

# **The Role of USDA's Beef Grading Program in the Marketing of Beef**

*Craig A. Morris, Ph.D., United States Department of Agriculture*

The Livestock and Seed Program of the Department of Agriculture's Agricultural Marketing Service is responsible for developing, maintaining, and administering Federal meat grading programs. This paper provides information related to the above points of view regarding the Federal beef grading program.

## **Purpose of Federal Grading**

Although much has changed in the beef industry over the years, the justification for Federal grading of beef remains as important today as it was when the system was developed. Federal beef grading serves many functions, including providing:

1. Assistance to livestock producers in identifying and receiving prices commensurate with the quality and quantity of the livestock they produce;
2. A uniform supply of meat of the quality they desire for consumers, retailers, and institutions; and
3. Help in the promotion and marketing of quality products.

While privatization of grading might fulfill these functions, the elimination of a national grading program would create a void for these needed services. It is imperative that the industry have available a national system of beef classification to permit useful price reporting for producers. Furthermore, a nationwide grading program is needed to provide feedback to industry to ensure that a sufficient supply of a given quality of beef is available to keep the market competitive and to meet the needs of consumers.

## **History of Federal Grading**

In order to better understand the current situation in regard to grading, a review of the origin and history of the Federal grading program is beneficial. The organized grading of beef by the Federal Government dates back to 1923, when a Government agency--the U.S. Shipping Board--asked USDA to grade beef carcasses according to tentative U.S. standards to ensure a uniform quality in contract beef purchases. Until that time, the U.S. Shipping Board had experienced problems in routinely procuring beef of the desired quality. Over the next 2 years, a variety of government agencies, companies, and institutions became aware of the benefits of the program and requested the voluntary, fee-based service. Early customers of the service included steamship companies,

railroads, and large hotels. These groups were followed by Federal, State and county hospitals, and ultimately chain stores and retail meat dealers.

By 1925, an organized effort was under way within the livestock and retail meat industry to establish a beef grading and stamping service by the Federal Government for all federally inspected plants. The objective was to make the benefits of a grading service available to all consumers. As a result, in 1926, the USDA Secretary promulgated the beef grade standards as the official United States Standards for Market Classes and Grades of Carcass Beef; by 1927, a 1-year, national, experimental program of Federal grading of beef carcasses was in process.

Although early packer response to the program was not favorable, after a public education campaign sponsored by producers through the "Better Beef Association," the program ultimately proved to be practical, feasible, and able to prevent deception for both beef producers and consumers of beef products. With lessons learned through the 1-year experimental program, the service was continued in 1928 as a formal, voluntary, fee-for-service program--as it remains to this day.

### **Agricultural Marketing Act Considerations**

The Agricultural Marketing Act of 1946 requires USDA to provide services to facilitate the marketing of agricultural products. As long as any group requests these services, we are obligated to provide them unless the legislation is changed. There are a variety of customers of our USDA beef grading program who strongly support its principles, merit, and continuation. And, in keeping with the Agricultural Marketing Act of 1946, it is not feasible for the USDA to abandon its grading of beef without consideration of the impact of such a decision on all commodities--not just cattle and beef.

### **USDA Grading is Voluntary**

It is important to note that today, as it was at its inception, the grading of beef is a voluntary service. In fact, over the entire history of the U.S. program, beef grading has been compulsory for the U.S. beef industry only during two brief periods: World War II and the Korean War.

Producers, packers, or retailers who do not wish to have their products graded may simply not request the grading service, or they can remove the USDA grade shield from graded products. However, most retailers and restaurateurs require their product to be USDA graded and they use the USDA grades in their marketing. Therefore, it has been in the best interest of packing companies to request and pay for USDA grading services to gain access to all markets and receive premiums for their graded product. In fact, it is commonplace in the market for packers to grade all beef qualifying for Prime, Choice, and Select.

Other product that does not meet these requirements is not graded and is sold on a "no roll" basis.

Grading services are provided to the industry on a "cost-recovery" basis. These costs include graders' salaries as well as costs of supervision and management of the system. On average, grading services cost the beef industry approximately 1/20 of a cent per pound, or about 38 cents per carcass. This rate appears very affordable, especially when the marketing benefits of the U.S. Prime, U.S. Choice, and U.S. Select grades are considered.

### **Predictive Ability of the USDA Grades**

The quality grade factors, marbling and maturity, used to determine USDA beef quality grades (Prime, Choice, Select, etc.) do not explain all of the variation in beef palatability. However, they are capable of segregating a large, dissimilar population of beef into more similar grade classes. In addition, the USDA beef yield grades provide useful groupings based upon the predicted yield of cuts. Over the years, several major changes in the beef grading system have been made in order to improve its effectiveness. Furthermore, both USDA and the industry are continually looking for different predictors or technology to further improve either the grades or our ability to apply the grades. However, no system to date has proven more reliable than the current USDA grade system in operating without bias under actual commercial conditions.

In beef packing plants of today, carcasses are graded under demanding conditions. In many facilities, USDA graders evaluate over 400 head an hour. Although some systems--such as video image analysis, biochemical methods, and genetic mapping, to name a few--have shown promise, none have proven to be capable of achieving the predictive ability and practicality of USDA grades in commercial operations. Nevertheless, USDA will continue to aggressively investigate and invest in numerous research projects aimed at developing systems capable of explaining more of the variation in beef quality than do the current USDA grades.

### **Reputation and Accuracy of the USDA Grading Program**

USDA maintains strict Executive Branch standards of ethical conduct for employees of the grading service. All grading service employees are required, by law, to sign and abide by the principles of ethical conduct as ordered by the President of the United States. Although a privatized domestic or foreign grading company could utilize USDA's beef grading standards, it would not be bound by Federal law to the Executive Branch Standards of Ethical Conduct. These ethical standards enhance the strong reputation of USDA's grading program.

Adding to the outstanding reputation that the USDA grading program has earned over the decades, the service continues to strive to be as accurate as possible in

applying the grades across the Nation. Even though USDA quality graded around 26 million beef carcasses last year, graders boasted a 95 percent agreement rate with independent program evaluations and reviews. Through a multifaceted system of checks and balances, supervisors work with review staff members to maintain excellent "correlation" in the application of grades throughout the country. In fact, such third-party reviews of USDA grading maintain not only the program's high accuracy rate but also add to the fine reputation and high economic value of USDA-graded beef in commerce here and abroad.

### **Market News Reporting**

The purpose of the Livestock and Grain Market News Service is to help stabilize market conditions by providing producers, packers, wholesalers, retailers, and others with accurate, timely, unbiased, and uniformly understandable market information. To achieve this objective, uniform application of familiar standard class and grade terminology is imperative. Current grade standards provide this terminology and are an effective means of establishing a trading base in the price discovery process.

The absence of a uniform grading system would require market news reporters to develop new terminology to describe possibly countless "private" grades that could be traded in the marketplace. A lack of uniformity among packers could reduce the volume of products reported, thereby decreasing the amount of information available to producers when making marketing decisions. If a uniform trading base (i.e., standards) did not exist, it also would be more difficult for producers to compare prices offered among packers. Buyers of products could be faced with a similar problem: having to compare many descriptions of product when making their purchase decisions.

Uniformly adopted and applied privatized grade standards could be used by market news. However, if the grade standards are not uniformly applied nationwide, market reports may not accurately describe trading conditions. The integrity of market news reports could be compromised, which in turn could reduce public confidence in the orderly marketing and distribution of livestock and meat.

### **USDA Grades Change with the Needs of the Industry**

The USDA grading system has been responsive to industry's marketing needs through the years. The procedures used by USDA to consider changes in grading ensure that all segments of the industry and consumers have an "equal voice" in the process and that any changes do not unfairly benefit one segment to the detriment of others. When more accurate and practical methods of predicting beef quality or quantity are discovered, USDA will aggressively seek industry comment and incorporate improvements into the USDA grading program.

Additionally, the USDA grading service itself has changed with the industry. Today, USDA's Meat Grading Branch conducts certification services for products and processes. As industry moves towards offering customers assurances of production practices or guarantees of marketing claims, USDA will continue to offer services to ensure that products meet the changing expectations of consumers. Through all of these changes, USDA remains equally responsive to the needs of industry and consumers while always conducting itself according to the highest standards of ethics.

## **USDA Grading Enhances Branded Products**

Today, criticisms are arising that are not unlike complaints that were raised 70 years ago when U.S. grades were first proposed. Some people currently believe that eliminating the Federal beef grading program will spur the packing industry into marketing branded products and developing more value-added beef products. However, it was not until after beef producers and retailers demanded the development of the Federal beef grading program in the 1920's that the major packers developed their own packer brands.

It is interesting to note that packers in the 1920's had long criticized efforts by producers and retailers to develop a Federal beef grading program as they felt beef grading was unworkable and without merit in the marketplace. However, during the same year when the Federal beef grading program was initiated, major packers started their own house brands. Swift's Premium and Select and Armour's Star and Quality brands of beef products (two of the major packers of the 1920's) were instituted and aggressively promoted during the same period when the USDA beef grades of Prime and Choice were first marketed on a national basis.

Today, many branded programs utilize the USDA grade system or benefit from the skill, experience, and impartiality of the USDA grading service. Certified Angus Beef (CAB) is an excellent example of a successful branded product line that incorporates USDA grades and USDA grading services into its program, along with other requirements that provide value-added benefits to its purchasers. The CAB program can assure customers that their products are average Choice or better; the third-party services of USDA graders ensure that breed, maturity, and other quality factors in CAB program requirements are met. Several other branded programs have been developed or are being developed which rely on both USDA grades and program services, as well as producer-controlled criteria, to ensure products meet customers' desires.

## **Producers Must Be Accountable**

Possibly one of the most important issues that should be raised in this discussion is that whether or not a USDA grading program exists, producers--at all levels--must be accountable for the products that they market. Although USDA grades

and their unbiased, third-party application make our system the most "envied" throughout the world, the grades were never meant to explain all of the variation in quality found in the marketplace. Producers and marketers can work with the USDA grades and other available tools to provide the highest quality products available to consumers. The USDA grades are a tool, not the cause of or a solution to all of the challenges that face the beef industry today.

## **International Considerations**

Today, the world market is more open to free trade than at any time in history. The United States will export more beef this year than in any year in our history, and the majority of this beef will be federally graded. The world looks to the USDA beef grading system with envy, and some of our competitor nations are trying to emulate the USDA system. It is, in fact, a marketing advantage that U.S. beef products carry in international trade. Before a decision is made to abandon the Federal beef grading program or to privatize its application, everyone must fully consider the impact of a loss of Government control or the appearance of a loss of integrity of the system.

Special attention should be given to international agreements that the United States has entered into in recent years, such as the requirements of NAFTA and GATT. The importance of our marketing system's integrity in the international marketplace cannot be overemphasized. Without a highly respected national beef grading system, it would be difficult to secure the trade agreements for U.S. beef products that we enjoy today. It is also the responsibility of a trading nation to provide a clear system of grading, both in development and application, to allow market access. USDA is currently working with international standardization committees to develop protocols for recognizing equivalency of other national grading programs. Without a Federal beef grading system, such agreements would be difficult to secure.

## **Conclusion**

This paper has discussed several issues related to privatization or elimination of Federal beef grading in the United States. The mission of USDA is to provide services to enhance the domestic and international marketing of U.S. agricultural products, such as beef. These services include quality assurance, inspection, certification, market information, commodity research, promotion, transportation research, market and trade policy development, the grading of commodities, and the development of standards.

The USDA beef grading system has played an integral role in the marketing of beef for over 70 years, and with proper use and revision, it can continue to play an important role. We also recognize that it is in the best interests of both USDA and the beef industry to remain open to new ideas and to explore new initiatives that may improve the system in the future.