

CME Livestock futures and options will close at 12:15 CT on Friday, November 25. The full Globex Thanksgiving Holiday Schedule can be found at <http://www.cmegroup.com/tools-information/holiday-calendar/files/2011-thanksgiving.pdf>. Modified settlement times for Friday, November 25 can be found at http://www.cmegroup.com/tools-information/holiday-calendar/files/Thanksgiving_Settlement_Times_2011.pdf.

A dispute panel of the World Trade Organization (WTO) officially ruled on Friday that the United States' Country-of-Origin labeling program violates WTO agreements. The announcement confirms what has long been expected by industry observers and makes official what had been rumored since last summer. The WTO ruling dealt with both the actual statutory provisions (ie. the MCOOL law and regulations enforcing it) as well as a letter sent by Secretary of Agriculture Tom Vilsack in which he asked packers and processors to voluntarily apply more stringent conditions for particular labels.

The panel ruled on the complaint filed by Canada but the ruling applies to more countries. Included among them are some major markets for U.S. pork and beef such as Mexico, Korea, China, Australia and Taiwan.

The WTO said in its ruling that the country-of-origin labeling (COOL — it did not include the “mandatory” language that we have used in the past) program is “inconsistent with the United States’ WTO obligations” since it give less favorable treatment to imported Canadian cattle and hogs than to similar domestic products. In addition, the panel said that the program does not the legitimate objective of providing consumers with information regarding the origin of products. So not only is the program illegal under WTO rules, according to the WTO it doesn’t even do what it was intended to do.

In addition to the actual program, the WTO said the Secretary Vilsack’s letter was an unreasonable administration of COOL and thus constituted another violation of WTO regs.

Where do we go from here? The United States has historically appealed virtually all unfavorable WTO rulings and we don’t see any reason that practice will change with this case. That appeal process will take, according to our sources, six to eight months ending with a final ruling from WTO. If that ruling remains negative — and we believe that is likely — the U.S. will have a year to rectify the situation or face possible retaliatory tariffs. It is our understanding that those tariffs could be imposed by any of the parties to the complaint, not just Canada.

The real question lies in what the Americans must do during that one year period to avoid the tariffs. Can we change some regulations to make the program WTO palatable or must the authorizing legislation be changed? The former is obviously much easier but it seems unlikely that regulations can be eased and still have anything that agrees with the MCOOL legislation. If that

means the legislation itself must be changed or repealed, the challenge gets larger. How many laws do you recall being repealed? Just how interested is Congress in messing with MCOOL given the seismic issues on its plate at present?

There is no guarantee that retaliatory tariffs will fall on U.S. beef and pork. Both producer organizations and many, many producers of those products opposed MCOOL from the beginning and were thus allies of producers from the complainant countries. But some, most notably Mexico, are always looking for a way to block imports from the U.S. and MCOOL has impacted imports of cattle and hogs from Canada and cattle from Mexico. Retaliating on similar products makes a lot of sense whether we like it or not.

Through September, Canada and Mexico are the number one and two markets for U.S. beef and the number three and two markets for U.S. pork, respectively. Retaliatory tariffs will not stop those shipments but will reduce them no doubt.

Congressional action last week has put even more doubt that the entire GIPSA rule will be enacted — at least in FY 2012. Last Thursday both the House and Senate approved the conference report on a spending bill that included FY12 agriculture appropriations. The President signed the bill Friday. This is the culmination of budget work that began last summer. You might recall that in June the House passed an agricultural appropriations budget that precluded GIPSA from working on rules enforcing the livestock title of the 2008 Farm Bill — the part that included the Congressional mandate for GIPSA to write rules on five specific topics. That feature made it into the “conference report” — ie. the merger of the House and Senate versions — that passed both houses last Thursday.

So, USDA cannot spend funds writing, preparing or publishing a final or interim final rule unless the annual cost/impact of the rule is less than \$100 million. USDA has sent a final rule regarding four of the five 2008 Farm Bill mandates to the Office of Management and Budget. It estimates that the annual cost of the rule will be \$95 million. USDA has also proposed an interim final rule putting some restrictions on the tournament payment system used almost exclusively by the poultry sector.

The important part of these rules is what is NOT in them. The most notable absence is rules regarding undue or unfair preference or discrimination, the fifth topic included in the ‘08 Farm Bill and the one that would have required justification of all price differentials, significant record-keeping, submission and publication of contracts and a host of other actions by and restrictions on livestock buyers and production contractors. Informa Economics put a \$300 million cost estimate on these provisions so it will be difficult for USDA to argue the impact will be less than \$100 million.

Yesterday’s Production and Price Summary contained incorrect figures for year-to-date slaughter and production. A corrected table appears on page 2.

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PRODUCTION AND PRICE SUMMARY
Week Ending 11/19/2011

	Item	Units	Current Week	Last Week	Pct. Change	Last Year	Pct. Change	YTD	Pct. Change
	Total Meat & Poultry Prod.	Million lbs.	1756.0	1737.8	1.05%	1847.6	-4.96%	78,069	0.38%
C	FI Slaughter	Thou. Head	636	625	1.76%	681	-6.61%	29,886	-0.36%
A	FI Cow Slaughter	Thou. Head	146.7	146.2	0.36%	141.2	3.92%	5,616	4.28%
T	Avg. Live Weight	Lbs.	1295	1298	-0.23%	1298	-0.23%	1,277	-0.08%
T	Avg. Dressed Weight	Lbs.	779	781	-0.26%	779	0.00%	773	0.19%
L	Beef Production	Million Lbs.	494	486.5	1.54%	528.7	-6.56%	23,017	-0.17%
E	Live Fed Steer	\$/cwt live wt.	122.30	125.49	-2.50%	97.98	24.80%		
	Dressed Steer	\$/cwt carcass	194.94	200.08	-2.60%	156.48	24.60%		
&	OKC Feeder Steer	600-700 Lbs.	147.48	146.55	0.64%	115.45	27.74%		
	Beef Cutout	600-750 Choice	194.52	189.92	2.40%	158.60	22.60%		
B	Hide/Offal	\$/cwt live wt.	12.35	12.39	2.80%	11.86	4.10%		
E	Rib	Choice	322.05	313.40	2.80%	267.83	20.20%		
E	Round	Choice	166.81	163.42	2.10%	135.41	23.20%		
F	Chuck	Choice	158.11	153.42	3.10%	128.04	23.50%		
	Trimming, 50%	Fresh	125.29	123.44	1.50%	69.37	80.60%		
	Trimming, 90%	Fresh	182.10	180.66	0.80%	147.30	23.60%		
H	FI Slaughter	Thou. Head	2360	2293	2.92%	2326	1.46%	96,710	0.17%
O	FI Sow Slaughter	Thou. Head	66.1	63.0	4.82%	64.3	2.75%	2,553	1.35%
G	Avg. Dressed Weight	Lbs.	206	206	0.00%	208	-0.96%	205	0.90%
S	Pork Production	Million Lbs.	487.5	472	3.28%	482.6	1.02%	19,834	1.07%
	Iowa-S. Minn. Direct	Avg.	80.80	83.40	-3.10%	59.98	34.70%		
&	Natl. Base Carcass Price	Weighted Avg.	82.41	84.44	-2.40%	64.32	28.10%		
	Natl. Net Carcass Price	Weighted Avg.	84.60	86.91	-2.70%	66.40	27.40%		
P	Pork Cutout	185 Lbs.	89.22	91.19	-2.20%	77.03	15.80%		
O	Hams	Primal Cutout	78.97	79.91	-1.20%	70.91	11.40%		
R	Loins	Primal Cutout	96.59	97.98	-1.40%	85.18	13.40%		
K	Bellies	Primal Cutout	106.55	109.64	-2.80%	88.20	20.80%		
C	Young Chicken Slaughter*	Million Head	151.25	153.82	-1.67%	163.91	-7.72%	7,114	-2.29%
H	Avg. Weight	Lbs., RTC	4.28	4.23	1.23%	4.31	-0.52%	4.3	2.47%
I	Broiler Production	Million Lbs., RTC	647.9	650.9	-0.45%	705.8	-8.20%	30,414	0.19%
C	Eggs Set	Million	193.3	186.5	3.63%	204.2	-5.36%	8,962	-3.24%
K	Chicks Placed	Million Head	151.5	148.6	1.93%	164.5	-7.89%	7,455	-2.35%
E	12-City Broiler	Composite	75.07	73.84	1.70%	81.65	-8.10%		
N	Georgia Dock Broiler	2.5-3 Lbs.	87.98	87.8	0.20%	85.22	3.20%		
	Northeast Breast	Skinlss/Bonelss	117.52	118.59	-0.90%	120.45	-2.40%		
	Northeast Legs		68.31	70.08	-2.50%	54.67	24.90%		
T	Young Turkey Slaughter*	Million Head	5.70	5.67	0.62%	5.95	-4.15%	203.2	0.06%
U	Avg. Weight	Lbs.	22.21	22.67	-2.05%	21.94	1.20%	23.7	1.43%
R	Turkey Production	Million Lbs.	126.6	128.5	-1.44%	130.5	-3.00%	4,804	1.37%
K	Eastern Region Hen	8-16 Lbs.	111.42	114.43	-2.60%	106.5	4.60%		
F	Corn, Omaha	\$ per Bushel	6.25	6.49	-3.62%	5.22	19.73%		
E	DDGS, Minnesota	\$ per ton	212.50	210.00	1.19%	140.00	51.79%		
E	Wheat, Kansas City	\$ per Bushel	6.47	6.82	-5.13%	6.23	3.85%		
D	Soybeans, S. Iowa	\$ per Bushel	11.74	11.73	0.09%	12.41	-5.40%		
	SB Meal, 48% Central Illinois	\$ per Ton	285.50	288.90	-1.18%	335.00	-14.80%		

* Chicken & turkey slaughter & production are 1 week earlier than the date at the top of this table. Cow & sow slaughter are for 2 weeks earlier

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