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WINNIPEG, Manitoba/CHICAGO (Reuters) - The United States is poised to introduce stricter rules on the labeling of meat imports this week, a move that is likely to heat up a simmering trade dispute with Canada and Mexico.

Under new regulations that Washington says are aimed at complying with a World Trade Organization order, all meat sold in the United States must have labels that state where an animal was born, fed and slaughtered.

Meat exporters in Canada and Mexico say the new rules would cut even deeper into cattle and hog shipments that have already slumped by as much as half in the last four years. The Canadian government has threatened a possible retaliatory strike against U.S. imports, and is hoping Mexico will join it.

"What the Americans have proposed as a response to the WTO ruling does not get the job done - it actually makes things worse," Canadian Agriculture Minister Gerry Ritz said. Penalizing U.S. beef and pork is the default option, he said, adding that Canada may ask the WTO to approve moves against other products as well. Such a process could last up to 18 months.

Two-way meat and livestock trade between Canada and the United States is worth more than $5 billion a year. The dispute stems from a 2009 U.S. requirement that retail outlets put the country of origin on labels on meat and other products, an effort to give consumers more information about the safety and origin of their food.

Canada and Mexico complained to the WTO that the so-called COOL (country-of-origin labeling) rules discriminated against imported livestock. The trade body ordered the United States to comply with WTO rules by May 23.

Instead of relaxing the rules, U.S. regulators proposed tougher requirements, arguing the changes would place the country in compliance with the WTO by applying the same rules to meat produced in the United States and other countries.

The U.S. Department of Agriculture is confident that its final changes -- to be published by Thursday -- will satisfy the WTO, U.S. Agriculture Secretary Tom Vilsack told Reuters.
"I don't think it's our responsibility necessarily to respond to what Mexico or Canada say we need to do," he said. "I think our response is to be consistent with the WTO directive, and as well understand what the WTO said -- that while every country has the right to label, the labeling that we had developed was not adequate."

Vilsack declined to say if the United States might still adjust its proposal before Thursday's deadline, saying the USDA is still evaluating comments.

'THESE TRADE THINGS BURN AT ME'
Canadian livestock producers say the initial set of COOL rules has already forced them to cull herds or cut prices due to lower demand. In Canada, ranchers have lost C$1 billion ($1 billion) in sales due to the rules, according to Ritz.

U.S. imports of Canadian hogs fell 40 percent from 2008 levels to 5.652 million in 2012, while cattle imports from Canada plunged by half, to 786,373 head, according to USDA data.

Canadian rancher Tony Saretsky, who has raised and exported cattle for 39 years, said he cut his herd in half to 1,000 head since COOL took effect. Many of his fellow ranchers in Alberta have gone out of business, hammered by a combination of fewer buyers for their cattle and soaring feedgrain prices, he said.

"These trade things just burn at me," said Saretsky, 64. Saretsky now counts on only two big northwestern U.S. plants to buy his cattle and says the situation will get worse if the United States follows through on making labeling rules stricter.

Meanwhile in Mexico, cattle exports to the United States have jumped recently as a devastating southern drought thins the U.S. herd. But ranchers there have absorbed a 20 percent drop in meat prices since COOL took effect, said Alejandro Gomez, a lawyer for Mexico's confederation of cattle growers, or CNG.

"These rules have been extremely prejudicial toward Mexican ranchers and without any kind of health or quality or genetic justification," he said.

Under COOL rules, meat packagers are allowed to mix muscle cuts from different countries in the same package as long as they are labeled appropriately. The new rules would ban mingling cuts from different sources, other than for ground meats.

U.S. producers like Cargill Inc CARG.UL have said the new rules would make it more impractical to buy foreign livestock.

"It creates even more difficult segregation requirements that will even further injure production in Canada, Mexico and importantly the United States," Cargill's vice president of cattle procurement, Bill Thoni, wrote in a March letter to the USDA. He said Cargill's February shutdown of its Plainview, Texas plant was due to unreliable cattle supply.
'STOP WHINING'

If Canada was to retaliate by reducing U.S. meat imports, it would ripple through farms and abattoirs on all sides of the borders.

In 2012, Canada imported from the United States 170 million kilograms of beef and veal worth C$1.15 billion and 211 million kilograms of pork, worth C$912 million, Statistics Canada said.

"Nowhere are we more vulnerable than with our highest value agricultural exports: beef, pork and poultry," Cargill Inc's Thoni said. "Mexico and Canada happen to be among our most critical markets for all of these commodities."

Mexico's CNG also wants its government to retaliate, but Agriculture Minister Enrique Martinez declined last month to give details.

The United States says its new labels will give consumers more information about meat from each stage of production. Without COOL, packers could produce meat from cattle that originate in other countries and pass it off to consumers as U.S. product, said Bill Bullard, chief executive of R-CALF USA, a small, but vocal lobby group for U.S. cattle producers.

"Canada and Mexico need to stop whining," he said. "They have the same opportunity in our domestic market as U.S. farmers and ranchers do and that is to promote and market and advertise their respective country's beef."

U.S. consumers might actually see a drop in meat prices if Canada and Mexico retaliate by blocking U.S. exports of beef and pork, forcing the domestic market to absorb dramatically more product, said Jim Robb, director of the Livestock Marketing Information Center. But those gains would come at the expense of U.S. farmers and ranchers, he said.

Canadian packers, who currently export around 70 percent of pork and about 30 percent of beef and veal, would likely turn more attention to their domestic market. That would be the case at Maple Leaf Foods (MFI.TO), one of Canada's two big pork processors, Chief Executive Michael McCain said.

But Canadians would pay more for meat if their government blocks U.S. meat, leaving Ottawa in a pinch to please everybody.

"We hold our breath," said Garth Whyte, chief executive of the Canadian Restaurant and Foodservices Association, of the possibility Canada will retaliate. "We do whatever it takes to hold down our prices, but it's getting tougher and tougher."