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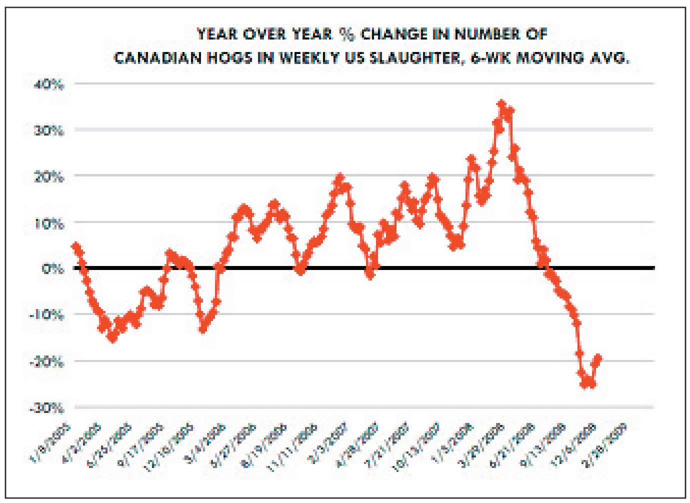
Country of Origin Labelling — WTO Challenge

It has been just over two months since the Country of Origin Labelling (COOL) law came into effect and Canada has taken the first step to try to overturn it on the grounds that it violates WTO rules governing trade between member countries. Canadian authorities have asked U.S. officials for formal consultations concerning the law in question. This is the first step before the issue is brought to a formal WTO panel that will then seek to mediate the dispute. A WTO decision on the matter cannot overturn U.S. law; rather the purpose of bringing the case before the WTO is to seek some form of dispute resolution via negotiation and, if that fails, the aggrieved party is then justified to impose sanctions of equal measure. Normally it takes about 60 days for the consultations and mediation between the two parties. If the dispute is not resolved, then the Dispute Settlement Body (DSB), which is basically all WTO members, creates a panel that hears the case and makes a final ruling. According to the WTO outline of the dispute resolution process, the entire process can take a little over a year to complete. If you're interested in reading more on the process, go to: http://www.wto.org/english/thewto_e/whatis_e/tif_e/disp1_e.htm

The Canadian complaint follows a sharp decline in Canadian hog imports to the U.S., which in part is blamed on the implementation of the COOL legislation. There have been some media reports indicating that U.S. packers were avoiding purchasing Canadian hogs — or purchasing them at a discount — to account for the increased costs of processing pigs that would require additional handling. Pork packers are loath to add new SKUs to their product line and generally when they do so they insist on all sorts of premiums, which then filter back and are reflected in discounts for hogs purchased. As the chart below shows, the share of Canadian hogs in U.S. slaughter mix has declined dramatically since this fall and currently there are about 20 per cent fewer Canadian hogs in the U.S. slaughter mix than a year ago. It is estimated that in November Canadian hogs accounted for about 6.9 per cent of US hog slaughter, compared to about 9.1 per cent a year ago. Imports of Canadian slaughter hogs in the past four weeks were down 74 per cent while feeder imports were down 13 per cent.



Live and feeder cattle futures continue to trend lower following sharp declines in equity markets. Sometimes we wonder whether we should just start reporting on the stock market and forget about the cattle supply numbers, feed prices and other such factors. The overriding concern for the market at this time is demand in 2009, both domestic and export, and in as much as the stock market is a barometer of expectations for economic conditions in the future, it is currently sending some fairly negative readings.

The USDA recently released its November 1 Cattle on Feed report. The pre-report estimates were expecting to see smaller placements down 9.0 per cent and actual placements are down 11 per cent at 2.44 million head. Of the total cattle placed, those less than 600 lbs. and 600–699 lbs. accounted for the larger placements, at 700,000 and 615,000 respectively. Placements for those 800+ lbs. were up 4.0 per cent from last year at 580,000 head. Analysts are speculating that with continued heavy placement of 800+ lbs. feeders, there will likely be a glut of cattle ready for market from December to February. This is the fifth time in the last six months that U.S. cattle feeders have reported fewer cattle placed. Only in the month of August were placements higher. The total cattle on feed were 11.0 million head, down 7.0 per cent from a year ago and 8.0 per cent below 2006. October 2008 marketings were 1.81 million head lower, at 3.0 per cent from 2007 and 3 per cent above 2006. October marketings were 8.0 per cent larger than pre-report estimates. With marketings larger than pre-report estimates, it suggests that feedlots are more current than what was originally assumed. October disappearance was up 43 per cent from 2007 and 17 per cent below 2006. *(Source: Canfax)*

Feeder cattle exports to the U.S. in the first part of the year were up significantly over the previous year — following the trend started in the fall of 2007. Strong U.S. demand due to a smaller calf crop and higher cost of gain in Western Canada compared to various feeding regions in the U.S. encouraged large feeder exports. Feeder exports in the West are up 31 per cent year to date, while Eastern exports are steady with a year ago. While the cost of gain difference has narrowed considerably throughout 2008, increased use and availability of distiller grains in the U.S. — which on average cost 20 per cent less than corn — has supported exports this year. Lethbridge barley prices have fallen from a high of $260/tonne ($5.66/bu) in July to $190/tonne ($4.14/bu) in November. Similarly, Omaha corn prices, in barley equivalents, have fallen from $270/tonne ($6.85/bu) in June to $190/tonne ($4.83/bu) in November.

Feeder exports fell below 2007 levels for the first time in July after the grandfather date for Country of Origin Labelling on July 15, 2008. However, exports continued at record levels going into September. Since COOL came into effect, feeder exports have dropped from last year's high volumes but remain well above 2006 levels, averaging 10,000 head per week. Total feeder exports are expected to continue to decline through the end of the year, finishing at 550,000 head, just over the 545,600 head exported last year. This will be the second consecutive year of record-high feeder exports. The last time feeder exports were this high was 2002 (a drought year), when feeder exports totaled 575,000 head.

Fed cattle exports have been below 2007 levels throughout most of this year. Large feeder exports in late 2007 and throughout 2008 have tightened fed supplies, reducing the number available for export. Fed exports are down 20 per cent year to date and are expected to end the year at 670,000 head. Exports from Eastern Canada are up 74 per cent, while exports from Western Canada are down 67 per cent. Fed exports are expected to continue to decline in 2009, with smaller fed cattle supplies and fewer U.S. packers accepting Canadian cattle for slaughter on fewer days. Cow and bull exports have totaled 197,000 head since the border opened last year. Year-to-date exports of 179,000 head are expected to total 193,000 head by the end of the year. This is well below the historic average of 313,000 head. However, while exports to the U.S. are expected to increase in 2009, since a multiple country label can be used on trim product, exports are expected to stay below the historic average due to the age requirement on exports of being born after March 1, 1999. *(Source: Canfax)*

The USDA recently released its November 1 estimates and below is the regular summary of analysts' estimates based on a survey from Dow Jones. As usual, the placement numbers will be watched with particular interest. The general sense is that they will fall sharply compared to a year ago, despite lower feed costs. The sharp decline in out-front cattle prices, as well as the deteriorating economic outlook, has been quite unsettling for feedlots operators, who generally tend to be an optimistic bunch. The slump in beef exports in October also added to the general concern and likely sapped much of the appetite for placing cattle on feed. Feedlots are said to be losing money, and in this environment that is a particularly sore point for credit providers. ■