf, and I am a third-generation dairyman and member-owner of Northwest Dairy Association, the cooperative that owns Darigold. Since 1999, my wife Leslie and I have owned and operated Vander Schaaf Farms, LLC, in Kuna, Idaho. Our farm integrates dairy and crop production, milking approximately 1,250 Holstein cows, raising all replacement heifers on site, and farming roughly 1,400 acres of primarily forage crops to sustain the herd. We are proud to operate in a way that emphasizes long-term stewardship, animal care, and sustainable practices that support both the health of the animals and the future of Idaho agriculture.

For more than 25 years, this farm has supported our livelihood as we have grown and raised six wonderful children, now ranging from middle school to college. Two of the children have shown a particular interest in continuing the family dairy operation, with one of them pursuing a degree in agriculture while the other is still in high school. One day I look forward to handing over the reins and keeping the farm in the family.

In 2024, I was elected to the Board of Directors of Northwest Dairy Association, a farmer-owned, multi-state dairy cooperative representing producers in Washington, Idaho, Oregon and Montana. Owned by approximately 250 family farms, the processing and marketing subsidiary Darigold operates 11 manufacturing plants across these four states and produces a full line of dairy products for customers, chefs and food manufacturers in the United States and around the world.

I currently serve on the Northwest Dairy Association Executive Committee and serve as Chairman of both the Quality and Farm Practices Committee and the Environmental Stewardship Committee, helping guide cooperative governance, quality standards, and environmental stewardship.

In addition to managing daily farm operations, I have been actively involved in agricultural leadership and industry service for more than a decade. I have served on the Idaho Dairymen's Association Board of Directors for ten years and currently serve as Secretary. The Association's primary mission is to represent Idaho dairy farmers on policy matters and to support environmental research that advances responsible and sustainable dairy production.

The Northwest Dairy Association / Darigold and Idaho Dairymen's Association are both members of the National Milk Producers Federation (NMPF) and the U.S. Dairy Export Council (USDEC). NMPF is the national farm commodity organization that represents dairy farmers and the dairy cooperative marketing associations they own and operate throughout the United States. USDEC is a non-profit, independent membership organization that represents the export trade interests of U.S. milk producers, proprietary processors, dairy cooperatives, and export traders. The Council's mission is to build global demand for U.S. dairy products and assist the industry in increasing the volume and value of exports.

I have also served on the Idaho State Brand Board for five years and as Chairman for the past two years. Nominated by producers and appointed by the Governor of Idaho, the Board and I provide oversight of the State Brand Inspector, who carries out the agency's day-to-day operations. Together, we ensure fiscal responsibility, regulatory compliance, and accountability to Idaho's livestock producers.

It is with this experience and perspective that I testify before you to discuss the importance of the U.S.-Mexico-Canada Agreement (USMCA) for American dairy farmers, and specific areas for the U.S. government to strengthen and improve during negotiations later this year.

Importance of Exports

Trade is essential to the success and long-term viability of the U.S. dairy industry. Today, exports account for a significant and growing share of U.S. milk production, providing commercial opportunities beyond domestic consumption growth. In recent years, the United States has exported more than $8 billion in dairy products annually—equivalent to roughly 17 percent of total U.S. milk production—making global markets a critical component of farm income for dairy producers across the country. Dairy producers are currently facing a challenging economic environment with low milk prices and rising input costs. Exports remain a bright spot for dairy families like my own as we look for opportunities to grow and ensure the next generation can continue to farm.

As the industry plans for long-term growth, expanding beyond domestic markets remains essential. More than 95 percent of the world's population lives outside the United States, representing vast and largely untapped opportunities to reach new consumers and build sustainable demand. The U.S. dairy industry is well prepared to compete globally, supported by more than $10 billion invested in new dairy processing capacity over the course of five years alone. Many of these modern facilities are specifically designed to serve export markets, reflecting the dairy industry's strategic commitment to international growth. A notable example is Darigold's recent investment in a state-of-the-art butter and powder processing plant in Pasco, Washington, which will supply customers both domestically and around the world.

These investments come at a critical moment. U.S. milk production continues to grow faster than domestic consumption, making access to global markets increasingly important for maintaining balance and supporting farm incomes, including my own. At the same time, consumers worldwide are incorporating more dairy into their diets as incomes rise and improving nutritional outcomes are prioritized. With its scale, efficiency, and reputation for quality, the United States is well positioned to meet this growing global demand and to play a leading role in supplying dairy products to consumers well beyond its borders.

Trade also supports a vast network of jobs well beyond the farm gate. Dairy exports sustain tens of thousands of dairy farms and numerous jobs throughout the supply chain, including those in processing, transportation, equipment manufacturing, and port operations. Trade agreements have proven vital to this success, with more than half of U.S. dairy exports by value going to countries where the United States has a bilateral or regional trade agreement in place. These agreements reduce tariffs, establish clear rules, and provide the certainty needed for businesses like Darigold to invest in processing capacity and export infrastructure.

At the same time, the importance of lowering barriers to trade for U.S. dairy is underscored by the competitive global environment. Major dairy exporters such as the European Union, New Zealand, and Australia have aggressively pursued trade agreements that benefit their producers, often to the detriment of U.S. farmers and exporters. To remain competitive, the United States must continue to secure fair and enforceable trade rules that allow American-made dairy products to compete on a level playing field, free from unjustified tariffs and nontariff barriers such as shifting certification requirements, facility listing mandates, and the misuse of geographical indications that limit the ability of American producers to use common names such as “parmesan” and “feta.”

Looking ahead, global demand for dairy products is expected to continue growing, including in Mexico and Canada. Capturing that demand is essential to a bright future for U.S. dairy producers, but it will require sustained engagement on trade policy. Expanding market access and fully utilizing existing trade frameworks will be necessary to ensuring that trade continues to deliver real benefits to American dairy farmers, workers, and rural communities. Just as importantly, those trade commitments will need to be rigorously enforced.

Importance of USMCA

USMCA is the cornerstone of U.S. dairy trade, providing stability in two major export markets for U.S. dairy products. Mexico and Canada together purchase nearly half of all U.S. dairy exports, making uninterrupted, fair access to these markets essential to dairy farm income, long-term business planning, and investment decisions across rural America. By preserving tariff free access to Mexico and establishing new, enforceable market access commitments in Canada, USMCA was intended to strengthen North American supply chains, provide predictability for exporters, and ensure that U.S. dairy can compete fairly with our closest neighbors.

USMCA established a modernized agreement that reinforced North America as a dependable export destination for U.S. dairy. By preserving duty-free trade with Mexico—our single largest export market and a critical source of growth—and securing new, albeit limited, dairy market access commitments as well as dairy export disciplines from Canada, USMCA has provided confidence for producers who depend on long-term planning and sustained investment.

For U.S. dairy, the continued access USMCA provides to the Mexican market is particularly valuable. Nearly $2.5 billion in U.S. dairy exports end up in Mexico each year as cheese, milk powders, whey proteins or a variety of other high-quality dairy ingredients. NAFTA and USMCA have provided the market access necessary to grow the market over tenfold when compared to NAFTA's implementation in 1994. USMCA built upon that foundation by assuring continued tariff free access to our largest export market and important tools to forestall potential nontariff barriers.

More than a quarter of all U.S. dairy exports each year are shipped to Mexico, highlighting its unparalleled importance to American dairy producers. In addition to direct shipments, U.S. dairy ingredients are incorporated into a wide range of value-added products, including baked goods, nutritional supplements, ready-to-eat meals, et cetera, that are processed in the United States specifically for the Mexican market. USMCA has played a critical role in supporting this growth, providing an unparalleled framework for expanding and sustaining dairy market opportunities.

The relationship goes far beyond trade volumes. For decades, the U.S. and Mexican dairy industries have partnered closely to expand dairy consumption across Mexico, generating shared gains on both sides of the border. Since the implementation of NAFTA, the dairy sectors in both countries have expanded in tandem as trade barriers were reduced and consumer demand increased. USMCA stands as a strong example of how well-designed trade agreements can produce real, shared gains for producers and consumers alike.

We milk cows 365 days a year. Without the certainty that USMCA provides for continued sales in the North American market, our ability to continue operating would be in jeopardy. Strong, enforceable trade agreements enable us to look to the future and make long-term planning decisions. However, a trade agreement is only as good as its implementation and enforcement.

Canada committed in USMCA to create new U.S.-specific tariff-rate quotas (TRQs) across a wide range of dairy products, offering expanded export opportunities. While Canadian over-quota tariffs remained in place, these provisions were designed to provide U.S. dairy exports improved access to the Canadian market and deliver commercially meaningful opportunities. In addition, new export disciplines in USMCA were intended to prevent the dumping of artificially low-priced Canadian dairy proteins into global markets.

However, the promise of USMCA for U.S. dairy has been undermined by Canada's failure to fully and faithfully follow through with those commitments, as detailed below. Canada's administration of dairy TRQs has systematically limited U.S. exporters' ability to use the access that was negotiated. In addition, Canada has taken steps to circumvent agreed-upon export disciplines, continuing practices that distort trade and disadvantage U.S. farmers. The results: U.S. dairy producers have been denied the benefits Congress expected when it approved USMCA, and Canada's evasion of its dairy commitments has set a troubling precedent for all of U.S. agriculture.

As the United States approaches the upcoming USMCA review, it is essential that the agreement be treated not as a static document, but as a living commitment that must be enforced and strengthened. U.S. dairy producers urge Congress and the Administration to use the Joint Review process to address Canada's shortfalls on its dairy market access and export discipline obligations, preserve strong and reliable access to Mexico, and ensure that USMCA delivers the full measure of intended benefits for American dairy farmers, workers, and exporters.

Canada

This prioritization of ensuring an agreement is working in practice and not just on paper is particularly important when considering Canada's dairy commitments in USMCA. While the dairy community appreciates the U.S. government's efforts to address Canada's dairy market access practices through the USMCA dispute settlement process, as well as Congress's sustained engagement on this critically important issue, Canada has refused to revise its TRQ administration practices to allow full use of the TRQs it has committed to under the agreement. As a result, the full amount of market access promised to U.S. dairy producers remains largely unrealized.

Canada continues to administer its dairy TRQs in a manner that restricts, rather than facilitates, trade. This is unfortunately consistent with its long-standing pattern of shielding its dairy sector from competition. Canada made inconsequential adjustments to that system in response to a USMCA dispute ruling in the United States favor, resulting in a TRQ allocation system that still discourages full utilization. The overwhelming share of quota volumes continues to be granted to domestic processors, many of whom lack incentives to import outside of their own intra-company shipping, while access for importers and distributors remains extremely constrained and zero access is provided for retailers, restaurants, hotels or other similar entities throughout the supply chain. These practices undermine the intent of USMCA and deny U.S. exporters the commercially meaningful access that was negotiated.

Congress overwhelmingly approved USMCA in a widely bipartisan vote for an agreement that would deliver real results to American farmers. The failure of Canada to live up to that agreement by subverting both the spirit and the letter of the USMCA dairy market access provisions has been borne by U.S. dairy farmers and processors. For example, cumulative U.S. access negotiated for the “Cheeses, Industrial Use” quota (TRQ-CA05) from the July 1, 2020, implementation through the end of calendar year 2024 was 15,104 metric tons. Canada’s manipulative TRQ administration has resulted in only 9,116 metric tons imported under the quota, or just 60 percent of the total access granted. Similarly, the cumulative quota fill rate from implementation through the end of “dairy year” 2025 was only 34 percent for fluid milk and an abysmal seven percent for skim milk powder. While some dairy exports to Canada have grown marginally under USMCA, the full extent of promised access remains severely limited. In the context of markedly high-priced Canadian dairy products versus U.S. products which are consistently price competitive, ample quantities of unfilled TRQs year-in and year-out simply does not make sense. The manipulative TRQ administration process results in chronic quota under-utilization despite Canadian customer demand, shortchanging U.S. exporters.

The Joint Review process provides the means to preserve the credibility of USMCA and to ensure that future market access concessions are not undermined through administrative barriers. The Review must include a commitment from Canada to administer the dairy TRQs in a manner that maximizes their use, including by extending quota access to a broad set of stakeholders throughout the supply chain and utilizing mechanisms to prompt quota fill throughout the year. Entities such as importers, distributors, retailers, restaurants, hotels, food service providers and others need to be granted equitable and reasonable access to the TRQs to incentivize their full use. The Review must also result in a more robust quota return policy that discourages non-use or routine return of quotas mid-year by limiting future access to the TRQs for those quota holders with chronic underutilization rates.

In addition to TRQ administration, serious concerns remain regarding Canada’s compliance with USMCA dairy export disciplines. While Canada formally eliminated its Class 7 pricing system, it has adopted alternative measures that simply shift production into alternative tariff classifications not expressly covered by USMCA.

Canada’s impact on global nonfat milk solids markets stems from its long history of policies that have resulted in an overproduction of milk proteins versus what is needed for the Canadian market. To deal with this, Canada has for years relied on policies that result in artificially low-cost nonfat milk solids, allowing for Canadian export prices that undercut other global suppliers with market-driven prices. This is in spite of Canadian producers receiving some of the highest farmgate milk prices in the world.

Despite commitments designed to constrain this problem under USMCA, Canada has sidestepped export disciplines by shifting surplus into further processed products under alternate tariff codes. At the same time, federal and provincial governments in Canada continue to pour billions into subsidies that expand processing and export capacity for Canadian nonfat milk solids.

USMCA established export thresholds for skim milk powder, milk protein concentrate, and infant formula in an attempt to limit Canada's offloading of artificially low-priced dairy proteins onto the global market in a manner that undercuts U.S. dairy processors. The agreement mandates the imposition of surcharges on the products once export volumes exceed a set threshold. Unfortunately, Canada has circumvented the export disciplines by further processing skim milk powder and milk protein concentrates into products that reclassify as "food preparations" and "milk protein isolates," thereby entering the product into a new Harmonized Tariff System (HTS) code not subject to USMCA surcharges. As a result, the detrimental effects that USMCA sought to address remain.

For example, Canadian exports of HTS 1901.90, a category that includes dairy skim blends and fat-filled milk powders totaled 77,000 metric tons the year prior to USMCA implementation but spiked to more than 166,000 metric tons by 2024, with most of the product ending up in the United States.

U.S. dairy farmers commend the U.S. government for initiating a Section 332 investigation into the United States competitiveness on nonfat milk solids in 2025. Key to a successful investigation will be a thorough analysis of Canada's pricing, subsidies and exporting schemes that permits the continued offloading of proteins at artificially low prices. The U.S. dairy industry is confident that the final Section 332 report will be an important resource for the U.S. government to address the export discipline circumventions in the Joint Review.

Capturing all possible means of Canada's continued attempts to export its nonfat milk product surplus onto the U.S. and global markets in a comprehensive manner is essential to deal with the escalating volumes of artificially low-priced Canadian protein exports and the impacts they have on other markets. The Joint Review provides the perfect avenue to do just that.

Mexico

Through the first six years of USMCA, Mexico has been a more cooperative partner and continues to be U.S. dairy's most important export market.

However, there is one key area where Mexico continues to lag. Under USMCA, Mexico committed to preserve the ability of U.S. dairy producers and exporters to use common food and beverage names in the Mexican market and to implement transparent, fair procedures for geographical indication (GI) recognition. These commitments, included in a pair of side letters on protecting cheese names and defining "prior users," were intended to blunt the impact of EU-driven restrictions on the use of terms such as "parmesan," "feta," and others, and to maintain continued market access for U.S. products.

Six years later, and Mexico has not fully implemented these USMCA common name and GI provisions into its domestic regulations, leaving significant procedural gaps that undermine the agreement's protections. Mexico has yet to issue implementing regulations for these side letters and for key intellectual property obligations, including clear standards for determining common names and transparent procedures for opposing illegitimate GI applications. Without these procedures, U.S. exporters face a greater burden in seeking to effectively challenge or prevent inappropriate GI protections.

The effect of inaction is being realized in real time. For instance, Mexico's intellectual property office (IMPI) has been declaring generic names to be illegal, siding numerous times with the European Union rather than correctly interpreting intellectual property rules. This practice violates USMCA and shortchanges Mexico's most important trading partner. It is unfortunate that IMPI persistently disregards the rights of U.S. suppliers by granting exclusive use rights to the European Union. This is in key part because Mexican trademark review processes failed to incorporate the explicit protections that USMCA granted U.S. cheesemakers.

In parallel, the EU-Mexico FTA has begun moving toward ratification and implementation. That agreement's GI provisions threaten to impose new barriers to U.S. cheese exports to Mexico. It is imperative that the U.S. government leverage the Joint Review process to ensure Mexico fully implements its common name commitments and U.S. cheese exports can continue unimpeded.

In summary, while USMCA's common name and GI protections were designed to safeguard U.S. dairy interests in Mexico, Mexico's failure to fully implement the required regulatory framework and procedures to enact those commitments has weakened those protections, creating ongoing concerns about access to the Mexican market for products labeled with widely used cheese names.

Conclusion

USMCA is particularly vital to an industry such as dairy that depends on long-term planning, constant production, and reliable market access. With nearly half of U.S. dairy exports destined for Mexico and Canada, the agreement provides the base for predictability that farmers need to make investments, manage risk, and sustain operations that run every day of the year.

But even the best of agreements merit review and targeted improvements when needed to achieve their full potential. Market access that exists only on paper does not support farm families, pay employees, or justify new investment. When trading partners fail to uphold their end of the bargain, whether through restrictive quota administration, circumvention of export disciplines, or delays in regulatory implementation, producers like me feel the impact.

As the USMCA review approaches, it is essential that the United States work to extend this agreement and secure the targeted adjustments needed to strengthen it for the future. By preserving strong access to Mexico, ensuring full implementation of USMCA's provisions and holding Canada accountable to the reforms negotiators sought out to deliver, the U.S. government can help guarantee that USMCA continues to provide real, measurable benefits for dairy farmers and the rural communities they support.

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