

Managing Protectionism: The Dairy Industry as a Source of Conflict between Québec and the United States

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Canada's supply management system in dairy has long been a source of friction with the United States, particularly involving Québec, which produces nearly half of Canada's milk. While most sectors were liberalized under the North American Free Trade Agreement (NAFTA) and its successor, the United States–Mexico–Canada Agreement (USMCA), dairy remains protected by quotas, tariffs, and price controls. The exclusion of American producers—especially in key electoral states such as Wisconsin and Michigan—has made Canadian dairy a repeated target of U.S. presidents. This article examines why supply management persists despite its economic costs. It situates dairy protection in Québec's provincial identity, language politics, and rural traditions, showing how symbolic politics can outweigh efficiency arguments in a post-material society. It also draws upon the political science theory of entrenchment, which highlights how incumbent actors and interest groups in democratic states use institutional, legal, and strategic tools to resist legislative reform and preserve their advantages. Comparisons with New Zealand, Australia, and the European Union highlight that reform is possible, but also politically costly. The article also contrasts Québec's defense of dairy with its embrace of liberalized trade in aluminum, steel, aircraft, softwood lumber, and critical and strategic minerals, illustrating the province's dual international strategies. Finally, it assesses the stakes for the 2026 USMCA review, where U.S. negotiators are likely to press for expanded access to the Canadian dairy market while Québec pushes Ottawa to resist.

Keywords: Canada–United States trade, Québec, dairy sector, supply management, USMCA

INTRODUCTION

Trade between Canada and the United States is among the most integrated in the world, with over CAD \$1 trillion exchanged annually across highly interconnected supply chains in automobiles, aerospace, energy, minerals and agriculture. Yet this deep interdependence has not eliminated disputes. Among the most persistent is dairy. Unlike most commodities, Canadian dairy operates under a system of “supply management,” based on production quotas, price supports, and import restrictions. The system stabilizes farm incomes and protects small producers but provokes recurring friction with the United States, where dairy farmers—especially in border states like Wisconsin, Minnesota, Michigan, New York, Maine and Vermont—see Canada’s closed market as unfair. Because these states carry weight as a result of America’s electoral college system, presidents from both parties, including Bill Clinton, George W. Bush, Barack Obama, Joe Biden, and Donald Trump, have pressed Ottawa for concessions.

Québec lies at the center of this conflict. As Canada’s second most populous province, it accounts for 35% of all dairy farms in Canada, which produce nearly half of the nation’s milk (PoiData, 2025;

Agriculture and Agri-Food Canada, 2025). Dairy farming is deeply tied to the province's rural economy and heritage. For many Québécois, defending supply management is not simply about economics but about protecting family farms and affirming francophone identity. On the U.S. side, dairy remains a potent symbol of "unfair trade" that directly affects politically strategic constituencies. Globally, dairy illustrates the persistence of agricultural exceptionalism (European Parliament, 2018). Even as Canada and the U.S. championed liberalization under the Auto Pact (1965), the Canada-United States Free Trade Agreement (1989), NAFTA (1994) and its successor USMCA (2020), both countries maintained protection in sensitive agricultural sectors: Canada for dairy and poultry, the U.S. for sugar and cotton. These carve-outs reveal that trade agreements are shaped as much by political coalitions and rural constituencies as by consumer interests and wealth maximization.

The growing productivity of U.S. dairy farmers drives much of the pressure on Washington to open access to closed markets, such as those of Canada and India. Over the past decade, U.S. dairy exports have surged dramatically, reflecting both rising global demand and strategic industry expansion. Export value of dairy products rose from \$5.1 billion in 2013 to \$9.5 billion in 2022. Mexico became the first \$2 billion market in 2022 (U.S. Dairy Export Council, 2023).

TABLE 1
TOP FIVE GLOBAL DAIRY EXPORTERS (U.S. DEPARTMENT OF AGRICULTURE, 2025)

Rank	Country	Export Value (USD)	Primary Dairy Products
1	European Union	\$52.5 billion	Cheese, butter, skim milk powder (SMP), whole milk powder (WMP)
2	New Zealand	\$27.0 billion	Milk powder, cheese, butter
3	United States	\$9.1 billion	Cheese, whey, lactose, milk powder
4	Australia	\$2.4 billion	Milk powder, cheese, butter
5	Argentina	\$1.2 billion	Milk powder, cheese, butter

This article uses Québec's dairy sector as a lens to understand how protectionism endures in an era of globalization. It argues that supply management is sustained by provincial history, identity politics, federalism and democratic politics. It is a case study of how a nation's foreign policy is influenced by domestic politics. The analysis proceeds in seven steps:

- tracing the origins and mechanics of Canada's supply management system;
- reviewing U.S. complaints and trade disputes under USMCA;
- assessing Organization for Economic Cooperation and Development (OECD) criticisms of supply management's inefficiency and consumer costs;
- exploring why "irrational" policies persist in democracies;
- examining domestic opposition within Québec;
- treating Bill C-202 as a product of the entrenchment of supply management;
- linking supply management to Quebec's Quiet Revolution;
- drawing lessons from international cases of reform (New Zealand, Australia, European Union).

The article concludes by considering the implications of the 2026 USMCA review, where U.S. negotiators are expected to demand expanded access and Québec will press Ottawa to resist.

In so doing, the article contributes to both policy and theory. For trade scholars, it illustrates the limits of liberalization when symbolic politics are at stake (Salvatore, et al., 2019). For knowledge management, it shows how technical evidence (OECD reports, economic models) competes with post-material narratives (identity, sovereignty, rural continuity) in shaping outcomes (Brysk, 1995). The study supports Ronald Inglehart's post-materialism thesis, according to which as societies, such as Canada, achieve higher levels of wealth, younger generations increasingly prioritize goals such as self-expression, environmental protection, and participatory democracy over material concerns such as economic and physical security (Inglehart, 1977; Inglehart, 1997). Ultimately, the Québec dairy conflict is more than a trade dispute: it

exemplifies the enduring tension between liberalization and protectionism, globalization and sovereignty, efficiency and identity.

This article highlights why Canada's supply management system in dairy—anchored in Québec—remains a persistent barrier in North American trade relations despite decades of liberalization in other sectors. For policymakers, three lessons stand out. First, trade negotiations must recognize that agricultural protectionism is not solely economic but is often tied to national identity, rural resilience, and democratic politics. Second, comparisons with Quebec's successful efforts to export many food products to the United States, including pork, specialty soybeans, maple syrup, and baked goods, show that Québec agri-food products can successfully enter U.S. markets when political incentives align; dairy's exceptionalism underscores the limits of an export strategy for growing an economy. Third, the 2026 USMCA review will almost certainly revisit dairy access. The willingness of Québec to put its exports of manufactured goods to the United States—70% of its total exports—at risk is a testament to the power of identity and symbolic politics in post-material societies (*CBC News*, 2025).

THE SUPPLY MANAGEMENT SYSTEM IN CANADA

The roots of supply management lie in the political economy of postwar Canada. In the 1950s and 1960s, dairy producers—many of them small family farms in Québec and Ontario—faced unstable markets. As production expanded, prices fell, and individual farmers had little bargaining power against processors and distributors. The federal government convened the Canadian Dairy Commission (CDC) in 1966 to stabilize the industry, and in 1972 supply management was extended nationally (Government of Canada, 1972). The policy was designed to balance three objectives: ensure fair incomes for farmers, stabilize consumer prices, and maintain domestic self-sufficiency in dairy production (Scullion, 2006).

The system rests on three pillars:

1. **Production Discipline (Quotas):** Farmers must hold quota rights, expressed in kilograms of butterfat, to produce milk. Provincial boards allocate and monitor these quotas, which are valuable assets—often exceeding CAD \$25,000 per cow in Québec, which can be bought and sold on the open market. National totals are set to match domestic demand.
2. **Price-Setting Mechanism:** The Canadian Dairy Commission establishes farm-gate prices using a cost-of-production formula, ensuring farmers recover input costs and receive a margin.
3. **Import Controls:** Tariff-rate quotas (TRQs) allow limited imports at low duty, but above-quota tariffs of 200–300 % keep most foreign dairy products out.

The federal government's goals were to stabilize incomes, avoid government subsidies, and ensure a reliable domestic supply. This design preserved small farms, particularly in Québec and Ontario, while protecting consumers from extreme price swings.

In the United States, New Zealand, and Australia, market forces have led to wholesale consolidation of dairy farms into more efficient large enterprises. In the United States, reflecting the scale and industrialization of modern dairy production, farms with more than 2,500 cows account for 46% of U.S. milk production. Fair Oaks Farms in Indiana is the largest mega-dairy, with more than 36,000 cows (The Most 10, 2023). Small dairy farms in Canada, however, remain the norm.

TABLE 2
AVERAGE DAIRY HERD SIZE, BY COUNTRY
(INTERNATIONAL FARM COMPARISON NETWORK, 2024)

Country	Average Herd Size	Average Herd Size
New Zealand	441 cows	
United States	337 cows	
Australia	269 cows	
Canada	99 cows	
	Province	
	Alberta	150 cows
	Québec	82 cows
	Ontario	78 cows
India (Lindahl, et al., 2020)	2 milking cows and 1 milking buffalo	

The system, however, imposes real costs. OECD estimates suggest retail dairy prices are 20–30% higher in Canada than in open markets, disproportionately affecting families with children (Petkantchin, 2005). High quota prices—often millions of dollars for medium farms—produce steep entry barriers, limiting opportunities for young farmers. Ironically, the system places obstacles to the transfer of dairy farms in Québec from one generation to the next. The value of the quota is so high that there are incentives to sell the farm to the highest bidder rather than transfer it to the next generation. Ownership is thus beginning to shift toward incorporated entities rather than farming families (Lepage, Montel & Perrier, 2015). This trend, however, is gradual—over 90% of Quebec dairy farms remain family owned (Luby, Waldner & Jelinski, 2020). Processors and restaurants face higher input costs and restricted access to foreign products, while Canadian producers have little incentive or capacity to pursue export markets.

Despite inefficiencies, supply management is politically untouchable—especially in Québec, which produces nearly half of Canada’s milk and is home to powerful cooperatives such as Agropur and the farm union, *Union des producteurs agricoles* (UPA). Defending the system has become routine for provincial and federal politicians across party lines. During the 2018 NAFTA renegotiation, Prime Minister Justin Trudeau insisted that Canada would “stand up for supply management,” even as Ottawa conceded modest market access under the Canada-United States-Mexico Agreement (CUSMA), as the USMCA is known in Canada. For many Québécois, supply management represents more than economic stability. It reflects generational continuity, rural traditions rooted in parish life, and provincial autonomy. Protecting dairy thus resonates as defending francophone identity as much as farm policy. About 85% of Quebecers speak French as their first language, but the percentage rises to 98% in rural areas of the province (Statistics Canada, 2025). Given the primacy of language politics in Canada, supply management has become a political “sacred cow” (Kelly-Bisson, 2015).

Successive American administrations have pressed Ottawa to open its dairy market, but Canada has consistently resisted. Even when concessions were granted—such as limited TRQ access under CUSMA—Canada structured the rules to favor domestic processors and minimize U.S. penetration. Because dairy farmers’ wealth is tied up in quota value, dismantling the system without massive compensation would be politically and economically prohibitive. In Québec, the quota value typically accounts for 40% to 60% of a dairy farm’s total market value (Velasco, 2025).

The durability of supply management is striking given repeated U.S. pressure. Successive American administrations have targeted Canadian dairy in trade talks, but Ottawa has largely resisted. This strategy reflects the political reality that dismantling supply management would lead to backlash against Ottawa in Québec and fuel separatist sentiments. No federal government has been willing to take that risk, due to Québec’s disproportionate influence on federal policies, including international trade (Paquin, et al., 2021). Thus, the supply management system endures as a cornerstone of Canadian agricultural policy. It has

insulated dairy farmers from the vagaries of global markets and sustained rural communities. At the same time, it has raised consumer prices, restricted competition, and perpetuated trade tensions with the United States. The next section explores those tensions in detail, focusing on U.S. complaints and the record of disputes under CUSMA.

U.S. COMPLAINTS AND TRADE DISPUTES

For the United States, Canadian supply management has long been a recurring irritant. Dairy farmers in border states such as Maine have complained that while they can easily export lobsters or blueberries to Québec, high tariffs and quotas keep milk, cheese, and yogurt out (Watson, 2025). The U.S. Department of Agriculture (USDA) and the Office of the U.S. Trade Representative (USTR) have repeatedly identified Canadian dairy protectionism as a trade barrier. Annual *National Trade Estimate* reports by USTR list Canada's tariffs and quota allocations as discriminatory and inconsistent with the spirit of free trade (Office of the United States Trade Representative, 2025). This issue has been raised not only in bilateral negotiations but also in multilateral fora, such as the World Trade Organization (World Trade Organization, 2025). The 1994 North American Free Trade Agreement was heralded as a milestone in continental integration, but dairy remained conspicuously exempt. Canadian negotiators, responding to strong pressure from Québec and Ontario farm lobbies, refused to liberalize supply-managed commodities. The U.S. reluctantly accepted this carve-out in exchange for gains in other sectors, such as energy and automotive trade. Over the NAFTA years, tensions flared periodically. American producers accused Canada of using "Class 7" milk pricing (introduced in 2017) to encourage exports of low-cost skim milk powder while blocking imports of higher-value dairy products. U.S. officials argued that this policy dumped Canadian surpluses on world markets while denying American farmers access to Canada. The dispute came to a head in 2017, when Wisconsin farmers lobbied the Trump administration to take action after Canadian policies caused a sudden drop in U.S. ultrafiltered milk exports (Barth, 2017).

Renegotiation under President Donald Trump placed dairy at the center. CUSMA granted U.S. producers tariff-free access equal to 3.6% of Canada's market and eliminated Class 7. Though modest, these concessions were politically sensitive in Canada. The European Union, New Zealand and Australia, major dairy exporters, have also objected to Canada's closed market and demanded access in trade negotiations. The Comprehensive Economic and Trade Agreement (CETA), a free trade deal between Canada and the European Union, signed in 2016, opened 3.25% of the Canadian dairy market to the EU. The Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP), a free trade agreement among 12 countries primarily across the Pacific, including Canada, Australia, New Zealand, and, since 2024, the United Kingdom, granted access to 1.5% of Canada's dairy market. The combined tariff rate quotas (TRQs) for dairy imports into Canada under CETA, CPTPP, and USMCA represent, therefore, approximately 8.4% of Canada's annual milk production (Dairy Processors Association of Canada, 2025). Implementation of these TRQs, however, is contentious. Ottawa reserves most TRQ import permits to Canadian processors, who have little incentive to import competing U.S. products, and excludes retailers and food service operators, entities with such an incentive (World Trade Law, 2023). As a result, while CETA quotas are generally well-utilized, CPTPP quotas are underutilized and USMCA quotas have seen minimal uptake, prompting U.S. and New Zealand complaints about restrictive allocation practices.

The United States filed a complaint under CUSMA's dispute settlement mechanism in December 2020. In 2022, a CUSMA panel ruled that Canada's allocation method violated the agreement, siding with Washington (Osler, 2022). However, Canada adjusted its TRQ rules only slightly, and in 2023 a second panel sided with Ottawa, allowing more flexibility in how quotas could be distributed (McCarten, 2023). The split outcomes underscored the difficulty of resolving the issue through legal means alone. In 2022 New Zealand initiated dispute settlement proceedings under the CPTPP, arguing that Canada's TRQ allocation system unfairly favored domestic processors over importers of dairy products. The panel's final report, released in September 2023, ruled decisively in favor of New Zealand. Canada promised to make changes beginning with the 2026 calendar year (New Zealand Ministry of Foreign Affairs and Trade, 2023).

The Biden administration continued President Trump's pressure exerted during his first term, citing dairy in successive National Trade Estimate Reports. Its strategy emphasized dispute settlement and quiet diplomacy, avoiding Trump's confrontational style. Still, U.S. farm lobbies argued that Canada had failed to deliver the access promised under CUSMA. Trump used dairy as a campaign issue again in 2024. He referred to Canada's supply management as "unfair" and accused it of "ripping us off" (Crawley, 2025). He portrayed Canadian protectionism as emblematic of unfair trade practices that hurt American farmers, echoing themes from his first campaign in 2016. By targeting Canada, Trump was not only appealing to rural voters but also linking trade grievances to his broader narrative of American economic nationalism. Dairy thus became both a trade issue and an electoral tool. For U.S. politicians, dairy disputes with Canada serve several purposes. They highlight a tangible example of "unfair trade" that directly affects family farmers in politically important states. They provide a way to pressure Canada while signaling to domestic constituencies that their concerns are being heard. And they underscore the idea that trade agreements must deliver not only aggregate gains but also visible benefits for specific groups.

Economically, the stakes are small. Canada is an attractive market because of the high income of its citizens, but Canada's market under CUSMA accounts for less than one 1% of U.S. dairy output. Yet symbolically the issue looms large. For American farmers, gaining access represents fairness; for Canadian farmers, resisting U.S. pressure signifies sovereignty and survival. The U.S.–Canada dairy dispute persists because it is politically useful on both sides. For U.S. leaders, it demonstrates support for farmers in key electoral states. For Canada, especially Québec, it affirms regional identity and resistance to U.S. pressure. These dynamics ensure that dairy will remain a flashpoint in North American trade, even if the material stakes are modest.

OECD CRITICISMS OF CANADIAN SUPPLY MANAGEMENT

The Organization for Economic Co-operation and Development (OECD) has been one of the most consistent and influential international critics of Canada's agricultural policies. Its Agricultural Policy Monitoring and Evaluation reports, published annually, provide systematic comparisons of agricultural support across member countries. Year after year, Canada's supply management system for dairy, poultry, and eggs is highlighted as an outlier. While other OECD members—including the United States, European Union, Japan, and South Korea—also subsidize their farmers, Canada's combination of high border protection, rigid quota systems, and consumer transfers is singled out as both economically inefficient and trade-distorting (Organization for Economic Co-operation and Development, 2023). The OECD uses several indicators to measure government support for agriculture, the most important being the Producer Support Estimate (PSE). This metric quantifies the monetary value of policy transfers to agricultural producers as a share of gross farm receipts. For most OECD countries, PSE has declined over the last three decades, reflecting liberalization under the WTO and regional trade agreements. In New Zealand, for example, PSE hovers near zero after radical reforms in the 1980s. In contrast, Canada's PSE remains high, averaging around 15–17 % in recent years, largely due to supply management in dairy and poultry. Canada's tariff barriers—often 200–300% on dairy products—virtually close the market to foreign competition. At the same time, production tied to domestic demand leaves Canada with little export capacity. This "closed market" status contrasts with other OECD members that have liberalized their dairy trade. U.S. and New Zealand negotiators routinely cite OECD data to argue that Canada's policies distort trade and undermine fair access. Guaranteed pricing and quotas reduce incentives to innovate or expand. While Canadian farmers adopt some advanced technologies, structural change has been limited compared to export-oriented competitors like New Zealand. The high cost of quota—millions of dollars for medium-sized farms—creates significant barriers for new entrants, restricting generational renewal. In the long run, this may weaken rural vitality rather than preserve it.

The OECD points to countries that have reformed protectionist systems. New Zealand eliminated subsidies in the 1980s, and the EU phased out its milk quotas by 2015, both boosting competitiveness despite transitional difficulties. Canada, by contrast, has responded to trade agreements with only modest increases in import access—each offset by large compensation packages to farmers. From the OECD

perspective, this pattern illustrates unwillingness to pay the political costs of reform. OECD reports serve as important reference points for trade negotiators, economists, and policymakers. Yet their influence in Canada has been limited. While OECD findings frame supply management as economically inefficient and inequitable, defenders argue that the analysis undervalues social goals such as rural stability and food security. The OECD's critiques, therefore, sustain policy debate but have not overcome the political consensus protecting dairy, especially in Québec. From the OECD's perspective, Canada's supply management system raises consumer costs, distorts trade, discourages innovation, and blocks new farmers from entering the industry (Cardwell, Lawley, & Xiang, 2015). Yet the persistence of the system underscores the limits of empirical analysis when confronted with entrenched economic, symbolic and identity interests. International benchmarks keep pressure on Ottawa but cannot by themselves shift the balance against Québec's powerful farm lobbies.

WHY “IRRATIONAL” POLICIES PERSIST IN DEMOCRACIES

Within an economic perspective, supply management appears irrational. It inflates consumer prices, blocks competition, and sparks trade disputes. Yet Canada is hardly unique: democracies often preserve inefficient policies because of how interests, institutions, and identity interact. Mancur Olson's *Logic of Collective Action* (1965) explains why concentrated groups often prevail over diffuse ones. Québec's dairy farmers, though few in number, are cohesive, highly organized, and motivated to defend their livelihoods. Consumers, who each bear only modest costs from higher prices, rarely mobilize. The *Union des producteurs agricoles* (UPA) amplifies farmer influence, ensuring their voice outweighs that of millions of consumers.

Institutions, moreover, reinforce policy persistence. Grace Skogstad (2020) describes Canadian agricultural policymaking as dominated by tight “policy communities” of farm lobbies, marketing boards, bureaucrats, and politicians. These networks have institutionalized support for supply management. Path dependence further entrenches the system: quota represents billions of dollars in farm equity, making dismantling politically explosive without massive compensation. Even reform-minded politicians hesitate to trigger such disruption. James March and Johan Olsen's “logic of appropriateness” (1989) highlights how decisions often follow norms and identities rather than cost–benefit calculations. In Québec, supply management is more than policy—it symbolizes rural continuity, autonomy, and resistance to external pressure. Politicians defending dairy are seen as defending Québec; those challenging it risk accusations of undermining provincial autonomy and capitulating to the United States and English Canada (Smyth, 2025).

Together, these perspectives explain why Canadian dairy protection endures. Organized farmers dominate diffuse consumers; institutions lock in policy commitments; and identity narratives elevate supply management into a cultural touchstone. Economists and international organizations may call it sub-optimal, but in a democracy shaped by small but powerful constituencies, cost-effectiveness is rarely decisive. Canadian dairy protectionism illustrates a broader truth: democracies often sustain “irrational” policies when they serve organized interests, embed themselves in institutions, and resonate with collective identity. Understanding this interplay clarifies why OECD reports and U.S. negotiators have failed to spur reform. Supply management survives not despite democracy, but because of how democracy distributes power and meaning.

DOMESTIC OPPOSITION WITHIN QUÉBEC

Canada's robust supply management system may project a sense of consensus, yet pockets of dissent persist. Although critics lack the influence to dismantle the framework, they continue to voice concerns around equity, affordability, and the system's sustainability across generations. Advocacy groups such as *Option consommateurs* contend that supply management embeds concealed costs within consumer prices, disproportionately affecting low-income households (*Option consommateurs*, 2022). By inflating milk and cheese prices 20–30% above world levels, the system acts as a regressive tax. Consumers also face limited choice: tariff barriers restrict access to foreign specialty products, undermining Québec's culinary diversity.

Large retailers and restaurants echo these concerns. Pizzerias, bakeries, and food-service chains pay more for cheese and milk than competitors across the border, raising costs for both businesses and consumers. Multinational grocery chains operating in both Canada and the U.S. find procurement rules cumbersome and inconsistent. For new entrants, the biggest obstacle is the cost of quota. In Québec, a modest herd requires millions of dollars in quota purchases, making entry nearly impossible without inheritance or large capital. Young farmers' groups, especially those in the western provinces, have called for reforms, such as exemptions for small-scale producers, but established farmers resist any measure that would devalue their quota. As Velasco argues, "Canada's entrenched supply management system—once a backstop against 1970s market swings—now serves primarily to shield Quebec's 4,200 small dairy farms, all while capping western provinces at 16% of national output and granting Quebec 37%" (2025).

While most dairy farmers defend supply management, a minority believe Canada could compete globally if they were allowed to expand production (Brown, Ferguson, & Viju, 2018; Government of Alberta, 2021). They point to New Zealand or Ireland as examples of export success. In Québec, however, such voices are marginal compared to the dominant UPA, which frames supply management as synonymous with rural survival. Academic economists at Université Laval, McGill, and elsewhere have long criticized the system as inefficient and inequitable, advocating phased liberalization with compensation. Their arguments attract media attention but little policy traction. The failed 2012 Conservative leadership bid of Maxime Bernier—who openly opposed supply management—demonstrated the political risks of challenging the system in Québec (Bernier, 2018). These opposition groups—consumers, retailers, aspiring farmers, academics—remain fragmented and under-resourced. The UPA's near-universal membership gives it unparalleled lobbying power and close ties to policymakers. By framing supply management as defending family farms, sovereignty, and food security, it marginalizes critics as technocratic or anti-farmer. Opposition within Québec demonstrates that supply management is not universally supported. Yet consumer groups, aspiring farmers, and dissenting academics lack the organizational power to challenge entrenched farm lobbies. From a knowledge management perspective, defenders succeed because their narrative appeals to identity and rural tradition, while critics rely on economic facts that carry less emotional weight. In Québec politics, symbolism and entrenched interests continue to trump efficiency and economic growth.

BILL C-202 AND THE ENTRENCHMENT OF SUPPLY MANAGEMENT

The political strength of supply management was reaffirmed in 2025 with the passage of Bill C-202, introduced by the leader of the Bloc Québécois Yves-François Blanchet (Parliament of Canada, 2025). The law prohibits Canadian trade negotiators from making concessions on supply-managed sectors—dairy, poultry, and eggs—in future international trade agreements. Bill C-202 was a response to earlier concessions in CETA (2016), the CPTPP (2018), and CUSMA (2020), where Canada granted modest increases in dairy import access in exchange for gains in other sectors. Farmers in Québec and Ontario warned these incremental openings threatened the stability of supply management (Government of Canada, 2018; *Union des producteurs agricoles*, 2020). The Bloc and the UPA argued that Ottawa's trade negotiators repeatedly "sacrificed" dairy and pressed for a statutory guarantee. The bill passed with support from all major parties—Liberals, Conservatives, New Democratic Party (NDP), and Bloc—reflecting the electoral risk of opposing supply management in rural Québec (Briere, 2025). Its symbolism was as significant as its legal effect: it reassured farmers that Ottawa stood firmly behind them and reinforced the system as a red line in trade policy. The bill was unsuccessfully opposed by export-oriented farm groups and trade experts, such as the Grain Growers of Canada, Canadian Cattle Association and Canadian Agri-Food Trade Alliance, who objected to its protectionist stance (Syngenta Canada, 2025). The tenacity of supply management illustrates the theory of entrenchment, according to which incumbents use formal rules or strategic policy choices to lock in their power and insulate favored agendas from democratic reversal, often by reshaping institutions, voter coalitions, or decision-making structures (Saint-Paul, Ticchi & Vindigni, 2012; Levinson & Sachs, 2015).

Practically, the law constrains Canada's negotiating flexibility. Future governments cannot trade dairy concessions for gains in other areas without repealing the statute, an option fraught with political risk. This rigidity is particularly relevant for the 2026 CUSMA review, when U.S. negotiators are expected to demand expanded dairy access. Canadian negotiators, bound by law, will have little room to maneuver. Bill C-202 demonstrates how symbolic politics and entrenched interests can be codified into law, transforming local political influence into binding constraints on the federal government in international fora. For Québec farmers, it was a victory for provincial autonomy; for Canadian trade negotiators, it represents a narrowing of options at a time when flexibility may be most needed and puts much larger industries, such as automobiles, at risk.

HISTORICAL CONTEXT: THE QUIET REVOLUTION AND PROVINCIAL IDENTITY

To understand why supply management is politically untouchable in Québec, one must look to the Quiet Revolution of the 1960s—a period of rapid secularization, modernization, and state-building that reshaped the province's identity (Cuccioletta and Lubin, 2003). Under Premier Jean Lesage, Québec sought to reclaim control over its economy and social institutions from the Catholic Church and from Ottawa. The slogan "*Maîtres chez nous*" ("Masters in our own house") captured this drive for autonomy. Key reforms included secularizing education and healthcare, expanding the welfare state, and nationalizing Hydro-Québec, which became a symbol of francophone economic empowerment. Although the Quiet Revolution emphasized urbanization and industrialization, rural life remained central. Thousands of small family farms still dotted the St. Lawrence Valley, with dairy particularly significant. The new supply management system of the early 1970s provided stability at a time of sweeping change, protecting farmers from market volatility and preserving a way of life.

The Quiet Revolution laid the groundwork for Québec separatism. During the 1960s, French Canadians in Québec began identifying as Québécois, signaling a shift to nationalism. The provincial government expanded its role, convincing many that Québec could survive as a separate country. It spawned a party, the Parti Québécois (PQ), in 1968 to contest provincial elections whose central goal was Québec sovereignty. In 1991 the Bloc Québécois was founded, a federal party promoting Québec nationalism and sovereignty. The PQ held two unsuccessful provincial referenda (1980 and 1995) on independence. After the 1995 referendum, Prime Minister Jean Chrétien led the passage of a unilateral resolution recognizing Québec as a "distinct society" and gave Québec more influence over changes to the Canadian constitution (Gall, 2013). The underlying threat of independence is, thus, one of the reasons for federal deference to Québec's policy preferences.

Over time, dairy farming came to represent continuity with rural traditions and a safeguard of Québécois identity. Hydro-Québec symbolized industrial modernity; dairy symbolized resilience and tradition. Defending supply management became a matter not only of farm incomes but of cultural survival. This symbolism continues. During the 2018 NAFTA renegotiations, Québec farmers staged protests with slogans like "*Lait = Identité*" (milk equals identity). Even modest concessions under CUSMA were met with compensation packages and political promises to preserve the system. Politicians across parties understand that in Québec, defending dairy equals defending provincial self-sufficiency. Agricultural policy is jointly managed by federal and provincial institutions. Québec accepts this framework because it retains local control over quota allocation and price-setting. Any attempt by Ottawa to dismantle supply management would be seen as an attack on Québec's authority over its own affairs. This dynamic explains why federal leaders, regardless of party, consistently avoid major concessions.

Québec is unique in going further: the province not only implements federal farm-gate prices but also regulates minimum and maximum retail milk prices (*Gouvernement du Québec*, 2025). Large supermarket chains oppose this practice as anti-competitive, but regulators defend it as protection for small rural retailers (*depQuébec*, 2017). Here again, dairy policy reflects Québec's preference for market stability and state price control over competition. For Québec nationalists, defending supply management aligns with resisting U.S. and federal dominance. Hydro-Québec is seen as independence from anglophone capital; dairy as independence from American agribusiness. Both institutions embody the lessons of the Quiet Revolution:

that Québec can protect its own interests through strong provincial institutions. *La Révolution tranquille* embedded supply management into Québec's collective memory as more than an agricultural program. It became a cultural institution, representing rural continuity, provincial autonomy, and resistance to external pressure. It is also important to understand Québec's outsize influence over the federal government. As Charles Emmanuel explains, Québec's distinct cultural identity, political mobilization, and strategic role in federal elections give it disproportionate influence over national policy. He notes that federal parties often adjust platforms to appeal to Québec voters, Québec's elected officials shape debates on immigration, environmental policy, and multiculturalism, and opinion polls in Québec can trigger ripple effects in national decision-making (2024).

COMPARATIVE PERSPECTIVES: LESSONS FROM ABROAD

Canada's supply management system is unusual among advanced economies. Many countries once protected dairy but have since reformed. The experiences of New Zealand, Australia, and the European Union highlight both the feasibility and the political costs of change. In 1984, New Zealand abolished almost all farm subsidies during a fiscal crisis. The transition was painful—land values collapsed and bankruptcies rose—but farmers adapted by cutting costs, diversifying, and pursuing export markets. The creation of Fonterra, a farmer-owned dairy cooperative, in 2001 consolidated the sector, which now supplies a third of global dairy exports. Until 2000, Australia operated price supports similar to Canada's. Facing inefficiency, Canberra abolished the system, introducing the Dairy Structural Adjustment Program (DSAP), funded by a temporary retail milk levy. Compensation eased resistance, and while some farms closed, others expanded and modernized. Australia's dairy industry became export-oriented like that of New Zealand, supplying Asia and the Middle East. The EU imposed milk quotas in 1984 to tackle chronic surpluses. These stabilized prices but stifled competitiveness. From 2008, quotas were gradually reduced and abolished by 2015. The transition was difficult, sparking farmer protests, but efficient producers in Ireland, Denmark, and the Netherlands expanded rapidly. The EU is now a top global dairy exporter (Organization for Economic Co-operation and Development, 2005).

India, on the other hand, like Canada, protects its dairy sector from foreign competition. It is the world's largest milk producer, with over 200 billion liters annually from millions of smallholders. It protects its market with high tariffs (30–60 %) and sanitary rules, citing livelihoods and food security. The U.S. and New Zealand have pressed for access, but India has refused, even withdrawing from negotiations to join the Regional Comprehensive Economic Partnership (RCEP) in 2019 to shield dairy from competition with imports from New Zealand and Australia (Sharma, 2019).

These cases show that reform is possible: New Zealand succeeded through radical liberalization, Australia with compensation, and the EU through gradualism. But they also highlight the political costs. Canada has chosen the opposite path, entrenching supply management further, as seen with Bill C-202. Defenders of the Canadian system reinterpret foreign experiences as cautionary tales—pointing to hardship in New Zealand or protests in Europe—rather than models to emulate. For Québec, where dairy is bound up with group identity, the political barriers to reform are even higher than in these comparative cases (Charlebois, 2025). International comparisons underscore that supply management is not economically inevitable but politically sustained. Other countries reformed by trading stability for competitiveness. Canada resists because dairy represents more than economics. For now, the international record demonstrates feasibility, but not inevitability, of reform in Canada.

BROADER TRADE IMPLICATIONS AND CUSMA 2026

The persistence of dairy disputes highlights a central truth of international trade: even in highly integrated economies, some sectors remain politically untouchable. For Canada, that sector is dairy. The upcoming 2026 review of CUSMA will bring this issue to the forefront. The agreement includes a “sunset clause” requiring the three parties to review the agreement after six years. If all agree, it extends for 16

more; if not, it must be renegotiated or expire in 2036. The review is both technical and political: an opportunity to press for changes, but also a moment of uncertainty.

For Washington, Canadian dairy will be high on the agenda. The USTR has repeatedly listed supply management as a top trade barrier, and farm lobbies like the National Milk Producers Federation continue to press for expanded access to the Canadian dairy market (Castaneda, 2024). Although Canada's market represents less than 1% of U.S. dairy output, concessions on the part of Ottawa would demonstrate reciprocity and deliver political benefits in swing states. President Donald Trump, expected to use the review to push harder than the Biden administration, has already linked dairy to his broader narrative of unfair trade. He may threaten to block renewal or withdraw from the agreement to force concessions, exploiting the review's structure under Article 34.7 (Bitar, Hernandez-Roy, & Wayne, 2025).

For Ottawa, including the current Prime Minister, Mark Carney, supply management remains non-negotiable (Grignon, 2025). Concessions in 2018 under CUSMA—granting U.S. producers 3.6% access—provoked backlash and CAD \$1.7 billion in compensation payments to supply-managed farmers (U.S. Department of Agriculture, 2022). Bill C-202 now legally bars negotiators from offering further concessions without repealing the law, a politically explosive step in Québec. Canada's likely strategy is to defend dairy while offering concessions in less sensitive areas, such as digital trade, procurement, or regulatory cooperation. This approach reflects a broader Canadian pattern: protecting politically vital sectors while maintaining overall U.S. market access. The Trump administration has signaled that it will introduce non-trade issues into the negotiations, including immigration and security. Canada may be able to preserve supply management by making concessions in these areas, including spending more on defense and border control.

The contrast with Québec's aluminum industry is striking. Aluminum thrives on tariff-free access to U.S. markets and integration into supply chains. Up to 60% of the aluminum used in the United States comes from Québec. This figure reflects Québec's dominant role in supplying high-grade aluminum for automotive manufacturing, especially as demand surges for lightweight materials in electric vehicles. The province's hydro-powered smelters offer a low-carbon footprint, making Quebec aluminum especially attractive for automakers pursuing sustainability targets. Aluminum demand per vehicle is climbing (Feith, 2025). Aluminum, however, is not the only industry threatened by President Trump's trade policy. These tariffs present serious challenges to some of Québec's "key industries such as steel, aluminum, the automotive sector, copper and softwood lumber" (Morrow, 2025). In the 2026 review, U.S. negotiators may try to link expanded dairy access in exchange for lowered tariffs on these goods, whose export is critical to Québec's economy.

Ironically, Canada does not sell dairy products only to its domestic market. Another irritant that U.S. negotiators will raise during the CUSMA review is Canada's practice of exporting milk powder, a byproduct of milk processing for which there is limited domestic demand, at prices below the global average. The Trump administration claims that Canada can afford to charge low prices for milk protein products in foreign markets because supply management enables dairy producers to charge high prices for fluid milk and butterfat products such as cheese in the domestic market (Helmore, 2025).

The 2026 CUSMA review will not resolve the dairy dispute but will underscore its persistence. Incremental concessions are possible, but sweeping reform is unlikely. The review will be both a technical negotiation and a symbolic contest: U.S. leaders pressing for fairness, and Québec defending its way of life. This dynamic demonstrates how trade integration coexists with conflict, and how symbolic politics can outweigh economics in shaping outcomes (Smith, 2005; Jedwab, 2016). Until reformers frame liberalization in ways that resonate culturally, supply management is likely to remain intact.

CONCLUSION

At first glance, the Canada–U.S. dispute over dairy seems like a narrow quarrel over tariffs and quotas. Yet the persistence of supply management—particularly in Québec—reveals deeper forces at work: history, identity, and the politics of sovereignty. Domestically, supply management solves political problems even as it generates economic costs. It stabilizes farm incomes, sustains rural communities, and protects cultural

traditions. For Québec, it symbolizes continuity with the Quiet Revolution and the quest for provincial autonomy. Internationally, however, it distorts trade, raises consumer prices, and frustrates partners. The U.S. has targeted Canadian dairy for decades, but Ottawa has largely resisted because the political risks of dismantling the system far outweigh the modest trade benefits of reform.

Comparative cases show that reform is possible. New Zealand liberalized radically, Australia used compensation to manage transition, and the EU phased out quotas. All endured protests and short-term hardship but emerged with more competitive, export-oriented dairy sectors, able to meet the growing demand for milk products in Asia and the Middle East. Canada has taken the opposite path, entrenching protectionism through Bill C-202. The difference is not economics but politics: elsewhere dairy was a commodity, in Québec it is a powerful symbol. The 2026 CUSMA review will bring these tensions back into focus. U.S. negotiators will push for greater access, while Canada—legally restrained by Bill C-202 and politically constrained by Québec—will resist. Some incremental concessions may occur, but wholesale liberalization is improbable. More likely, dairy will continue as a symbolic flashpoint, traded for flexibility in other sectors.

For scholars and policymakers, the lesson is that rationality and utility alone do not drive policy. The cases of India and Canada illustrate the reality that protectionist systems endure when they serve organized interests, embed themselves in institutions, and resonate with cultural identity. Experts offer compelling data-driven arguments, but without narratives that present reform as an opportunity for Québec's quest for economic strength and autonomy from English Canada and the United States, supply management will survive.

The dairy dispute between Canada and its largest trading partner exemplifies the enduring paradox within North American trade relations: the coexistence of deep economic integration with persistent sectoral conflict. While commodities such as electricity and aluminum traverse the Canada–U.S. border with minimal friction, dairy remains a protected domain shaped by entrenched regulatory frameworks and symbolic significance. This asymmetry underscores the limitations of globalization when national identity, cultural autonomy, and political symbolism are at stake. President Donald Trump increased the pressure on Ottawa to make concessions on dairy by imposing in July 2025 a 35% tariff on aluminum, Québec's largest export to the United States. In Québec, the defense of supply management continues to function as a proxy for broader assertions of provincial sovereignty, while in the United States, demands for expanded market access reflect both economic imperatives and normative claims to fairness. Given the structural and ideological stakes on both sides, resolution remains unlikely, and dairy is poised to persist as a focal point of recurring tension within the bilateral trade architecture.

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