

Required Report: Required - Public Distribution

Date: November 21, 2025

Report Number: CA2025-0038

Report Name: Dairy and Products Annual

Country: Canada

Post: Ottawa

Report Category: Dairy and Products

Prepared By: Mihai Lupescu

Approved By: Daniel Archibald

Report Highlights:

FAS/Canada projects modest milk production growth in 2026, driven by a slight increase in requirements for industrial milk, and steady consumption of fluid milk. Production of cheese and butter is also forecast to increase modestly in 2026, in the face of adequate stocks, and solid demand. Growth in cheese imports is expected to taper off in 2026, as market access under all tariff rate quotas matured and reached the phase of marginal expansion. Skim milk powder exports are expected to remain within the limits set by the United States-Mexico-Canada Agreement, while the industry continues to focus on producing high-protein dairy ingredients.

Executive Summary:

In 2025, growth in Canada's population returned to the slower-paced long-term trend, and so did total fluid milk consumption, which is forecast to grow by 0.4 percent in 2026, after an estimated 0.3 percent increase in 2025¹. With demand for industrial milk steady, FAS/Canada forecasts a modest 0.7 percent growth in overall milk production (fluid and industrial markets combined) in 2026, following an estimated 1 percent production increase in 2025. As discussed in the skim milk powder section of this report, the solids non-fat to butterfat ratio in Canadian milk has been on decline for the past five years, meaning that proportionally less milk is needed to meet a certain level of butterfat requirements.

As market access volumes under Canada's various import tariff rate quotas (TRQs) reached a plateau, growth in cheese imports is expected to slow down in 2026. The cheese TRQs under the Comprehensive Economic and Trade Agreement (CETA) with the European Union (EU) attained their maximum volumes of 17,700 metric tons (MT) in 2022, while cheese TRQs under the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) and under the United States-Mexico-Canada Agreement (USMCA) will expand at a modest rate, to reach 14,940 MT and 12,625 MT respectively, in 2026. In addition, Canada will continue to import over 20,400 MT of cheese – predominantly from EU countries – under a TRQ established at the World Trade Organization (WTO) in 1995.

Butter stocks have diminished slightly over the past year, reaching approximately 26,000 MT in July 2024, compared to about 27,000 MT one year earlier, prompting the estimated 1.8 percent growth in butter production in 2025. Facing steady demand, FAS/Canada expects a modest 0.9 percent increase in butter production in 2026, while butter imports will continue to benefit from marginally expanded TRQ volumes under CPTPP and USMCA, which combined will reach 12,500 MT in 2026. Additionally, to take advantage of Canada's import to re-export programs (incorporating cheaper imported butter into finished processed foods destined for export markets), demand from food manufacturers will fuel imports.

USMCA provisions impose export surcharges on Canadian exports of skim milk powder (SMP) and milk protein concentrates (MPC)² in excess of 37,151 MT. To date, these USMCA commitments are effective in limiting Canada's exports of SMP and MPC. FAS/Canada forecasts SMP exports at 18,000 MT in 2026, 3,000 MT above the estimated level for 2025. SMP production is expected to decline, with the 2026 level forecast at 85,000 MT, down from an estimated 88,000 MT in 2025. While the overall milk protein structural surplus is anticipated to slightly decline into 2026, the dairy industry is expected to continue its production and export focus away from SMP and MPC and into higher-protein powders, like milk protein isolates³ (this last category of protein powders being excluded from USMCA export surcharges).

¹ All years in this report are calendar years, unless otherwise noted. Canadian milk marketing year (MY) 2025/26 commenced on August 1, 2025, and will end on July 31, 2026.

² SMP exports are classified under the Harmonized System (HS) code 0402.10, and MPC under HS code 0404.90.

³ Milk protein isolate (MPI) exports are classified under HS code 3504.00.

MILK:

Table 1.
Production, Supply and Distribution (PS&D):

Dairy, Milk, Fluid Canada	2024		2025		2026	
	USDA Official	NEW Post Data	USDA Official	NEW Post Estimates	USDA Official	NEW Post Forecast
Cows In Milk	969	968	970	972	0	970
Cows Milk Production	10,340	10,334	10,445	10,435	0	10,510
Total Production	10,340	10,334	10,445	10,435	0	10,510
Total Imports	79	79	80	75	0	80
Total Supply	10,419	10,413	10,525	10,510	0	10,590
Total Exports	13	13	15	15	0	20
Fluid Use Dom. Consum.	2,775	2,767	2,795	2,775	0	2,785
Factory Use Consum.	7,166	7,168	7,250	7,255	0	7,320
Feed Use Dom. Consum.	465	465	465	465	0	465
Total Dom. Consumption	10,406	10,400	10,510	10,495	0	10,570
Total Distribution	10,419	10,413	10,525	10,510	0	10,590

1,000 head (cows) and 1,000 metric tons (the rest)

NOTE: "NEW Post" data reflect author's assessments and are NOT official USDA data

Production:

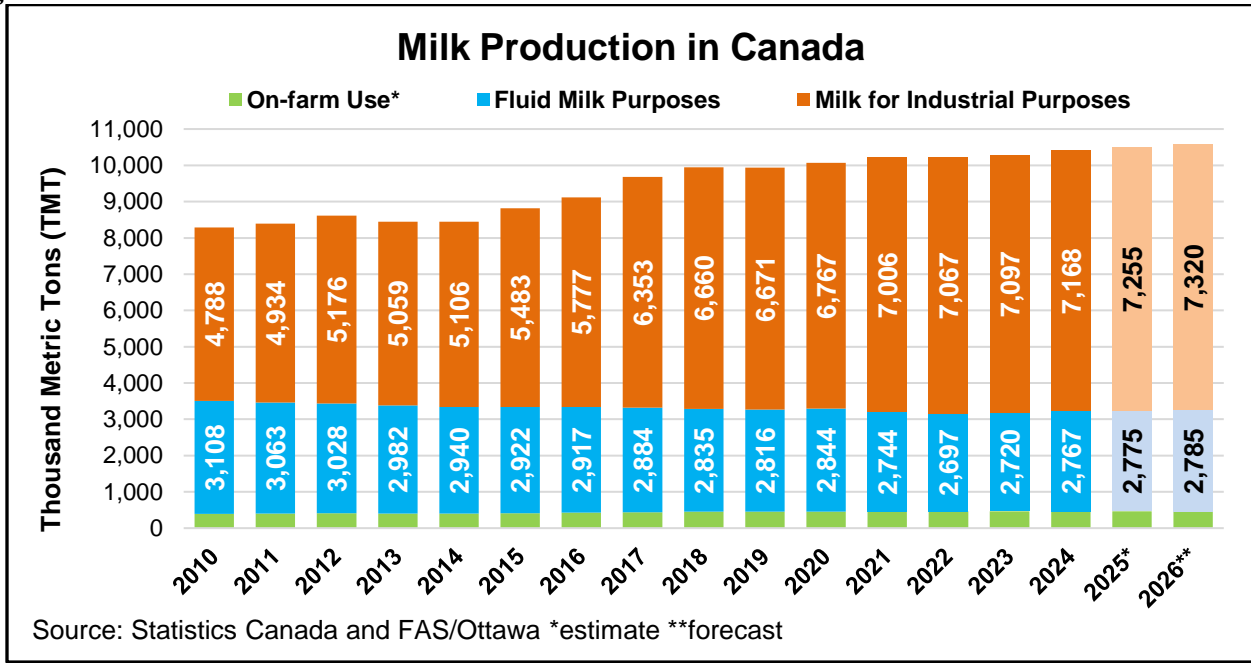
Canada maintains a supply management system for milk, in which production quota is allocated on a butterfat basis such that one share of quota is equivalent to the production of 1 kilogram of butterfat per day. The national Canadian Milk Supply Management Committee (CMSMC) sets the total quota volume based on recommendations from the Canadian Dairy Commission (CDC). The CDC monitors the trends in Canadian market requirements for butterfat and recommends milk production adjustments to reflect changes in Canadian domestic demand for milk and various dairy products. The CMSMC applies the terms of the National Milk Marketing Plan (a federal-provincial agreement) to establish each province's share of the total production quota.

Quota increases and decreases are shared among two regional pools: the Eastern Canadian Milk Pool (or P5), which includes Prince Edward Island, Nova Scotia, New Brunswick, Quebec, and Ontario; and the Western Milk Pool (WMP), which is made up of Manitoba, Saskatchewan, Alberta, and British Columbia. Each pool is then responsible for distributing shares of the quota to producers according to provincial policies and in accordance with pooling agreements. In 2020, for revenue sharing purposes, the dairy industry decided to gradually merge, over a three-year period, the two milk pools, and to add Newfoundland and Labrador to the milk pooling system. Starting in 2023, there is only one single national revenue sharing milk pool that covers all ten provinces. Milk in Canada is priced based on the end use of its major components: butterfat, protein, and other solids non-fat. Milk component prices are published on the [Canadian Dairy Information Centre](#) website and on the [Canadian Dairy Commission](#) website.

Milk produced in Canada supplies two markets: the fluid milk market, which includes fluid milk for direct consumption, creams, and flavored milks; and the industrial milk market (or milk for factory use),

which is used to make dairy products such as butter, cheese, yogurt, ice cream, and milk powders. The fluid milk market accounts for less than 30 percent of total milk produced in Canada, and milk for factory use constitutes just over two thirds of the total. On-farm use is estimated to account for less than five percent of total milk produced.

Figure 1.



FAS/Canada forecasts total milk production to reach 10.51 million metric tons (MMT) in 2026, a modest increase from the 2025 estimate of 10.435 MMT. Demand for industrial milk remains steady, while the consumption of fluid milk has returned to the long-term slowly declining or flat trend, reflecting the comeback in Canada’s population growth to the levels observed before 2023⁴. The fluid milk market is supplied with priority “on demand”, and any changes in consumption are immediately reflected in production levels.

The overall dairy market in Canada is mature and stable, with certain products (like cheese and butter) increasingly supplied via imports under various trade agreements. Going forward, overall milk production is expected to increase modestly, at an annual rate of about 1 percent, largely in tandem with the long-term growth trend in Canada’s population. Industrial milk production is expected to grow by 0.9 percent in 2026, while the production of milk for the fluid market is forecast to grow at 0.4 percent.

In general, there is no direct relationship between milk board announcements related to milk production quota increases (or cuts) and the actual volume of milk produced. Production quota announcements, based on the underlying requirements for butterfat, are essentially signals sent to dairy farmers to make farm-level adjustments to influence production in the desired direction. The actual milk production volume is the result of numerous factors, including production quota, the number of incentive days allowed, the number of production credit days claimed, the level of penalties applied to over-production

⁴ In 2023 and 2024, Canada’s population expanded at an unprecedented growth rate, reflecting increased levels of both permanent and temporary (foreign workers and international students) immigration.

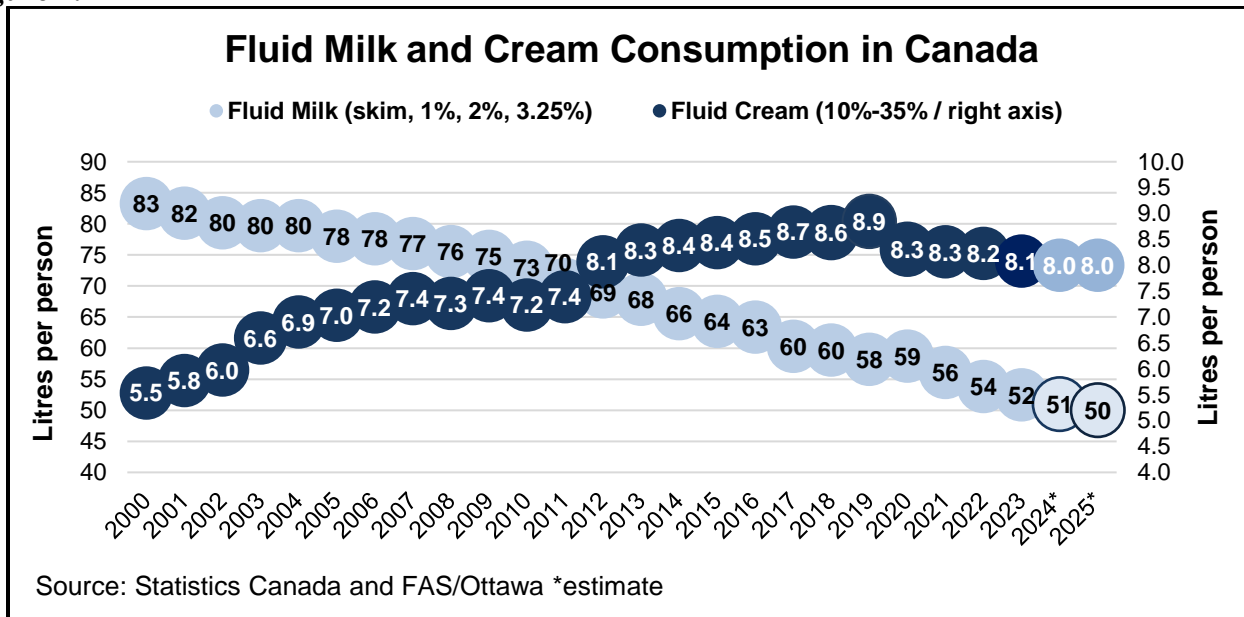
volumes, weather conditions, feed quality, animal genetics, and farm management practices. As discussed in more detail in the skim milk powder section of this report, the solids non-fat to butterfat ratio in Canadian milk has been on decline for the past five years, meaning that proportionally less milk is needed to meet a certain level of butterfat requirements.

Canadian dairy cow productivity has steadily increased over the past two decades, primarily due to improved genetics, but also because of improvements in farm management practices, feed quality, and greater use of robotic milking systems that typically result in increased milkings per day. In 2005, the average volume of milk production per dairy cow was 7.6 MT annually. By 2024, this volume had grown 35 percent to 10.3 MT annually. FAS/Canada projects average dairy cow milk productivity to reach 10.4 MT in 2026, 36.4 percent over the 2005 level.

Consumption:

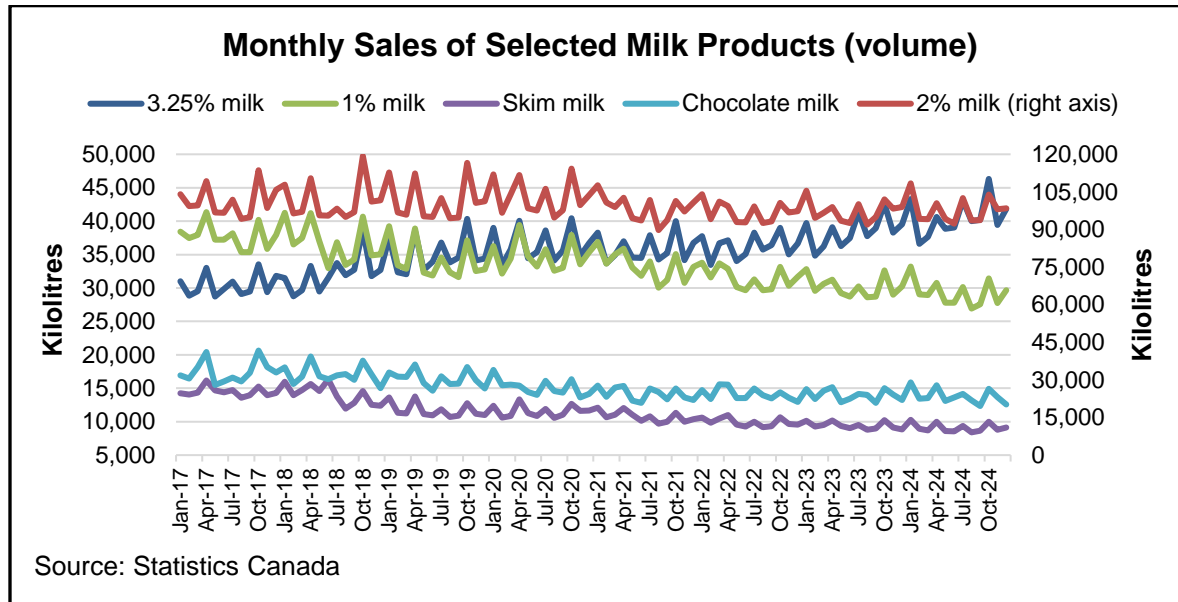
Per capita consumption of drinking milk has trended downward for over two decades, with the one-time exception being the first year of the COVID-19 pandemic (2020), as consumers spent more time at home. As the pre-pandemic trend (i.e. decreased per capita consumption) resumed in 2021, fluid milk consumption is expected to drop to an estimated average level of 50 liters per person in 2025. Per capita fluid cream consumption, which had been steadily increasing over a decade via sales in the food service sector (primarily coffee shops), was negatively impacted by the COVID-19 pandemic, and has declined by nearly 9 percent when compared to pre-pandemic levels, to 8.1 liters per person in 2023. FAS/Canada estimates the 2025 cream consumption at 8.0 liters per person, continuing the recent downward trend.

Figure 2.



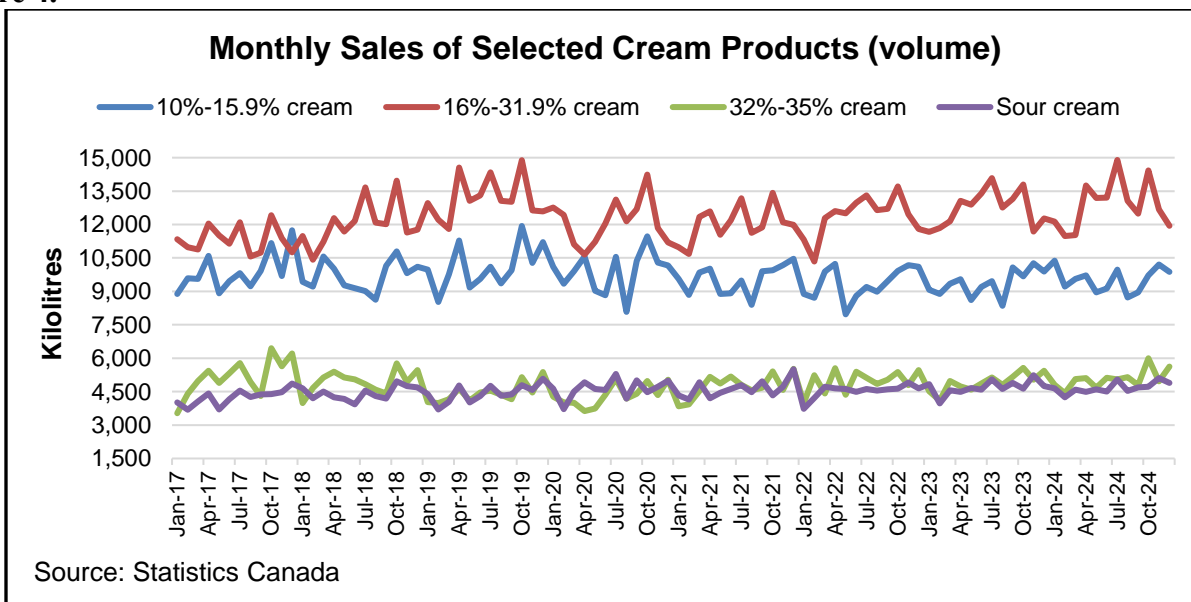
Sales data continue to indicate that Canadians buy more whole milk (3.25 percent butterfat) and less skim milk (zero percent butterfat) and reduced-fat milk (1 percent butterfat), following the overall trend of increased fat consumption in the Canadian diet.

Figure 3.



During the most recent 12-month period of available data, ending in June 2025, overall sales of liquid cream (10 to 35 percent butterfat content) remained flat, posting a 0.3 percent growth. The heavier creams category (16 to 35 percent butterfat) showed a 2.2 percent growth, while the lighter creams category (under 16 percent butterfat) declined at 3.2 percent rate. Sales of sour cream increased by 1.1 percent.

Figure 4.



Trade:

Under WTO commitments, Canada maintains a 64,500 MT fluid milk TRQ and a 394 MT cream TRQ. Due to geographic proximity and the perishable nature of fluid milk, the United States is the primary

source for Canadian imports of these products. Canada considers that Canadian consumers transporting fluid milk purchased in U.S. grocery stores and crossing the border under personal use exemptions in effect fills the fluid milk TRQ.

The WTO cream TRQ is first [allocated](#) to historical importers with established distribution for sterilized cream (minimum 23 percent butterfat content) in containers not exceeding 200 ml. Any remaining volumes not allocated to the historical sterilized cream importers are subsequently allocated to new sterilized cream importers, and to importers of other kinds of specialty creams (such as Devon cream, a type of clotted cream).

The [Comprehensive and Progressive Trans-Pacific Partnership](#) (CPTPP) entered into force on December 30, 2018, creating a new import [TRQ](#) for milk, providing additional market access as follows:

Table 2.

Quota Year (August to July)	Milk (in MT)
2018/19 (year 1)	8,333
2025/26 (year 8)	51,005
2036/37 and onward	56,905

Up to 85 percent of the CPTPP milk TRQ must be allocated to bulk milk (not for retail sale) importation for processing into dairy products used as ingredients for further food processing.

Under CPTPP, Canada also agreed to a cream [TRQ](#) (minimum 6 percent butterfat content), providing additional market access as follows:

Table 3.

Quota Year (August to July)	Cream (in MT)
2018/19 (year 1)	500
2025/26 (year 8)	615
2031/32 and onward	734

Based on current market conditions and the limited economic attractiveness of shipping fluid milk and cream from CPTPP countries, FAS/Canada estimates the CPTPP milk and cream TRQs will remain largely unfilled for the current period.

Under the [United States-Mexico-Canada Agreement](#) (USMCA), which entered into force on July 1, 2020, Canada agreed to a milk [TRQ](#), providing additional market access as follows:

Table 4.

Quota Year (August to July)	Milk (in MT)
July 2020 (year 1)	8,333
2025/26 (year 7)	50,500
2037/38 and onward	56,905

Up to 85 percent of this TRQ must be [allocated](#) to bulk milk (not for retail sale) importation for processing into dairy products used as ingredients for further food processing, and FAS/Canada estimates this TRQ will have a high fill rate .

Canada also agreed to a USMCA fluid cream TRQ (minimum 6 percent butterfat content) which provides the following market access:

Table 5.

Quota Year (August to July)	Cream (in MT)
July 2020 (year 1)	1,750
2025/26 (year 7)	10,605
2037/38 and onward	11,950

Of the entire USMCA cream TRQ volume, 85 percent must be [allocated](#) to the importation of cream in bulk (not for retail sale) to be processed into dairy products used as ingredients for further food processing. Only products originating in the United States may qualify under this cream TRQ, and FAS/Canada estimates the TRQ will have high fill rates.

Under the USMCA, the United States committed to an aggregated import [TRQ](#) for Canadian dairy products, including fluid cream (butterfat content between 6 and 45 percent), sour cream, ice cream and milk beverages. The combined volume under this TRQ was 1.75 million liters in year one of implementation, rapidly growing to 10.5 million liters in year six of implementation, and then gradually increasing to the full implementation volume of 11.95 million liters in year 19.

Both fluid milk and cream are eligible under Global Affairs Canada’s (GAC) policy for [supplementary imports](#), which includes the [Imports for Re-Export Program](#) (IREP). A program similar to IREP, called the [Duties Relief Program](#) (DRP), is operated by the Canada Border Services Agency. Under both the IREP and DRP, Canadian food manufacturers may import milk or cream to use in processed food products, provided that such products do not enter the domestic market and are eventually exported.

Policy:

On August 16, 2019, the federal government [announced](#) a support package of \$1.75 billion Canadian dollars (CAD) to be distributed over eight years to dairy farmers as compensation for projected negative impacts on the Canadian dairy industry from market access concessions in the CETA and CPTPP trade agreements. Of the total amount announced, \$345 million CAD was paid out in 2019 (the first year) as direct payments under the [Dairy Direct Payment Program \(DDPP\)](#), benefitting all dairy producers in

proportion to their quota shares. To be eligible, farmers would have to own a valid dairy license, own milk quota, and be registered with a provincial milk marketing board.

On November 28, 2020, the government [announced](#) an accelerated payment schedule for the remaining amounts under the DDPP, as follows:

- \$468 million CAD in marketing year (MY) 2020-21 (running from August to July)
- \$469 million CAD in MY 2021-22
- \$468 million CAD in MY 2022-23

In mid-November 2022, the federal government [announced](#) and [reconfirmed](#) a support package for Canada's supply-managed sectors (i.e. dairy, poultry and eggs) as compensation for market access concessions under the USMCA. The compensation package included \$1.2 billion CAD to be disbursed over six years for dairy farmers under the [Dairy Direct Payment Program](#).

Overall, the various compensation measures to dairy farmers for market access concessions under CETA, CPTPP, and USMCA amount to \$3.2 billion, or over \$300,000 per dairy farm⁵. For more information on Canada's compensation measures please review [FAS/Canada's GAIN report on Compensation \(CA2022-0037\)](#).

Canada publishes milk component prices on the [Canadian Dairy Information Centre](#) website for milk classes having different prices in different provinces, and on the [Canadian Dairy Commission](#) website for milk classes with the same price at the national level. Milk classes are defined under Canada's [Harmonized Milk Classification System](#), which, since June 2020, no longer includes milk class 7⁶. [USMCA](#) required the elimination of milk class 7 before January 1, 2021.

Milk component prices are calculated based on the National Pricing Formula (NPF), a mechanism developed by producers and processors, 50 percent based on changes in the cost of production and 50 percent on changes in the Consumer Price Index (CPI). Typically, milk component prices are determined at the end of a calendar year and take effect on February 1 of the following year.

⁵ AAFC [reported](#) 9,256 total dairy farms as of August 1, 2024.

⁶ For additional information on milk class 7, please refer to the last section of this report related to skim milk powder (SMP).

CHEESE:

Table 6.
Production, Supply and Distribution (PS&D)

Dairy, Cheese*	2024		2025		2026	
	USDA Official	NEW Post Data	USDA Official	NEW Post Estimates	USDA Official	NEW Post Forecast
Canada						
Beginning Stocks	86	83	84	77	0	75
Production	530	514	535	520	0	525
Total Imports	60	60	65	62	0	65
Total Supply	676	657	684	659	0	665
Total Exports	12	12	12	10	0	10
Total Dom. Consumption	580	568	589	574	0	580
Ending Stocks	84	77	83	75	0	75
Total Distribution	676	657	684	659	0	665

*Please note that starting with the 2018 annual report cheese data includes “cottage cheese”. Data in 1,000 metric tons. Imports include re-exports.

NOTE: "NEW Post" data reflect author's assessments and are NOT official USDA data

Production:

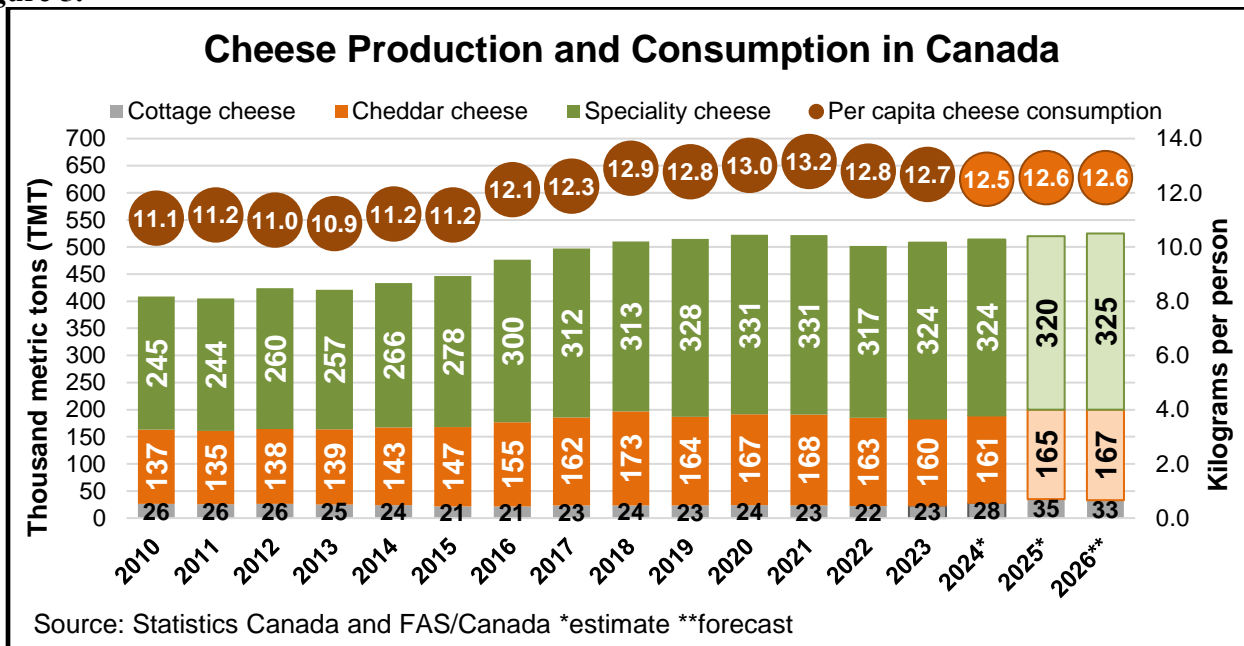
For 2026, cheese production is forecast at 525,000 MT, following an estimated level of 520,000 MT in 2025, reflective of a steady demand for this product. FAS/Canada estimates that cheese stocks have remained stable over the past 12 months, reaching an estimated 79,000 MT in July 2025, virtually unchanged from the estimated level for July 2024. Overall, cheese production growth appears to have leveled off since 2019, as recently implemented trade agreements brought additional imported cheese volumes to the market. Going forward, and facing a stable demand, FAS/Canada expects growth rates in cheese production of about 1 percent annually.

Consumption:

The positive change in consumer perception towards consuming foods rich in butterfat observed over the past decade has also had an impact on cheese consumption. Cheese sales are expected to remain strong, especially as retail offerings are increasingly supplied by imports under Canada’s various trade agreements.

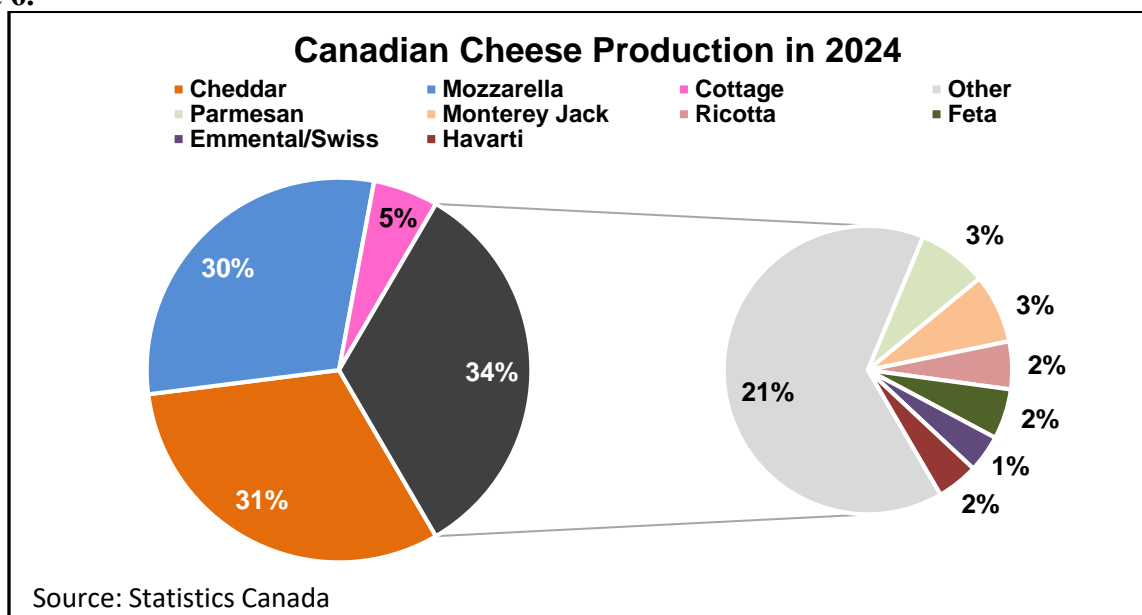
Per capita consumption is influenced by the total amount of product available on the market, and by the country’s total population. The population boom experienced by Canada in 2023 and 2024 added nearly 2.5 million people in only two years and is the primary explanation for the drop in per capita cheese consumption observed since 2022. As total cheese supply gradually increases to meet the steady demand, consumption on a per capita basis is also expected to slowly revert to the higher levels observed in early 2020s. FAS/Canada estimates cheese consumption at 12.6 kilograms per capita in 2025 and 2026.

Figure 5.



Consumption of various types of cheese in Canada largely mirrors the domestic production pattern. Cheddar and mozzarella each represent about 30 percent of cheese consumed in Canada, with cottage cheese following in a distant third position at 5 percent, although health-conscious consumers appreciative of the high-protein and low-fat content of this product account for an upward trend in cottage cheese consumption. Mozzarella is versatile and widely used in fresh and frozen pizza, but also as an ingredient in a variety of further processed food products such as lasagna and other processed products.

Figure 6.



All other kinds of cheese collectively account for one third of total consumption, comprised of various types of specialty cheeses. Many of these specialty cheeses are used industrially as ingredients in further processed foods, while others are typically used on hamburgers, sandwiches, and subs (like Swiss, Monterey Jack, Havarti, or Provolone).

A smaller percentage of the specialty cheese consumed in Canada is the fine cheese category, which includes cheeses like Parmesan, blue cheeses, and a variety of fine hard cheeses (such as Asiago) and fine soft cheeses (like Camembert). However, industry sources indicate that the market for these fine cheeses is growing, as Canadian consumers are exposed to an increasingly wider array of choices, including via additional imports of fine cheeses under trade agreements with the European Union, CPTPP countries, and the United States. In addition, recent immigration patterns have also expanded the market for specialty cheeses from the Middle East and Latin America.

Trade:

FAS/Canada forecasts cheese imports to reach 65,000 MT in 2026, following an estimated level of 62,000 MT in 2025, driven by trade under various TRQs and improved TRQ fill rates. Additionally, imports will be fueled by demand from food manufacturers that use Canada’s import to re-export programs to incorporate cheaper imported cheese into finished processed foods destined for export markets. Going forward, implementation of market access commitments under various trade agreements will no longer play a significant role in import growth, as the respective TRQs have matured, and will only deliver marginal volume expansion in the foreseeable future. The CETA cheese TRQs reached their maximum volume of 17,700 MT in 2022, while the overall access under the CPTPP TRQs will reach nearly 15,000 MT in 2026, and just over 12,600 MT under the USMCA TRQs.

Table 7.
Canadian Cheese Imports: Year-to-Date Data (January-August)

Canada Import Statistics								
Commodity: HS 0406, Cheese and Curd								
Year To Date: January - August								
Partner Country	Unit	Quantity			% Share			% Change
		2023	2024	2025	2023	2024	2025	2025/2024
World	T	31,142	35,916	39,055	100%	100%	100%	8.7%
EU 27	T	14,974	17,194	19,392	48.1%	47.9%	49.7%	12.8%
United States	T	10,501	13,287	14,196	33.7%	37.0%	36.3%	6.8%
New Zealand	T	2,172	1,747	1,648	7.0%	4.9%	4.2%	-5.7%
United Kingdom	T	1,170	863	1,269	3.8%	2.4%	3.2%	47.0%
Switzerland	T	1,423	1,042	1,217	4.6%	2.9%	3.1%	16.8%
Australia	T	462	1,444	845	1.5%	4.0%	2.2%	-41.5%
Other countries	T	440	339	488	1.4%	0.9%	1.2%	44.0%

Source: Trade Data Monitor

Under its WTO commitments, Canada maintains an annual all-cheeses [TRQ](#) of 20,412 MT. Of this total TRQ volume, 14,272 MT (70 percent) are allocated to EU members (as per Canada’s WTO commitment) and the remaining balance is made available to imports from all countries. The volumes

are allocated to historical [importers](#) of cheese (71 companies) and the 2024 TRQ fill rate was 95 percent.

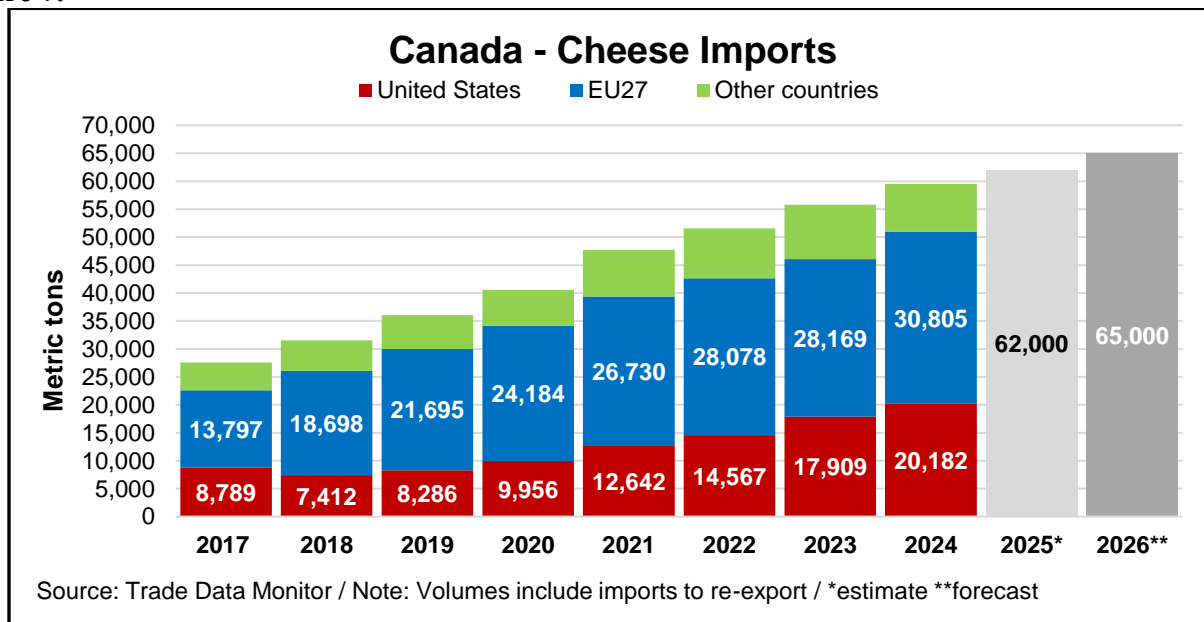
Canada provides additional access to EU members under two [CETA](#) TRQs: an industrial cheese TRQ, and an all-cheese TRQ. In 2022, following a six-year implementation period, both TRQs reached their maximum volumes as follows: the industrial cheese TRQ now has an annual (calendar year) volume of 1,700 MT, while the all-cheeses TRQ has an annual (calendar year) volume of 16,000 MT.

The CETA [all-cheeses TRQ](#) is allocated to two categories of [importers](#); dairy processors (about 45 companies) and distributors/retailers (about 175 companies). Each receive 50 percent of the total TRQ volume. In each category, 30 percent of the total TRQ volume is allocated to small and medium-sized companies (equaling 60 percent of the total all-cheeses TRQ volume) and 20 percent of the total TRQ volume is allocated to large companies (constituting 40 percent of the total all-cheeses TRQ volume).

The CETA [industrial cheese TRQ](#) is entirely allocated to [further processors](#) (10 companies), defined as companies that use cheese as an ingredient in the production of further processed food products, other than cheese, in their own provincially-licensed or federally-registered processing facilities.

In 2024, the CETA all-cheeses TRQ fill rate reached 95 percent, while the CETA industrial cheese TRQ was 79 percent filled, and FAS/Canada estimates similar high fill rates in 2025.

Figure 7.



The [CPTPP](#) entered into force on December 30, 2018. Under this agreement, Canada agreed to three [TRQs](#) for cheese, which provide the following levels of market access:

Table 8.

Quota Year (January-December)	<u>Industrial Cheese</u> (in MT)	<u>Mozzarella and Prepared Cheese</u> (in MT)	<u>All Cheeses</u> (in MT)
2018 (year 1)	1,329	483	604
2026 (year 9)	8,217	2,988	3,735
2036 and onward	9,076	3,300	4,126

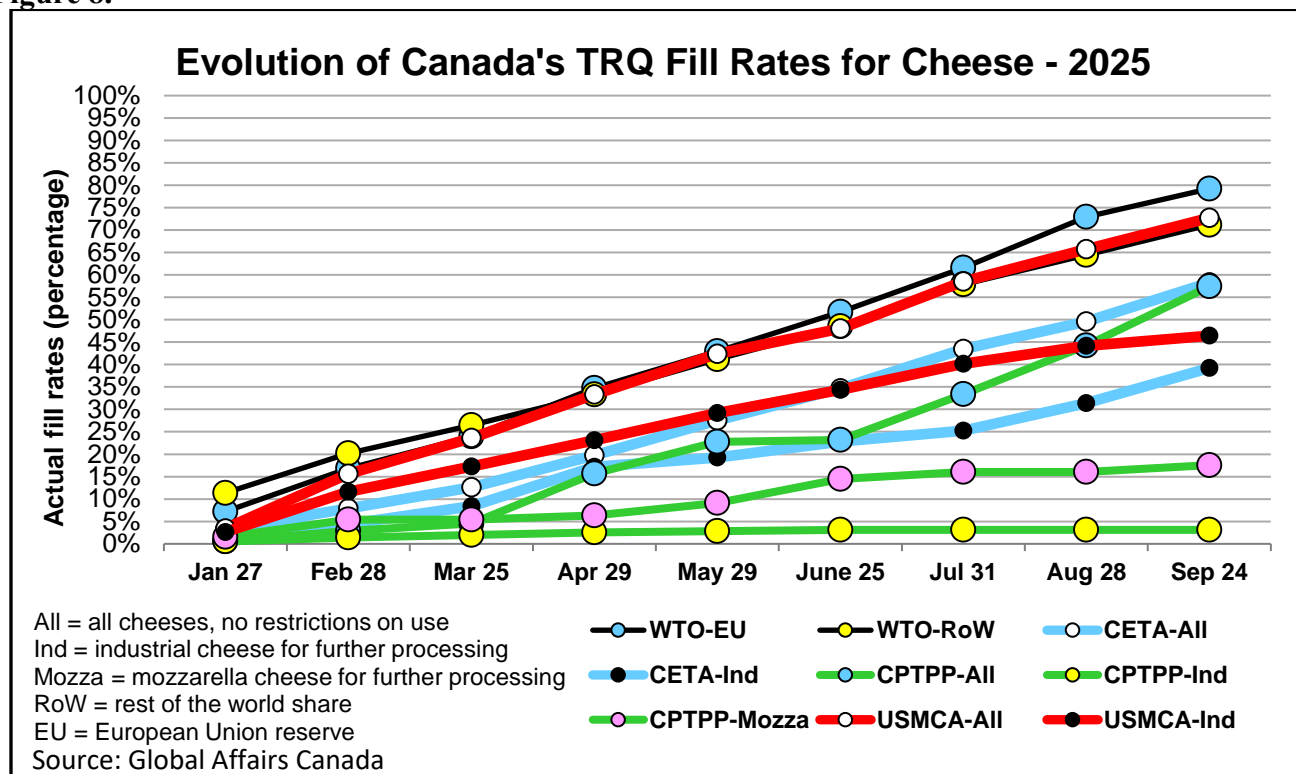
In 2024, the fill rates for the CPTPP TRQs were: all cheeses 98 percent, mozzarella and prepared cheeses 46 percent, and industrial cheese 1 percent.

Following the resolution of the CPTPP dairy TRQs dispute with New Zealand that was [announced](#) in July 2025, Canada made several changes regarding the allocation policies for all CPTPP dairy TRQs, including:

- moving the return date to May 1 (from August 1) for calendar year TRQs (such as the cheese TRQs)
- introducing a chronic return penalty (based on return volumes exceeding 30 percent of the allocated amount for two consecutive years)
- introducing an [underfill mechanism](#) for TRQs that exhibit a utilization rate of less than 60 percent for three consecutive years (switching from market share to an “on demand” allocation method).

The table below presents the evolution of the fill rates for various cheese TRQs, as observed at several points during 2024. GAC publishes regular reports on cheese TRQ [utilization](#) rates.

Figure 8.



Under the [USMCA](#), Canada committed to two [TRQs](#) for cheese, which provide the following levels of market access:

Table 9.

Quota Year (January-December)	Industrial Cheese (in MT)	All Cheeses (in MT)
July-December 2020 (year 1)	521	521
2026 (year 7)	6,313	6,313
2038 and onward	7,113	7,113

The USMCA cheese TRQs are available exclusively to imports from the United States. The USMCA also includes provisions to ensure the cheese TRQs volumes are allocated in commercially viable shipping quantities. In 2024, the fill rate for the USMCA all cheeses TRQ was 99 percent, while the fill rate for the industrial cheese TRQ was 59 percent.

Under the USMCA, the United States opened a [TRQ](#) for imports of cheeses of all types from Canada. The market access available under this TRQ covers an initial 2,083 MT of cheese in year one of implementation, rapidly increasing to 12,500 MT in year six of implementation, then gradually

increasing to 14,226 MT by year 19 of implementation. After that, the volume will remain constant at 14,226 MT per year.

Cheese is a product eligible under GAC's policy for [supplementary imports](#), which includes the [Imports for Re-Export Program](#) (IREP). A program similar to IREP, called the [Duties Relief Program](#) (DRP), is operated by the Canada Border Services Agency. Under both the IREP and DRP, Canadian food manufacturers may import cheese to use in processed food products, provided that such products do not enter the domestic market and are eventually exported.

Policy:

On May 15, 2020, in response to the COVID-19 pandemic, the federal government [announced](#) a \$200 million CAD increase to the Canadian Dairy Commission's (CDC) borrowing limit (from \$300 million CAD to \$500 million CAD) to enable the CDC to increase its temporary purchase and storage of butter and cheese to help balance market supply and demand. According to announced [program details](#), the CDC would purchase products from dairy processors under a contractual commitment that these companies buy them back at the selling price, at a later date when market conditions improve. Information on the [CDC website](#) shows that as of April 30, 2025, about 820 MT of cheese were covered by "repurchase agreements" valued at nearly \$7.4 million CAD. Increasing CDC's borrowing limit required a legislative change and parliamentary approval, therefore this policy change remained in place beyond the COVID-19 pandemic, and is likely to continue in the foreseeable future, unless Parliament takes another legislative action to revert the borrowing limit to its pre-pandemic level.

The Federal Budget 2021 [committed](#) \$292.5 million CAD through 2029 to compensate dairy, poultry, and egg processors for market access concessions under the CETA with the European Union and under the CPTPP. Similar to a 2016 \$100 million CAD dairy processor compensation package for anticipated CETA concessions, the [Supply Management Processing Investment Fund](#) will offset the cost of new automated equipment and technology. The new funds will be made available to the more than 500 dairy processors and nearly 150 poultry and egg processors in operation in Canada.

In mid-November 2022, the federal government [announced](#) and [reconfirmed](#) a support package for Canada's supply-managed sectors (i.e. dairy, poultry and eggs) as compensation for market access concessions under the USMCA. The compensation package included additional \$105 million for dairy, poultry, and egg processors, on top of the existing funding under the [Supply Management Processing Investment Fund](#).

BUTTER:

Table 10.
Production, Supply and Distribution (PS&D):

Dairy, Butter Canada	2024		2025		2026	
	USDA Official	NEW Post Data	USDA Official	NEW Post Estimates	USDA Official	NEW Post Forecast
Beginning Stocks	28	21	28	24	0	22
Production	130	113	133	115	0	116
Total Imports	38	37	45	40	0	42
Total Supply	196	171	206	179	0	178
Total Exports	1	1	2	2	0	1
Domestic Consumption	167	146	175	155	0	159
Ending Stocks	28	24	29	22	0	20
Total Distribution	196	171	206	179	0	178

NOTE: "NEW Post" data reflect author's assessments and are NOT official USDA data
Data in 1,000 metric tons. Imports include re-exports.

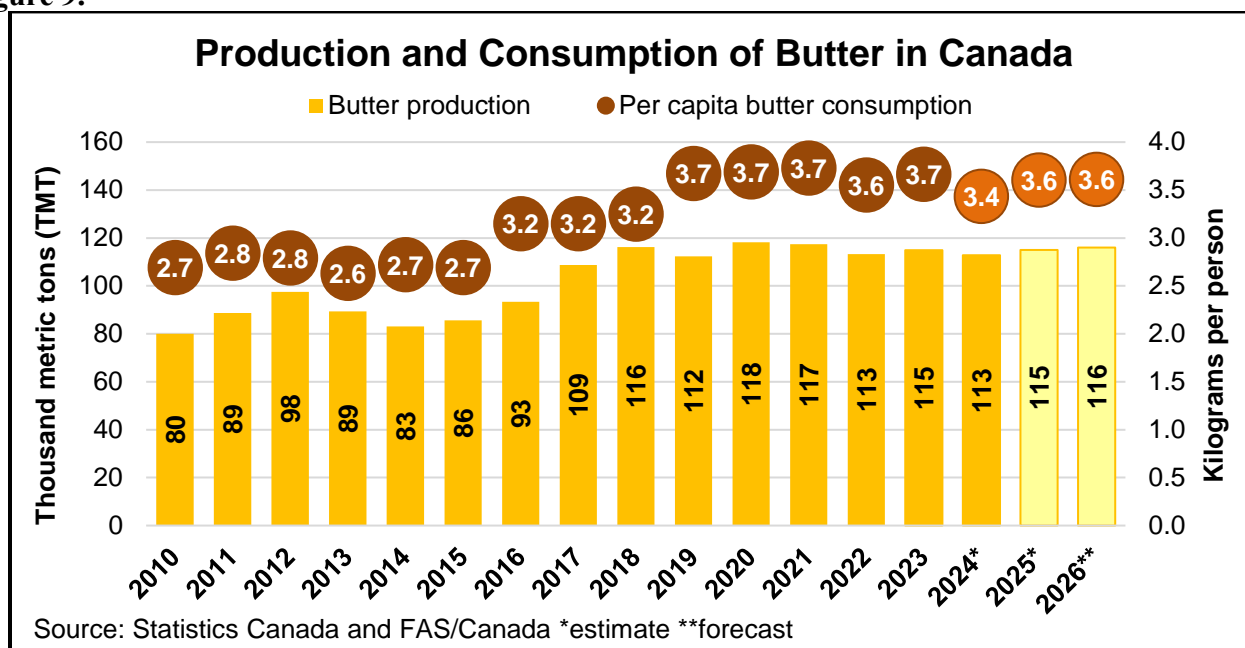
Production:

FAS/Canada estimates butter production to reach 115,000 MT in 2025, before slightly increasing to 116,000 MT in 2026. With stable demand, butter production continues a steady path of modest growth, as the domestic market is also supplied via increased import volumes under Canada's CPTPP and USMCA TRQs. Butter stocks have declined over the past year, reaching nearly 26,000 MT in July 2025, compared to 28,000 MT 12 months earlier, remaining well below the industry's target volume of 35,000 MT. Going forward, FAS/Canada does not expect a significant growth in butter production, which is anticipated to increase at modest rates of 1-2 percent annually.

Consumption:

Sustained overall consumption supported relatively stable levels of per capita butter consumption observed over the past several years. FAS/Canada forecasts a level of 3.6 kilograms per capita in 2026, unchanged from the estimated level in 2025. In addition to butter consumed by individuals, the food manufacturing sector also significantly contributes to the sustained butter demand, as many processing companies replaced plant-based fats with butter in their recipes.

Figure 9.



Trade:

FAS/Canada estimates butter imports to reach 40,000 MT in 2025 and to further increase to 42,000 MT in 2026, primarily influenced by food manufacturers’ imports under re-export programs (such as IREP, as explained further below), and in part due to marginal expansions in CPTPP and USMCA TRQ volumes. Currently, about two thirds of Canada’s butter imports are destined for further processing into final food products destined for export markets.

Table 11.

Canadian Butter Imports: Year-to-Date Data (January-August)

Canada Import Statistics

Commodity: HS 0405, Butter And Other Fats And Oils Derived From Milk

Year To Date: January - August

Partner Country	Unit	Quantity			% Share			% Change
		2023	2024	2025	2023	2024	2025	2025/2024
World	T	24,867	23,911	32,301	100%	100%	100%	35.1%
United States	T	13,895	14,488	22,454	55.9%	60.6%	69.5%	55.0%
New Zealand	T	10,552	9,028	9,340	42.4%	37.8%	28.9%	3.5%
EU27	T	204	173	382	0.8%	0.7%	1.2%	120.8%
Australia	T	0	213	125	0.0%	0.9%	0.4%	-41.3%
Other countries	T	216	9	0	0.9%	0.0%	0.0%	-100.0%

Source: Trade Data Monitor

Under WTO commitments, Canada maintains a [TRQ](#) for butter, dairy spreads and fats and oils derived from milk. The total TRQ volume is 3,274 MT, of which 2,000 MT is a country-specific allocation to New Zealand. The entire TRQ volume is [allocated](#) to the Canadian Dairy Commission which imports the butter and re-sells it on the domestic market for use in food processing.

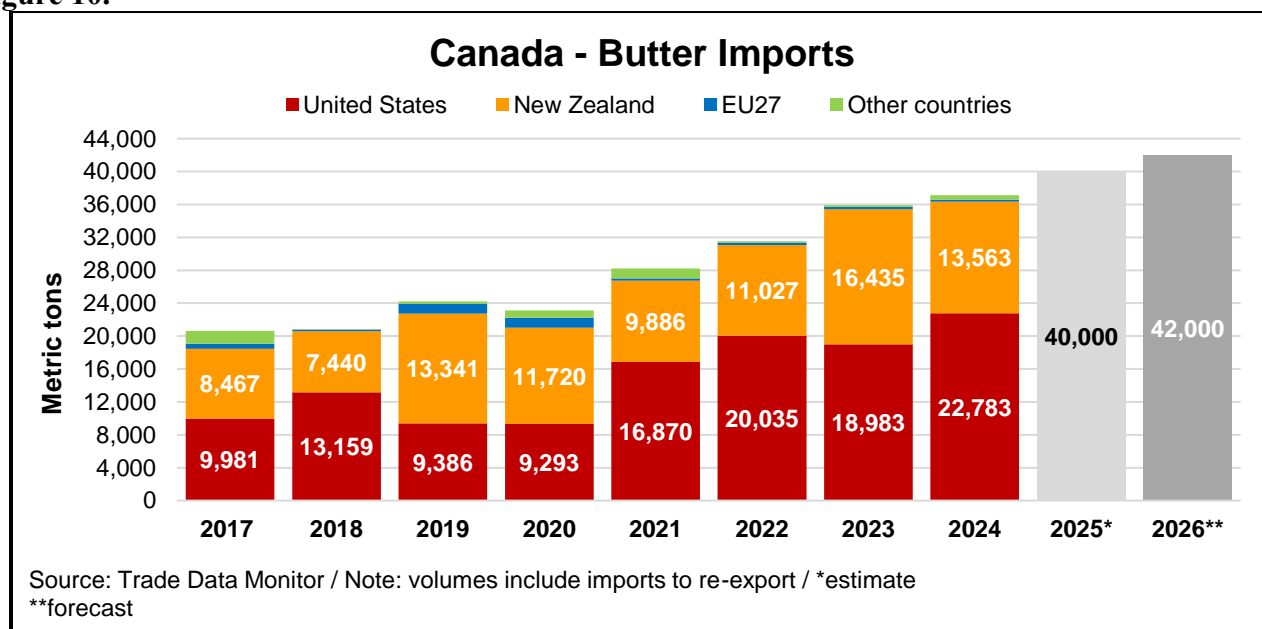
Under the [CPTPP](#) (which entered into force on December 30, 2018), Canada agreed to a [TRQ](#) for butter which would provide the following market access:

Table 12.

Quota Year (August to July)	Butter (in MT)
2018/19 (year 1)	750
2025/26 (year 8)	4,590
2031/32 and onward	5,121

Up to 85 percent of this TRQ must be [allocated](#) to bulk imports of butter (not for retail sale) to be used in further food processing. FAS/Canada estimates the CPTPP butter TRQ to be fully filled. Please see the “cheese” section in this report for information on changes to Canada’s allocation policies following the resolution of the CPTPP dairy TRQs dispute with New Zealand.

Figure 10.



Under the [USMCA](#), Canada committed to a [TRQ](#) for butter and cream powder, which would provide market access as follows:

Table 13.

Quota Year (August to July)	Butter and Cream Powder (in MT)
July 2020 (year 1)	750
2025/26 (year 7)	4,545
2037/38 and onward	5,121

According to USMCA commitments, up to 85 percent of the butter and cream powder TRQ volume in year 1 of implementation had to be allocated for further processing (not for retail sale), with the obligation to gradually reduce this percentage so that in year 6 of implementation only 50 percent of the TRQ is allocated for further processing, with the remaining volumes being made available for any use, including retail. Based on the current [allocation](#) policy for this TRQ, this threshold was reached in marketing year 2024/25, so that currently only 50 percent of the total volume must be imported in bulk for use in further food processing. The USMCA butter and cream powder TRQ is opened exclusively to imports from the United States, and FAS/Canada expects this TRQ to be fully filled.

Under the USMCA, the United States also committed to open an aggregated [TRQ](#) for Canada to cover butter, fluid cream (of minimum 45 percent butterfat content) and cream powder. The combined volume under this TRQ was 750 MT in year one of implementation, after which the volume will rapidly increase to 4,500 MT in year 6 of implementation, then would gradually increase to 5,121 MT by year 19 of implementation. After that, the volume will remain constant at 5,121 MT annually.

In any given year, actual imports of butter into Canada typically exceed the TRQ volumes. This is due to the fact that butter is a product eligible under GAC’s policy for [supplementary imports](#), which includes the [Imports for Re-Export Program](#) (IREP). A program similar to IREP, called the [Duties Relief Program](#) (DRP), is operated by the Canada Border Services Agency. Under both the IREP and DRP, Canadian food manufacturers may import butter to use in processed food products, provided that such products do not enter the domestic market and are eventually exported. Of all butter imported in excess of the WTO, CPTPP and USMCA TRQs, the vast majority is imported under the IREP and DRP.

SKIM MILK POWDER:

**Table 14.
Production, Supply and Distribution (PS&D):**

Dairy, Milk, Nonfat Dry Canada	2024		2025		2026	
	USDA Official	NEW Post Data	USDA Official	NEW Post Estimates	USDA Official	NEW Post Forecast
Beginning Stocks	25	26	26	26	0	26
Production	89	85	89	88	0	85
Total Imports	2	2	3	2	0	1
Total Supply	116	113	118	116	0	112
Total Exports	20	20	15	15	0	18
Total Dom. Consumption	70	67	72	75	0	68
Ending Stocks	26	26	31	26	0	26
Total Distribution	116	113	118	116	0	112

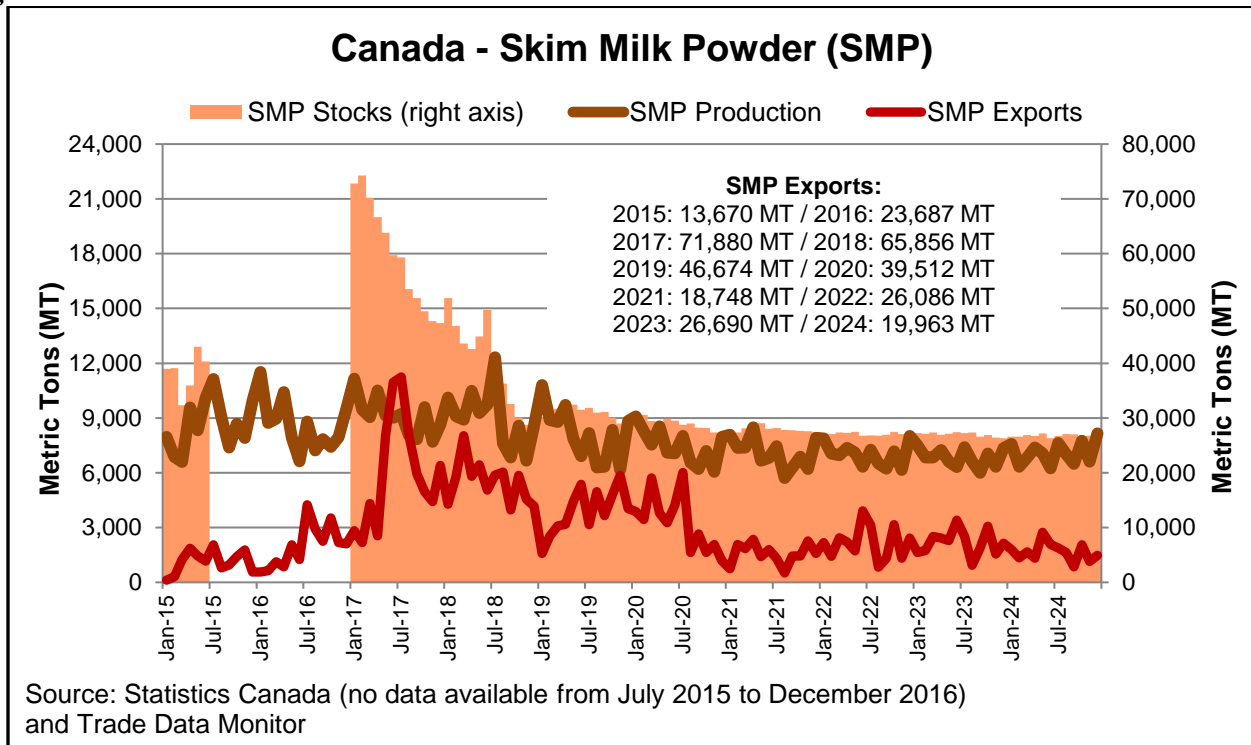
NOTE: "NEW Post" data reflect author's assessments and are NOT official USDA data
Data in ‘1,000 MT

Production:

FAS/Canada forecasts skim milk powder (SMP) production to reach 85,000 MT in 2026, down from the estimated level of 88,000 MT in 2024. Typically, SMP production follows the trends in butter production, as skim milk is largely a by-product of processing milk into butter. Going forward, FAS/Canada expects SMP production to continue on a trend of modest growth, with an occasional production decline, as the dairy industry continues to focus on products with a higher concentration of protein than SMP, like milk protein concentrates (MPC) and milk protein isolates (MPI). SMP stocks seem to have stabilized at monthly volumes of 25-30,000 MT, a trend which is expected to persist in the foreseeable future.

With the implementation of USMCA on July 1, 2020, Canada became subject to provisions requiring an export surcharge on exports of SMP and MPC products in excess of an annual threshold (for details, please see next section); exports of MPI are not covered by these provisions. These trade commitments explain why the dairy processing sector is expected to increasingly focus on producing (and exporting) MPI products with a very high protein concentration, rather than SMP and MPCs.

Figure 11.

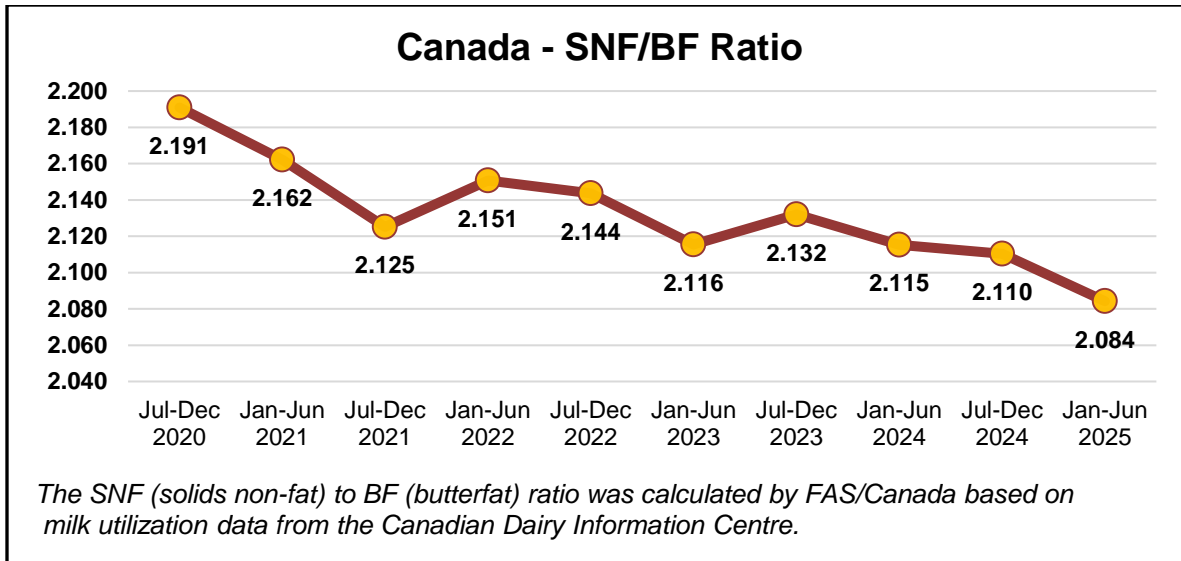


Milk Protein Utilization:

Concerns with growth in the milk protein structural surplus have led dairy farmers to adopt on-farm measures meant to increase the butterfat component in raw milk while at the same time reducing the protein component. Since the supply management system is based on butterfat requirements, a higher proportion of butterfat in milk reduces the total volume of raw milk necessary to produce the amount of butterfat required by the market. Consequently, the overall volume of milk protein produced is also lowered, relieving the pressure on the protein structural surplus. Through improvements in animal genetics, feed, and farm management practices, dairy farmers succeeded in reducing the solids non-fat

to butterfat ratio (SNF/BF) in raw milk, as evidenced by data available for the past five years (see Figure 12).

Figure 12.



Milk protein is converted into a wide range of dairy ingredients, such as SMP, MPCs, and MPIs, which fall under milk price class 4(a). Some of these ingredients are used in manufacturing products such as protein bars, supplements, and drinks, or used in boosting the protein profile of various processed foods. The excess protein that does not find a use in food manufacturing is typically exported in the form of protein powders. Milk protein utilization over the past five years is illustrated in Figures 13 and 14. Milk price class 4(a) is also used for recording the production of butter.

Figure 13.

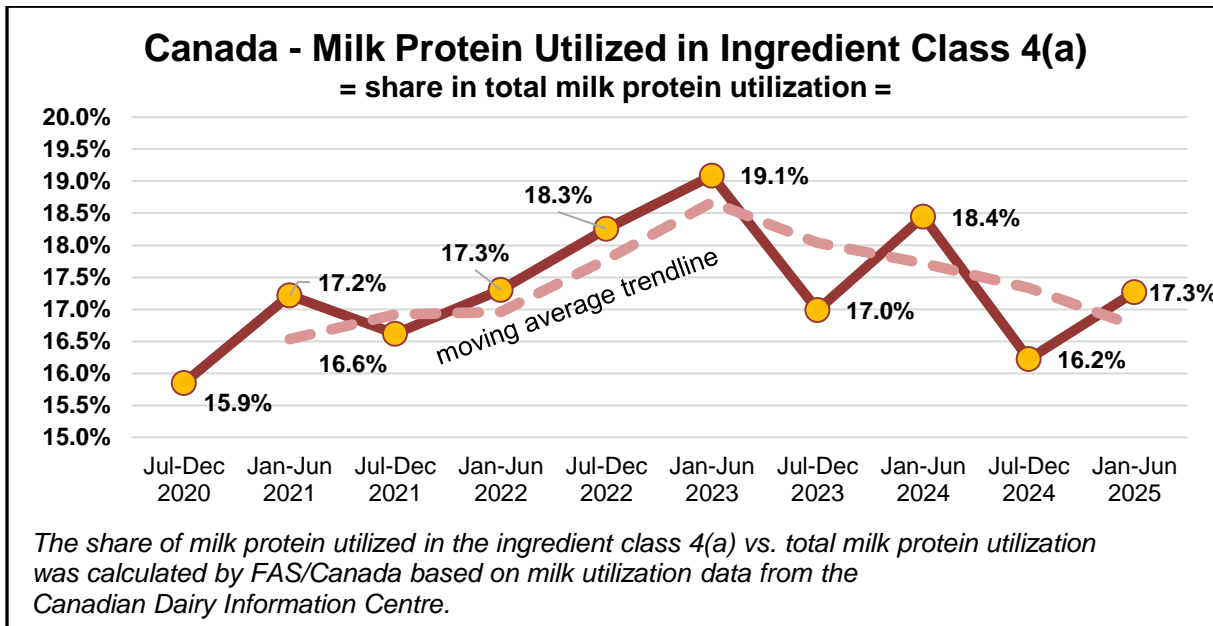
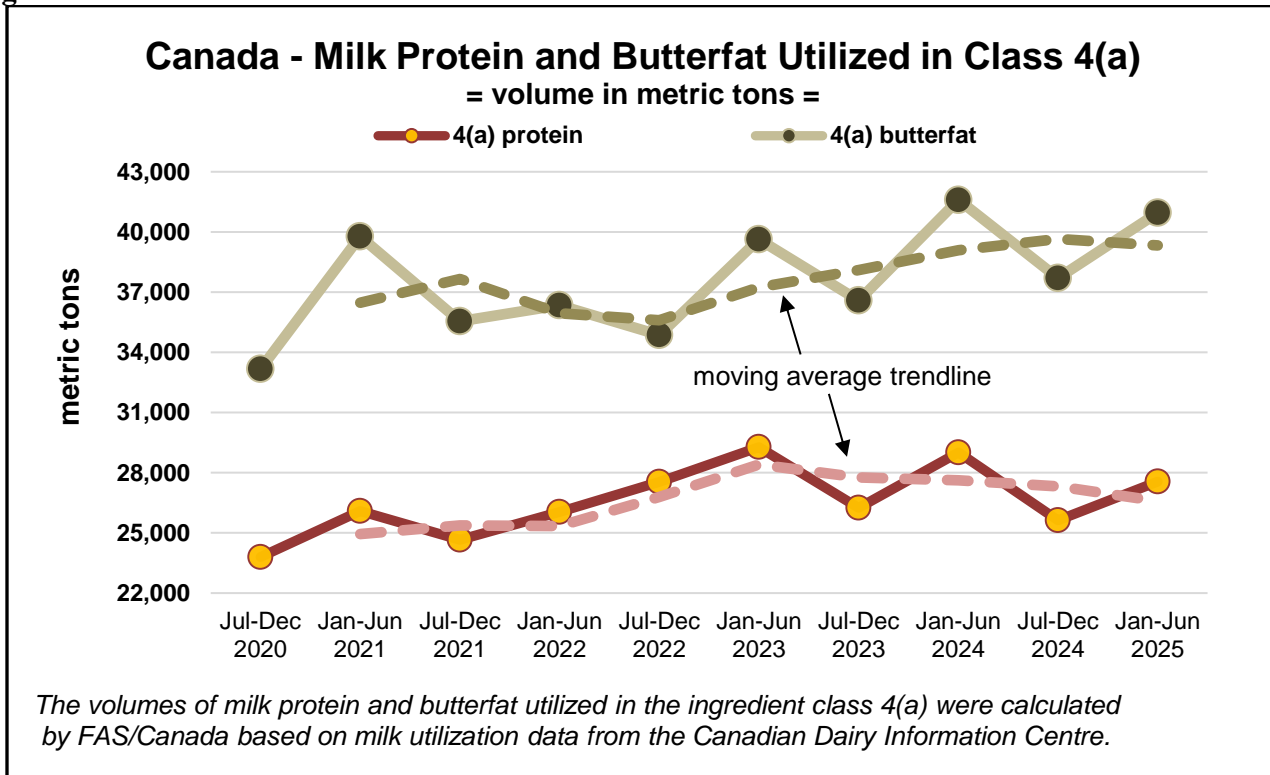


Figure 14.



Milk price class 4(a) is a residual class for processing milk protein into protein ingredients. The volume of milk protein that was left over and not utilized in any other milk price class, for instance for producing fluid milk under class 1, or yogurt under class 2(a), or cheese under class 3, became the residual milk protein processed into dairy ingredients under class 4(a). At any given time, there is a correlation between the volume of milk protein utilized under different milk price classes, since all these volumes must sum up to the total volume of milk protein available in the total volume of raw milk produced. For instance, between 2020 and 2022, with milk protein utilization in fluid milk and yogurt being relatively stable, the decline in protein utilization in cheese is mirrored by an increase in protein utilization in dairy ingredients. The following charts illustrate the various uses of milk protein in Canada over the past five years in manufacturing several dairy products.

Figure 15.

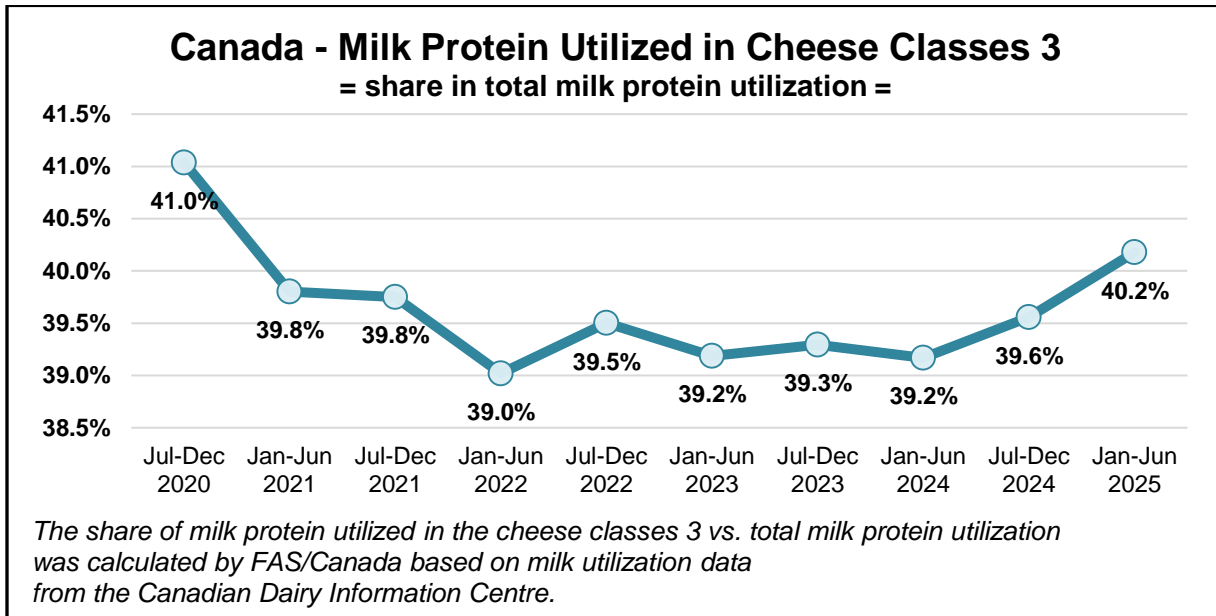


Figure 16.

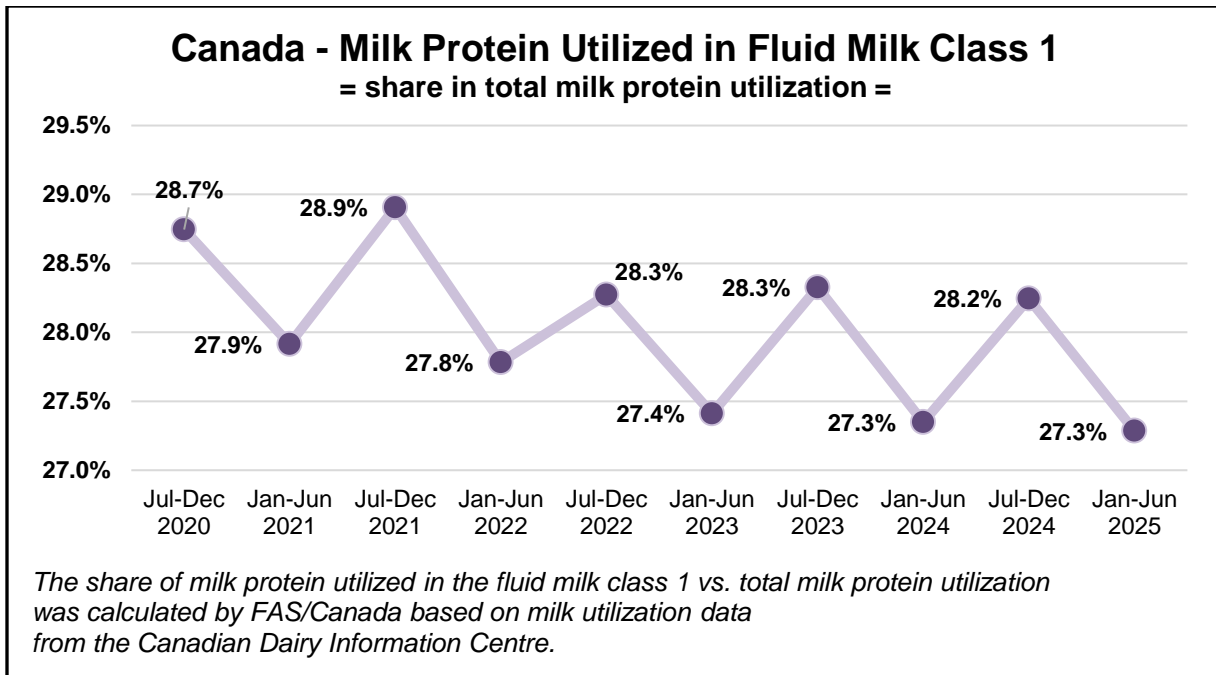
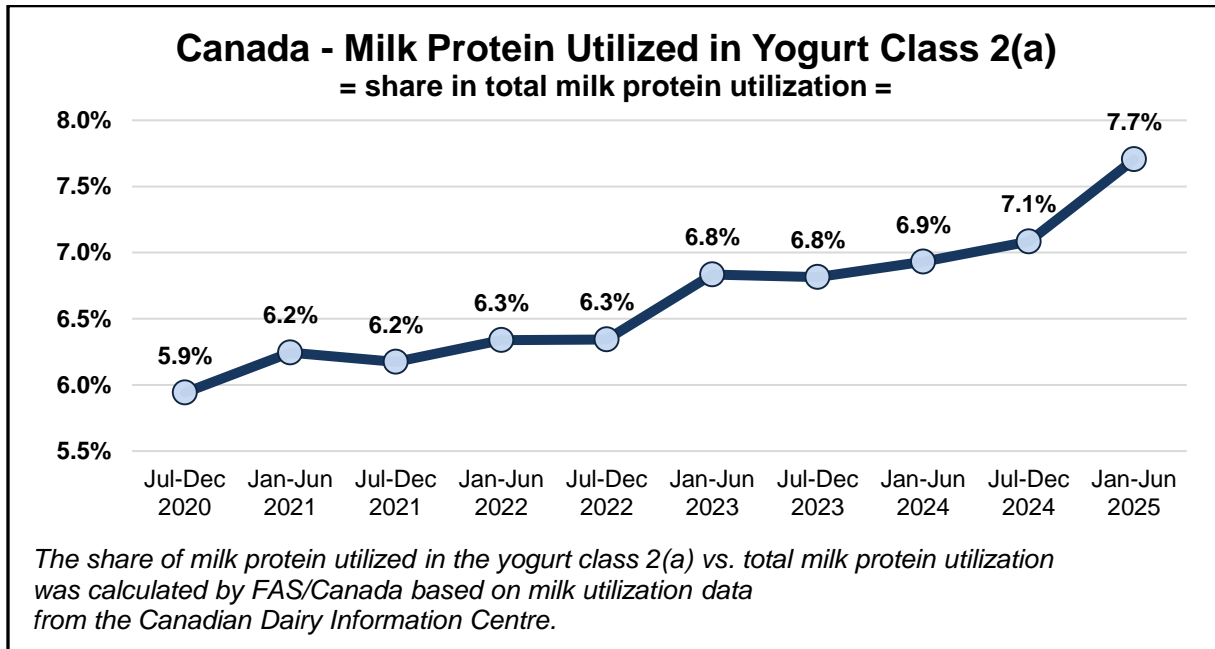


Figure 17.



Consumption:

SMP is used as a milk protein ingredient in manufacturing various other dairy products such as cheese and yogurt, as well as in the manufacturing of other processed foods, mostly health and nutrition products, where milk protein is a main ingredient, or serves as a protein booster. Additionally, surplus SMP that cannot find a lucrative market is often disposed of as animal feed. FAS/Canada estimates Canadian utilization of SMP (as dairy ingredient and animal feed) to remain relatively stable around 60-70,000 MT annually for the foreseeable future.

Trade:

Exports

FAS/Canada forecasts SMP exports at 18,000 MT in 2026, up from the estimated level of 15,000 MT for 2025. Additionally, export data continue to reveal a shift in focus toward exporting increasing volumes of MPIs, a trend which FAS/Canada expects to continue in the coming years.

Under the [USMCA](#), Canada is subject to certain export-limiting [provisions](#), including an annual threshold for combined exports of SMP and MPC, after which an export charge of \$0.54 CAD per kilogram would apply to volumes in excess of the threshold. These provisions apply on a MY basis, starting in August until July of the following year. For the current MY 2025/26 the threshold level is 37,151 MT. The GAC [website](#) provides details on the [export allocation](#) policy and includes the list of [quota holders](#).

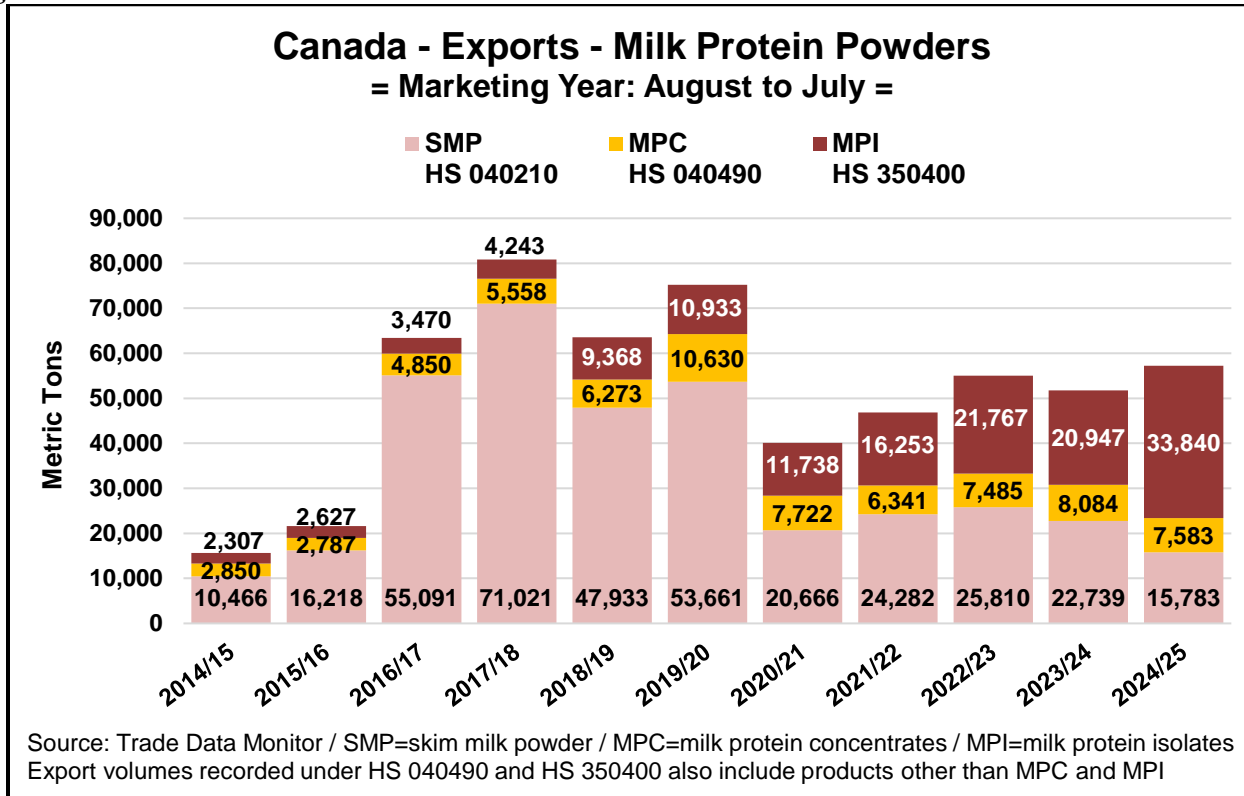
In addition to SMP and MPC, USMCA includes similar export-limiting provisions for infant formula. For the current MY 2025/26, the export threshold for infant formula amounts to 42,458 MT. Additional information on dairy export thresholds can be found on GAC’s dedicated [webpage](#). To date, Canada has not reported any exports of infant formula.

Table 15.
Canadian Exports of Skim Milk powder: Year-to-Date Data (January-August)

Canada Export Statistics								
Commodity: HS 040210, Skim Milk Powder								
Year To Date: January - August								
Partner Country	Unit	Quantity			% Share			% Change 2025/2024
		2023	2024	2025	2023	2024	2025	
World	T	17,776	14,429	9,166	100%	100%	100%	-36.5%
Mexico	T	623	459	1,584	3.5%	3.2%	17.3%	245.1%
Cuba	T	504	1,126	1,514	2.8%	7.8%	16.5%	34.5%
Egypt	T	5,399	3,121	1,454	30.4%	21.6%	15.9%	-53.4%
Vietnam	T	100	200	1,000	0.6%	1.4%	10.9%	400.0%
United States	T	3	41	967	0.0%	0.3%	10.5%	2258.5%
Jamaica	T	798	1,066	565	4.5%	7.4%	6.2%	-47.0%
Algeria	T	4,451	4,991	543	25.0%	34.6%	5.9%	-89.1%
Singapore	T	0	0	452	0.0%	0.0%	4.9%	n.a.
Jordan	T	787	425	263	4.4%	2.9%	2.9%	-38.1%
Other countries	T	5,111	3,000	824	28.8%	20.8%	9.0%	-72.5%

Source: Trade Data Monitor

Figure 18.



Imports

Under the [CPTPP](#) (which entered into force on December 30, 2018), Canada agreed to a [TRQ](#) for SMP which would provide market access as follows:

Table 16.

Quota Year (August to July)	Skim Milk Powder (in MT)
2018/19 (year 1)	1,250
2025/26 (year 8)	7,957
2031/32 and onward	11,014

Given the domestic availability of protein ingredients at competitive prices, FAS/Canada does not estimate that the CPTPP SMP TRQ will be filled.

Under the [USMCA](#), Canada committed to a [TRQ](#) for SMP, which provides market access as follows:

Table 17.

Quota Year (August to July)	Skim Milk Powder (in MT)
July 2020 (year 1)	1,250
2025/26 (year 7)	7,575
2037/38 and onward	8,536

This SMP TRQ is exclusively opened to imports from the United States, however, given the domestic availability of protein ingredients at competitive prices, FAS/Canada does not estimate that the USMCA SMP TRQ will be filled.

Under the USMCA, the United States opened a [TRQ](#) for imports of Canadian SMP. The market access provided under this TRQ started at 1,250 MT in year one of implementation, after which the volume will rapidly increase to 7,500 MT in year six of implementation, before gradually increasing to 8,536 MT by year 19 of implementation. After that, the volume would remain constant at 8,536 MT annually.

Policy:

On September 29, 2023, the federal government [announced](#) the launch of a \$333 million CAD over ten years [Dairy Innovation and Investment Fund](#) to help the dairy sector “modernize, replace, and increase solids non-fat processing capacity and minimize non-marketed skim milk.” The government release mentioned that with this funding announcement “all compensation programming to producers and processors for lost market share under recent international trade agreements [including USMCA] has been launched” and included the commitment “to not making any additional market access concessions for supply-managed products in future trade agreements.” Details on what specific projects this new funding covers will be announced gradually, as the program is being implemented. No announcements have been made to date.

Attachments:

No Attachments