



Testimony of Michael Lichte

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Kansas City, KS

On behalf of
National Milk Producers Federation
U.S. Dairy Export Council

Agricultural Perspectives on the Future of the USMCA

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Introduction

Chairman Thompson, Ranking Member Craig, and members of the Committee, thank you for the opportunity to submit testimony regarding the importance of the United States-Mexico-Canada Agreement (USMCA) to the U.S. dairy sector and the need to ensure full implementation and enforcement of the agreement's dairy commitments as part of the forthcoming joint review process.

My name is Michael Lichte, and I serve as Chief Insights and Optimization Officer for Dairy Farmers of America (DFA). DFA is the largest dairy cooperative in the United States and the third-largest dairy company globally. Our farmer-owners operate nearly 5,000 family farms, from which DFA markets 64.7 billion pounds of milk annually, some of which goes into DFA's 82 manufacturing facilities. On the global stage, DFA exports more than 30 forms of dairy products to 70 countries, partnering with over 200 customers worldwide. In 2025, DFA's international business generated nearly \$1 billion in revenue. Our scale and scope give us a direct line of sight into how trade policy shapes the milk prices our farmer-owners depend on to sustain their operations, their families, and their communities.

In my current role, I facilitate the development of DFA's enterprise-wide strategic priorities alongside our leadership group, work with business leaders across our cooperative to enhance business performance, and look to advance long-term growth initiatives. Beyond DFA, I am actively engaged in national and international dairy policy and trade matters through service on the boards and committees of National Milk Producers Federation, U.S. Dairy Export Council, International Dairy Foods Association, and Global Dairy Platform. I also serve as a cleared advisor to USDA's Agricultural Technical Advisory Committee for Trade in Animals and Animal Products.

It is with this experience that I am honored to testify before you today on the importance of the U.S.-Mexico-Canada Agreement (USMCA) for DFA and the U.S. dairy industry, and the need for improvements to be made during the joint review process to ensure it delivers real results for our dairy farmers and the rural communities they support.

Importance of USMCA

First, I want to thank Chairman Thompson on his diligent leadership in championing the bipartisan Whole Milk for Healthy Kids into law earlier this year. We appreciate the Chairman and many on the committee who supported this critical effort that supports both our nation's youth and our hardworking dairy farmers.

While the Whole Milk for Healthy Kids promises a new opportunity for our farmers domestically, we must continue to look outside of our borders for long term, sustainable

growth. Export demand now accounts for 17 percent of total U.S. milk production and has become one of the key drivers of incremental growth across the dairy sector. Long-term growth in U.S. milk production continues to outpace domestic consumption growth trends in several product categories, particularly for milk solids used in manufactured dairy products and ingredients. As a result, the ability of U.S. dairy producers, cooperatives, and processors to access and compete within foreign markets has become central to supporting the milk prices our farmers depend on and generating returns on billions of dollars in processing infrastructure investments made across rural America over the last few years.

At DFA, our cooperative exists to find the best possible markets for our farmers' milk, whether that is in a school cafeteria down the road or a cheese plant in Mexico. The stronger and more diverse our export markets, the stronger the returns we can deliver back to the farm gate. That is why trade policy matters so deeply to our farmer-owners.

Against that backdrop, USMCA remains the most commercially significant trade agreement for the U.S. dairy industry. Mexico and Canada collectively account for over 40 percent of all U.S. dairy exports by value.¹ Mexico and Canada are by far the top two export destinations for U.S. dairy exports, and have been consistently for decades.

That is the kind of consistency dairy farmers, who milk their cows 365 days a year, rely upon. For our industry, market continuity remains particularly important because of the nature of dairy production and the inability to shut off production. Our farmer-owners structured DFA to ensure that their steady supply of milk production can be processed into a wide variety of products that customers around the world demand. Meeting this mandate requires substantial fixed costs, efficient throughput and stable sales relationships. Capital investments associated with modern dairy processing infrastructure are measured in hundreds of millions, if not billions, of dollars and are financed over long planning horizons. Export market disruption can therefore have immediate downstream effects on manufacturing margins and ultimately farm-level milk checks.

USMCA provides the market assurances that our farmers need to continue operating. Its importance to our farmers cannot be overstated. Beyond the tariff-free access that it provides to the Mexican market, USMCA also included provisions intended to partially address longstanding concerns involving Canada's dairy market restrictions and dairy protein export practices. During the USMCA negotiations, the United States secured market access into Canada through the establishment of new tariff-rate quotas (TRQs) across multiple dairy product categories. In addition, the agreement incorporated export

¹ U.S. Dairy Export Council, Trade Data Monitor

disciplines directed at limiting the ability of Canada to offload artificially low-priced dairy proteins into international markets through trade-distortive pricing and export mechanisms that adversely affect U.S. dairy manufacturers and global dairy protein markets.

While USMCA has delivered strong results with Mexico, Canada's implementation of its dairy commitments has not yet produced the commercially meaningful outcomes our farmers were promised. The mandated joint review provides an important opportunity for the United States to address these outstanding issues with Canada, while preserving the full market access for U.S. dairy products into Mexico, to ensure the agreement delivers for our farmers.

Mexico

Mexico is the most important trading partner of the U.S. dairy industry. It alone purchases billions of dollars annually in U.S. cheese, skim milk powder, whey products, lactose, dairy proteins, and other manufactured dairy products used throughout the Mexican food manufacturing, retail, and foodservice sectors. The commercial integration of the U.S. and Mexican dairy industries developed over decades through the gradual elimination of tariffs, the establishment of stable regional supply chains under USMCA, and a concerted focus by our industry in developing deep partnerships within Mexico. The continuation of duty- and trade barrier-free access to Mexico under USMCA is critically important to our farmers.

The relationships that our industry has developed in Mexico are a clear demonstration of how trade agreements can yield mutually beneficial results, if done right. Through both NAFTA and now USMCA, the U.S. and Mexican dairy industries alike have grown in parallel as new dairy product varieties have been introduced in Mexico and joint efforts have been invested to promote and grow consumption. As part of this longstanding relationship-building effort, I have participated in an annual U.S.-Mexico Binational Dairy Summit and related bilateral industry engagements. The forums bring together producers, cooperatives and processors from both countries to address common regulatory issues, strengthen supply chain coordination, and support continued growth in dairy consumption across our two markets. The long-term collaboration between the industries in both countries has helped establish one of the most integrated and mutually beneficial agricultural trading relationships in the world.

DFA's own growth in Mexico reflects the strength of this partnership. Mexico is the top priority export market for DFA, representing 14.1 percent of our total export revenue at \$134 million annually. Across the broader U.S. dairy industry, total exports to Mexico reached \$2.6 billion in 2025—with DFA accounting for approximately 5.2 percent of that total. This growth is rooted in the strengths we value most about the Mexican market: strong partners,

close proximity, and sound policy. When our farmers have a fair shot at competing in open markets, they deliver—and the results in Mexico prove that point. Every dollar of export revenue we generate in Mexico flows back to the cooperative and ultimately supports the milk prices paid to our farmer-owners.

To preserve that positive relationship, the U.S. dairy industry has closely monitored implementation of USMCA commitments in two key policies in Mexico. The first is a strategy Mexico published last year aimed at self-sufficiency in milk production, a component of which calls for the reduction of milk powder imports from the United States.² While increasing Mexico’s food security is a goal U.S. dairy supports, interference with imports and trade markets is not. The second policy is Mexico’s geographical indications (GI) commitments it negotiated with Europe that have the potential to restrict cheese names commonly used by U.S. exporters. On both of these policy matters, the U.S. government’s engagement is needed during the USMCA joint review to ensure Mexico fully preserves market access for U.S. dairy products marketed under common names and does not introduce new restrictions.

Canada

Canada’s dairy policies remain one of the most significant trade and competitiveness concerns facing U.S. agriculture within USMCA. While USMCA secured important new dairy market access and pricing provisions, Canada’s implementation has fallen well short of the negotiated intent.

Since USMCA’s implementation, Canada has administered its dairy tariff-rate quotas (TRQs) in a manner that prevents full use of the market access concessions secured under USMCA. The overwhelming majority of quota allocations remain concentrated among Canadian dairy processors that lack commercial incentives to import outside their own intra-company shipping, while importers/distributors are allocated only minimal shares of the available access. Retailers and foodservice operators remain completely excluded from access to the quota system despite representing entities with actual commercial demand for competitively priced U.S. dairy products. The resulting underfill across numerous quota categories limits U.S. suppliers from receiving the full benefits of the negotiated market access.

Demonstrating the limiting effects of Canada’s dairy TRQ administration, U.S. access negotiated under the “Yogurt and Buttermilk” quota (TRQ-CA09) for calendar year 2025 was

² Reference:

<https://apps.fas.usda.gov/newgainapi/api/Report/DownloadReportByFileName?fileName=Dairy%20and%20Products%20Annual%20Mexico%20City%20Mexico%20MX2025-0058.pdf>.

4,135 metric tons. Yet only 382 metric tons were ultimately imported under the quota, representing just 9 percent utilization of the access Canada committed to provide.³ Similar shortfall patterns persist across other dairy categories. These persistent underfill rates are particularly difficult to justify given the substantial price premiums routinely paid by Canadian consumers for dairy products relative to competitively priced U.S. exports. The continued existence of large volumes of unused quota clearly indicates that Canada's distortionary allocation methodology is suppressing commercially viable imports and preventing negotiated market access from functioning as intended under the agreement.

The inability for U.S. producers and processors like DFA to serve demand from willing customers in Canada makes these trade barriers an ongoing source of frustration.

To put this in perspective, Canada currently represents just 3.4 percent of DFA's total export sales at approximately \$32 million annually—a fraction of what the market could support if the negotiated access were functioning as intended.

Beyond the TRQ issues, Canada has also sought to circumvent its USMCA dairy pricing disciplines. While Canada formally eliminated its discriminatory Class 7 pricing system as part of its USMCA commitments, it has implemented alternative measures that largely replicate the pricing scheme, allowing dairy protein processors to purchase raw milk at extremely low prices. These pricing policies, combined with federal and provincial grants and loans expressly provided to address Canada's structural surplus of nonfat milk solids, result in heavily discounted product entering the United States and third country export markets around the world.

A U.S. International Trade Commission (USITC) Section 332 report on the United States' global competitiveness on nonfat milk solids released in May also noted the dramatic export growth of Canadian non-fat solids in certain HS codes and that Canada's milk supply management system effectively "unlinks" milk farm prices from milk component prices, allowing for greater competitive advantage for Canadian nonfat milk solids production. USITC found that Canada's exports under the "protein isolate" tariff code (HTS 3504) grew from just 76 metric tons in 2013-2015 to over 32,000 metric tons in 2022 -2024. While the tariff code is not exclusive to dairy proteins, USITC estimates that most of the exports were dairy based.⁴

USITC further notes that the dairy products are entering the United States from new and expanded processing plants in British Columbia and Manitoba. The report cites that "[i]n

³ U.S. Dairy Export Council, Global Affairs Canada

⁴ U.S. International Trade Commission, Nonfat Milk Solids: Competitive Conditions for the United States and Major Foreign Suppliers, USITC Publication 5732, Investigation No. 332-607 (Washington, DC: USITC, April 2026), <https://www.usitc.gov/publications/332/pub5732.pdf>

addition to access to cost-competitive sources of [nonfat milk solids] components, these facilities received grants and loans from national and provincial governments.”⁵ These expansion investments suggest that Canada plans to continue its dairy policy practices that further distort markets, including in the United States.

The USITC findings are consistent with our experiences; Canada appears to have shifted surplus nonfat milk solids into product categories structured to avoid the export disciplines established under USMCA. For our farmer-owners, every metric ton of quota left unfilled in Canada, and every pound of artificially priced Canadian dairy protein that enters our markets, or take our share of our customers’ markets, puts downward pressure on the returns our member farms receive for their milk. Getting this right during the joint review is essential to preserving the credibility of USMCA and protecting the livelihoods of American dairy farm families.

The upcoming USMCA joint review must address these issues head-on. Canada’s TRQ allocation system requires structural reform to ensure quota volumes are fully usable by U.S. dairy exporters – irrespective of their end destination, not just Canadian processors. Stronger utilization requirements and more effective quota return provisions are needed to discourage chronic underfill. Similarly, the review must comprehensively address Canada’s pricing of nonfat milk solids by evaluating the efficacy and conditions of the pricing formula, reconsidering the export thresholds for Canadian nonfat milk solids, and requiring Canada’s full partnership in any pricing or quota policies it may change.

Conclusion

For DFA and the U.S. dairy industry broadly, USMCA remains one of the most consequential trade agreements affecting long-term competitiveness, manufacturing investment, and the economic stability of dairy farm families. With Mexico and Canada accounting for close to half of all U.S. dairy exports, the market outlets provided through USMCA directly influence the milk checks farmers receive across the country.

The long-term success of the agreement depends upon whether its commitments produce commercially meaningful outcomes in practice.

As the joint review process moves forward, the United States should prioritize preserving the strengths of the North American dairy trading relationship while securing targeted improvements necessary to strengthen implementation and enforcement of the agreement’s dairy provisions, particularly for Canada. With appropriate enforcement and

⁵ Ibid.

modernization, USMCA can continue supporting investment, export growth, and economic opportunity for America's dairy farm families for generations to come.

At the end of the day, our farmers are asking for one thing: a fair opportunity to compete. When they have that opportunity—as they do in Mexico—they win. It is our responsibility to ensure that USMCA delivers on that promise across all of North America, so that the next generation of dairy farm families can build on the foundation this agreement provides.

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