

The Privatization of Livestock Carcass Grading in Canada

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Summary

In 1996, the grading of beef and hog carcasses was transferred to the private sector. This discussion reviews the developments and circumstances leading up to privatization, the process of privatization itself, and the apparent results and benefits that have been realized by this change in delivery mechanism. I wish to caution the audience that some of my views may be biased, given my obvious interest in demonstrating a successful transition in the beef grading sector. But I have attempted to present as unbiased a view as possible. Furthermore, other Canadians are present and will not permit me to exaggerate success or minimize problems. Carcass grading is, after all, a very visible undertaking and clients of the service will quickly set the record straight if necessary.

This paper deals with the privatization of both beef and hog carcass grading. The author is intimately familiar with the privatization of beef grading, (including the grading of veal and, to a more limited extent, bison carcasses). The writer is not as familiar with hog carcass grading or the privatization of same and has solicited the assistance of Ms. Cheryl McLachlan, the Manager of the Ontario Pork Grad-

ing Authority, who has provided most of the comments relating to the privatization of hog carcass grading.

Background

Historically, livestock carcass grading (beef, veal, bison, pork, sheep and lamb, and poultry), has been a service provided by the Federal Government's Department of Agriculture and Agri-Food Canada (AAFC). In all cases, the grades have been applied according to grading regulations that were themselves promulgated pursuant to the Livestock and Livestock Products Act.

At its origins, the grading of livestock carcasses was seen primarily as a central livestock improvement program and, particularly in the case of hogs, as an aid to exports. The benefits to domestic consumers were not as apparent, except indirectly. Nor in the earliest days were grades seen as an aid to marketing inasmuch as cattle and hogs were sold live, the former at least with little or no reference to carcass grade. For many years, a government premium was paid in respect of A grade hogs in a successful effort to encourage improved quality.

In addition to providing the legislative authority and regulatory parameters for grading, Agriculture Canada also delivered the grading service through federally-employed livestock graders. More experienced graders became supervisors and the service also developed a data collection and market price reporting service including weekly and annual market prices and grading summaries. For agricultural graduates specializing in Animal Science, livestock carcass grading and meat inspection was often their entry to the public service.

Until the mid 1980's, there were two separate divisions

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of Agriculture Canada (AAFC) providing service in beef and pork packing plants. These were, of course, the Meat Hygiene group and the graders. These groups were independent one of the other, and had different management and in many cases were provided separate office facilities. In 1985 these services were amalgamated in a long overdue effort to reduce duplication and improve efficiency. Graders were trained as meat inspectors and vice versa. This was a first step toward "right sizing." However, it also highlighted a problem because while producers were reluctantly in favor of cost recovery for grading most believed and still believe that meat inspection contains a very central "public good" component and this justifies public funding.

Until 1985, Agriculture Canada had provided the grading service for all livestock species and all ancillary services without charge as a federal program. Grading continued to be seen as a livestock improvement program and provided the basis for the limited role the Federal Government played in extension-like programs. However as federal deficits continued to rise, the concept of at least partial cost recovery for such services as carcass grading became attractive. I was at that time the senior staff officer with the Canadian Cattlemen's Association and it fell to me to negotiate the initial arrangement with respect to cattle. The Canadian Cattlemen's Association, and I believe the Canadian Pork Council, could be said to have been reluctantly in favor of partial cost recovery and after interminable "negotiations" it was agreed that the per head fee for grading would be \$0.20 per beef carcass graded and \$0.09 per hog carcass. This rate was applied, commencing in August of 1986.

These rates rose as follows,

	Beef	Hogs
• April 1 1986	\$0.22	\$0.10
• April 1 1987	\$0.24	\$0.12
• April 1 1988	\$0.26	\$0.14
• April 1 1989	\$0.39	\$0.15
• May 1 1995	\$0.50	\$0.15

The mechanism chosen to collect this fee was that Agriculture Canada would invoice the packing plant on a monthly basis. The producer was not obliged to pay any portion of the fee but a regulation was passed that permitted the packer to split or divide the per head fee in cases where the cattle were sold on a carcass weight and grade basis. Inasmuch as this was, in 1986, a common method of sale many packers, though by no means all, did deduct one half of the grading fee from the settlement statement for cattle sold on a rail basis.

The most immediate result of this initial step toward cost recovery for beef carcass grading was that most packers discontinued the grading of most cow carcasses. In 1985, there were 5 cow carcass grades and most packers discontinued grading all but the top D1 grade. Many in the industry had long suspected that the cow grades were not of much importance and as soon as there was a charge for grading, the grading of cow carcass grading was greatly curtailed. Thus

one of the first benefits of a cost-recovered system was demonstrated, that being that when one is paying for the service, one quickly decides what is worth paying for.

This initial step toward cost recovery was tentative and it has since been pointed out that the in the early years the cost of cost recovery may have equaled or exceeded the moneys received.

In 1994, Agriculture Canada announced plans to increase the rate of cost recovery for livestock grading programs in annual increments until full cost recovery was to be achieved in the year 2000. Furthermore AAFC had estimated that full cost recovery would be in the order of \$1.40 to \$1.44 per beef carcass and approximately \$0.30 for hogs. By this time, both the hog and cattle industries had accepted the inevitability of eventual full cost recovery but had some difficulty accepting the estimates of cost advanced by Agriculture Canada. In particular there was little dispute, though there should have been, concerning the actual cost of grading on site. There was, however, strong objection to the "overhead" charges that would apply. Agriculture Canada had apportioned a part of the cost of its administrative infrastructure to the grading service. While including such an overhead or administrative charge is quite proper in a business sense, the industry was not convinced that the grading service required such costly assistance as, for example, a portion of a Deputy Minister's salary.

In more practical terms, both the hog and the cattle industries realized that having a service delivered by Agriculture Canada and paid for by the industry, where the industry could not control the costs of that service, *was the worst possible scenario*. Both industries decided that it would be best to set up their own delivery system and accept responsibility for cost and management control.

I must emphasize at this point that the livestock industry has been well served for many years by the federal grading service. Over the years that I have been associated with the livestock industry, livestock carcass grading has been pretty well taken for granted. There has been remarkably little criticism from packers, producers or buyers of the actual grading exercise itself. Federally-trained and employed graders have done an excellent job of grading. There was, therefore, no expectation that a privatized grading service could deliver a better grading service *per se*. But gains were expected on the cost and efficiency side and the industry was convinced that it could maintain the standards of accuracy and integrity but at a sharply lower unit cost.

The Privatization Process

When both the pork and cattle industries took their quite independent decisions to privatize the grading function, they also took quite separate routes. It might have occurred to some that managerial and administrative efficiencies could be realized through the creation of a single grading agency, at least for pork, beef, and veal. However there were also major differences in approach that made a single agency impractical. First there are only a very few major packing

plants remaining that slaughter both hogs and cattle so the opportunity for the same grader to grade both species was limited. Second, for reasons that will require a little further explanation, the cattle industry opted to retain the grading regulations while the hog industry opted to let the hog grading regulations lapse. In my view, both the industries made the right decision in view of their particular circumstances. Third, while the swine and cattle industries have cordial relations, they have their separate organizations and no advantages were seen that would warrant a multi-species grading agency.

The differing approaches the cattle and swine industries took to privatization warrants brief discussion. Cattlemen and beef packers indicated a strong desire to maintain the existing, nationally uniform grade standard and felt that the best way to do so was to keep the present legislative and regulatory framework. Since prior to 1972, producers and packers have played a very prominent role in establishing the previous and present grading standards for beef and, in the main, are well satisfied with the present standard. Thus they sought only to privatize the *delivery* of grading while maintaining a legislated and regulated standard. Hog producers and packers, on the other hand, maintain an equal interest in their grading criteria but point out that the present hog grading system is really more of an index system that is used primarily for settlement purposes. All market hogs in Canada are sold basis carcass weight and yield index. Furthermore, the pork industry has not felt as keenly the need for a single national standard and as a consequence a slightly different grid or index system is applied in different provinces or regions. The pork industry therefore concluded that what was important was the integrity of their particular index systems and that this did not require a legislated or regulated foundation. Thus Agriculture Canada no longer plays any role, supervisory or otherwise, in hog grading.

The pork industry privatized pork grading in a very direct and straightforward manner. We will illustrate using the experiences in Ontario as an example. In that jurisdiction the Ontario Pork Producers Marketing Board, (OPPMB), in cooperation with packers, set up the Ontario Pork Grading Authority. Ms. Cheryl McLachlan, a former employee of the OPPMB, became its General Manager and the Grading Authority went into operation on Jan 1, 1996. Like the CBGA, the OPGA is a non-profit corporation. The current grading fee for pork carcasses is a flat fee of \$0.16, (Sales tax included). This fee is divided equally between the producer and the packer and is collected by deduction from the settlement statement by the OPPMB and forwarded to the Pork Grading Authority. In Ontario and throughout Canada, hogs are marketed through Provincial Marketing Boards so there are few private treaty sales. Thus the settlement cheque is normally received from the Board rather than from the packer. Unlike the situation we will describe for beef grading, the same per head fee is charged regardless of plant size. However, the OPGA recognizes that with this arrangement the larger more efficient plants are subsidizing the smaller plants

and they are now considering variable rates.

Hog marketing in Canada is also based on carcass weight and quality. A series of grids have been developed whereby the carcass is awarded an Index number based on carcass weight and fat thickness as determined with an electronic probe. For example, a couple of weeks ago the base or pooled price for an Index 100 hog was \$C 210.93/100Kg. Thus the settlement price for a 75Kg, Index 107 hog carcass would have been:

$$\$210.93 \times 1.07 \times 0.75 = \$169.27$$

(For an American audience, that converts quite roughly to a live hog price of approximately U.S. \$51.00 based on an exchange rate of 1.38 and a carcass yield of 75%)

On the financial side, I am unable to show the detail we can provide for the CBGA but am advised that the OPGA is operating right on budget.

In Ontario, hogs are graded in approximately 20 plants but the vast majority, 85 to 90%, are graded in the 4 or 5 largest plants. In the largest plant, one grader can probe and grade at a line speed of 1000 per hour. The Grading Authority retains only 8 graders to grade in those 5 largest plants. In some plants prior to privatization, there were as many as 14 graders but they operated on either a 15 minutes on/15 minute off rotation or a 30/30 minute rotation. So the present approach is much more efficient and also leads to more consistent grading results.

In addition to the grading service, the Pork Grading Authority also gathers basic health information on the individual carcass in fulfillment of a recently introduced Quality Assurance Program. While one grader grades the carcass, the other grader is at the inspection table checking the heart, lung and liver. This is a new program introduced at the same time as grading was privatized and so represents an extra service performed by the Grading Authority. So it can be readily seen that the delivery of the service is vastly more efficient than it was prior to privatization.

The approach taken to the privatization of beef carcass grading was to strike a task force with producer, packer, and retail representation. Producers were represented by the Canadian Cattlemen's Association, (CCA), and packers by the Canadian Meat Council (CMC). A problem of representation arose here inasmuch as the CCA does not represent the producers in Quebec and their provincial association sought and gained a representative on the task force even though gradings in Quebec account for only about 2% of the national total. Neither does the CMC represent all packers but member plants represent well over 80% of total gradings. The retailers' interest is represented by the Canadian Grocery Products Distributors Council, (CGPD). There was no direct representation from consumer interests. The Consumers Association of Canada, (CAC) has had a long interest in beef and pork grading issues but in recent years has discontinued any direct involvement in such matters.

This task force took responsibility for the early policies including the decision to privatize the delivery, and I was approached to effect the transition, a process that began with

TABLE 1: Distribution of Carcasses Graded by Plant Size (April 1, 1996 to March 31, 1997).

	Large > 150,000	Medium > 20,000	Small < 20,000	TOTAL
Number of Plants	5	10	79	94
Percent of Plants	5.3	10.6	84.0	100
Number Graded	2,134,342	353,406	106,257	2,594,005
Percent Graded	82.3	13.6	4.1	100

the development of a business plan and draft budget. The total effort took place over an 18 month period from the initial decision in late 1994 to implementation, which occurred on a full nationwide basis on April 1, 1996.

An early development was the creation of a legal entity, the Canadian Beef Grading Agency, (CBGA). In accordance with our tax laws, this agency was designated as a "not for profit" organization.

The task itself was not terribly complex but since we had no pattern or previous experience to guide us, and since failure could not be contemplated, it was a bit nerve wracking. I shall try in the remaining portion of this presentation to highlight the more important issues and how they were addressed.

Scope

An early decision was that the grading service would be offered and made available in every packing plant that was then receiving the service. Requests for grading from plants that had not previously received a grading service were accepted only if it was convenient but as a general policy, such requests were held in abeyance with assurances that they would be dealt with as soon as possible following April 1, 1996.

Our task then was to deliver beef carcass grading to about 110 packing plants located in 9 provinces. There has been no request for grading in Newfoundland or the Territories. As it turned, out we delivered beef carcass grading in our first year of operations, (April 1, 1996 to March 31, 1997) to 94 plants. We graded veal in 10 specialized veal plants and in a few beef and veal plants and we graded bison in one specialized plant and in two beef plants that also slaughter bison.

As is the case in the U.S., Canadian packing plants are not of uniform size. Table 1 shows the distribution of plants based on number of carcasses graded annually.

For convenience we grouped these plants into three categories, Large, Medium and Small. In reality a four-category grouping might have been more useful where the smallest and most numerous group of plants would have included those where < 50 carcasses are graded per week. These smallest plants presented special problems and difficulties.

A real problem we anticipated was how to deliver an efficient cost-effective service to the large number of smaller plants. Some thought was given to not offering the service to

plants below a certain size but many operators wanted to continue to receive grading so we focused our efforts on finding a way to deliver the service. Also in at least one province, Ontario, there is a provincial regulation requiring ungraded beef to be so designated in the retail counter. Accordingly, we were reluctant to deny grading in such a situation.

Costing

Privatization marked the end of uniform costing. When grading was a government service the policy of uniform costing applied. Despite the fact that a grader could grade up to 300 carcasses per hour in a large plant with a moving line and a grading station; while another grader drove 200 miles, one way, to grade 5 carcasses. Agriculture Canada absorbed all of the cost except for the negligible portion recovered as cost recovery. This was to change, partly because it made practical sense and partly because, as soon as it was accepted that the service was to become privatized the larger packers insisted that they were prepared to pay only those costs they actually incurred. Though medium and smaller-sized plants initially objected to this development I must say, to their credit, the objection was not long sustained. Part of the reason for this may have been our assurances that we could deliver the service at a modest cost notwithstanding. Indeed the highest rate charged in any plant during our first year of operations has been a very modest \$1.50. And in most, but not all, cases that fee has covered our costs.

We delivered grading in these smaller plants by two means. In three provinces, British Columbia, Saskatchewan, and Manitoba, there has long been a Federal/Provincial agreement whereby the federal government delivered carcass grading and meat inspection services and where they continue to deliver the meat inspection program. We simply entered into private arrangements with those federal employees to grade the few carcasses that required grading before or following their duties as meat inspectors. The only stipulation we made was that grading could only occur on days that the meat inspector was present. In other words, no special trips to grade carcasses were allowed. We made similar arrangements in other provinces where there is a provincial meat inspection program except that we entered into a contract with the Provincial Department of Agriculture and paid them on a per head basis to have their meat inspectors grade the carcasses. To do this we had to train a number of meat inspectors who had not graded before and this has proven very successful. We were initially concerned about the relative inexperience of these newly-trained graders but they were well and intensively trained and, furthermore, in very small plants one can take perhaps a minute or two to grade the carcass in a very deliberate manner. To that end we have developed a check-list approach to guide graders where a simple "yes" or "no" answer to a maximum of 13 questions results in the proper grade for every carcass. I have believed for many years that the mere fact that grading is

TABLE 2: Assumptions for Development of Budget.

Plant Size Category	Large	Medium	Small	Total/All
Projected Gradings	1,280,000	520,000	280,000	2,080,000
Cost Components				
- In Plant Grading	\$0.34	\$0.42	\$0.84	\$0.42
- Market Information	\$0.07	\$0.07	\$0.07	\$0.07
- Training, Supervision & Monitoring	\$0.17	\$0.17	\$0.17	\$0.17
- Administration	\$0.14	\$0.14	\$0.14	\$0.14
- Contingency & New Technology	\$0.06	\$0.06	\$0.06	\$0.06
TOTAL	\$0.78	\$0.86	\$1.28	\$0.86
Budgeted Revenue	\$998,400.00	\$447,200.00	\$358,400	\$1,804,000.00
Actual Gradings (April 1 96 to March 31 97)	2,134,342	353,406	106,257	2,594,005
Actual Revenue	\$1,433,000.00	\$462,789.00	\$225,460.00	\$2,121,250.00

very important does not mean it has to be very difficult. Indeed, an effective grading system must be logical and clear or it will not be useful.

Budget Development

I must now explain how we set up our budget and operated during the first year.

We first identified five cost categories, namely,

1. The actual "in-plant" cost of grading which relates to the cost of paying the graders.
2. Gathering and processing grading data and related market information.
3. Supervision, training and monitoring, including the cost of the National Grade Standards Officer.
4. Administrative or head-office costs.
5. Contingencies and new technology.

An early decision was that, for at least the first year of operations, only the first of the above cost categories could be assigned on an individual plant basis and that all other costs should be assigned on a flat per-head basis irrespective of plant size. Table 2 sets out the basis of the "per head" fee structure for the first year.

It can be seen that we underestimated considerably the total number of gradings in the first year. However our estimate had been deliberately very conservative. We also graded many more carcasses in the largest plants and considerably fewer than estimated in the smallest plants. It appears that when confronted with full cost recovery, several of the smaller operators either decided to discontinue grading or reduced the number to be graded.

As a result of underestimating the number of carcasses to be graded in the first full year of operations, we also underestimated the revenue and actually earned about 17% more revenue than had been projected. This allowed us to rather quickly pay off an advance of about \$140,000.00, which the Canadian Cattlemen's Association had advanced to the Task Force during the start-up period. This is a point I should

now emphasize. The Canadian Beef Grading Agency had no operating funds that would have covered the development costs so the Canadian Cattlemen's Association, which played a lead role throughout, bankrolled the effort on the understanding that the Agency would repay the money once it became operational.

Next let us look at our actual experiences in terms of costs sustained as shown in Table 3.

It is easy to see from a comparison of budgeted and actual costs that it has been possible to reduce grading fees, especially in the larger plants. This has now been accomplished. In the largest plants per-head grading fees have dropped about \$0.25 per head but in a few cases involving small plants, it was necessary to increase fees moderately.

Maintaining a Credible National System

While the mechanics of privatization may be of interest to some, especially those who may be contemplating a similar initiative, an issue of far greater importance is the maintenance of a credible and nationally uniform standard. I must confess that I was surprised at the number of times during the privatization process that this concern was raised. I was surprised because it struck me as ironic that cattlemen and packers would assume that a privatized system might be less reliable than a publicly-delivered system. Such an attitude reflects our ambivalence toward government services. In general we tend to believe that such services are inefficiently delivered and, therefore, too costly. But we also tend to believe that, however inefficient the delivery mechanism may be, the actual delivery is neutral, fair and unbiased. My experience tells me that that is close to the truth. We never expected to grade **better or more accurately** than did government graders. We expected to grade as well but more efficiently.

Nonetheless we saw the need to maintain all of the credibility of a publicly-delivered grading system as our central challenge and took steps to ensure success. The first step

TABLE 3: Actual Audited Cost of Grading.

Plant Size Category	Large	Medium	Small	All
Actual Costs				
- In Plant Grading				
Average	\$0.29	\$0.56	\$0.67	\$0.38
Range	\$0.25 to \$0.36	\$0.40 to \$0.82	\$0.73 to >\$5.00	
- Training, Supervision & Monitoring	\$0.10	\$0.10	\$0.10	\$0.10
- Administration	\$0.15	\$0.15	\$0.15	\$0.15
TOTAL	\$0.54	\$0.81	\$0.92	\$0.63

has already been mentioned and that was to retain the Federal Act and Regulations. Second, the agency itself went through and must maintain an accreditation process. That means that the agency must have procedures and record-keeping systems that ensure accountability. Thirdly, our graders, though retained as private sector personnel, are still licensed under the regulations and are subject to re-testing at the discretion of the National Grade Standards Officer who continues to be a federal public servant. Finally, under the regulations there is a National Grades Standards Officer, (NGSO), who regularly tours packing plants in Canada to ensure those standards are maintained. That involves not only an inspection of the plants to ensure that conditions for grading are up to standards but the NGSO also tests and assesses graders. Graders must maintain very high standards of grading precision.

There are other considerations of note. First we are fortunate that well over 50% of the present graders were federal graders before privatization. That number or proportion may not be impressively high until we recognize that this group of former federal graders grade over 95% of all carcasses. We do have a considerable number of newly-trained graders but they were needed to grade in the smaller, more remote or outlying plants. And even there virtually all of these new graders are also provincially trained and qualified meat inspectors. We were able to enter into agreements with provincial governments to make double use of these meat inspectors to grade the beef carcasses during their meat inspection visits. In fact we don't pay those graders directly. Rather we pay the provincial government in a contractual arrangement.

Operationally, we achieved several other important and cost-saving efficiencies. We were fortunate at the outset to have been able to attract and employ a General Manager, Ms. Cindy Delaloye, who had herself been a qualified grader and who rose within the public service to become first a regional grade standards officer and later to administer the delivery of grading services in the Province of Ontario. She has, since becoming Manager of the C.B.G.A., requalified herself as a certified grader. An early decision was to locate our head office in a small suite adjacent to the head offices of the Canadian Cattlemen's Association in Calgary, Alberta. This allowed us to enter into arrangements to share facilities and services. Two are worth noting. First we contracted with

the C.C.A. to have their very excellent bookkeeper also keep our books. Second we contracted with CCA's market intelligence division, Canfax, to receive and process our data on gradings. For in addition to privatizing the grading service, the Agency also took responsibility for the gathering of carcass grading data and all the statistics associated with that program. We naturally built into our arrangements with Canfax the necessary measures to protect proprietary and confidential information.

We continue to build in other innovations. First we are developing the capability with some of the larger plants to transmit daily grading data by modem from their computers to ours and in a format we can use. From medium and smaller plants, the data comes to the agency daily, weekly, or monthly depending on size. In most cases the transmission is via a 1-800-fax line. This data is cross checked with graders reports and is used not only to complete our data base but as the basis for invoicing the plant and paying our graders. We are also able to monitor each grader using these records and spot potential problems.

Another innovation of great importance grew out of the realization that with a smaller core of graders, we were vulnerable to unexpected but inevitable absences. For example, a grader might fall suddenly ill or have an accident en route to work. Emergency situations do occur and a privatized grading system cannot afford the luxury of reserve or standby graders, though we do have some capability in that area. Our solution was to train certain named and specified plant employees as graders. Thus in the event of an unanticipated emergency, grading can proceed. The requirement is that the Agency be notified by telephone or FAX before such grading starts. There was some obvious concern that this reserve grader might tilt in favor of the plant. We have safeguards to prevent that. First, the grader must be as well qualified and as frequently tested as our own graders. Second, the need for this reserve grader will most often be in the larger plants where the reserve grader may be the second grader. But even if the grader grades alone, there are means of running both an actual and a statistical check on his/her work. The ultimate control is that any abuses will cost the offending plant the privilege of this provision.

Yet another innovation we introduced was to permit a plant employee to apply the grade stamp. We are paying graders to grade, not to swing grade hammers. Thus in the

larger plants we took the hammers out of the graders hands and put them in the hands of plant employees. These plant employees however can only apply the stamps in the presence and under the supervision of the grader. This of course is a very practical step and easily supervised.

Separation of Responsibilities

It is important at this stage to point out that in Canada there is a "separation of Church and State" as it were insofar as grading is concerned. That is to say the Beef Grading Agency is **not** responsible for the grade standards. This is important because, after all, the Agency itself is not large and could conceivably have its own biases as to what the standards should be and could grade accordingly. I for example could identify two or three points about the grading system that I would change tomorrow if it were up to me. So what we have today, and have had for at least 25 years, is a Beef Carcass Grading Consultative Committee peopled by representatives of all the stakeholder groups: (packer, retailer, restaurateur, producer, research and government representatives.) It is acknowledged that consumers are one of the most important groups and for many years a Consumers Association of Canada has had representation. Their absence in recent years is at their own choice and is regrettable. The consultative group sets the standards, the Grading Agency applies them. I do not suggest that the agency has no input to such deliberations. However, such input as we do have is within a forum where all interest groups have influence and where such changes as are made from time to time are the result of a strong consensus among the several affected groups. A couple of recent examples of the deliberations of the consultative group were the decision to adopt USDA marbling standards and a decision to create a Canada Prime Grade to satisfy export demand and some domestic demand.

It might be of interest to comment very briefly on the approach we have adopted with respect to beef grading policy development in Canada. Twenty-five years ago, the policy was paternalistic in nature where the grade standards that then existed had been more or less decreed by public officials with limited consultations with producers, packers or other user groups. This was understandable at that time for meat science was not widely understood and producers quite frankly were neither as knowledgeable nor as well represented as they are today. The cattle industry recognized the retarding effect of this approach when, in 1970, they sought to implement rather dramatic changes in beef grade standards and encountered a public bureaucracy very resistant to change. But we were aware of the good work of American and Canadian meat scientists that suggested positive directions for change. I recall in particular the work of Drs. Briskey, Bray, and Breidenstein in the U.S.A. as well as the work of Drs. Roy Berg, Howard Fredeen, Ron Osborne, CMW Williams, and others in Canada, including latterly, Dr Steve Morgan Jones, all of whom called into question the validity of a grade standard that encouraged overfinish. (I apologize for this unsophisticated reference to several re-

searchers but am citing the American scientists from memory.) Though I can't easily identify their proper affiliations or now cite their specific work, the fact that their names are fresh in my mind attests to the importance of their work to our efforts a quarter of a century ago. But we were frustrated by a system that assumed that the officials who were charged with delivery of a grading service should also be the arbiters of its standards. We therefore took matters into our own hands and set up the consultative committee I referred to earlier and, working together, that committee has been responsible for setting the standards and introducing changes ever since. That approach has served us well ever since. To recap;

- The Industry Consultative Committee agrees on the appropriate standards and changes,
- Government implements the statutory changes required, and
- The C.B.G.A. delivers the grading service.

Future Developments

As many of you will be aware, the industry in Canada is moving rapidly toward the introduction of computer-assisted grading. We call it the Computer Vision System, (CVS) whereby the quality and quantity aspects of a beef carcass can be assessed. As this technology develops and is put into operation, it will surely force a redefinition of the role of the grader. However in the largest plants where this technology will first be deployed, we are probably at or near an irreducible minimum number of graders. For obvious reasons, I am most hesitant to speculate on the long-term need for human graders. I feel sure, however, that there will continue a need for some supervisory staff for some time but to my mind a form of private grading to federal standards and subject to supervision may one day come to pass.

Of course, one of the most important contributions computer-assisted grading will make is that it will be a huge impetus toward Value-Based Marketing. Producers and cattle feeders are becoming well aware of the range of values that exist between different carcasses and lots of cattle and many expect to see renewed interest in and demand for a value-based marketing option as soon as technology is in place to permit it.

A Summary of Benefits and Problems

It is important to bear in mind that the privatization of carcass grading is only one year old and this may be too early to be too sanguine about the apparent benefits or too complacent about the absence, to date at least, of any serious problems. Let me deal with our problems first.

The biggest potential problem might have been cost, and not only cost but the disparity of cost between large and small plants. In fact the problem was exacerbated a bit when at the end of the first year we were able to significantly reduce costs in the largest plants and obliged to modestly raise costs in the smallest plants. I appreciate the fact that there has been very little outcry but in fairness I must point out, if it is not already obvious, that the smallest plants are poorly organized and have little say in the matter. I am particularly aware of and sensitive to this problem and we will need

keep the interests of the smaller packers very much in mind in the future.

A major problem might have been the credibility of the Agency and its ability to grade consistently and impartially. This is one of the legacies we have inherited from the federal service, that being a core of senior experienced graders who are as committed today as they ever were to the integrity of the service. It has been quite unnecessary to explain to them that their only value to the industry and the public is to call the grades with total allegiance to the standards. The industry, after all, sets the grade standards and the industry is quite capable of changing them if appropriate.

We have had isolated problems common to any such service. One of our responsibilities is to enforce weighing procedures and carcass trim. We have had such a system in place for over 20 years now and producers consider it necessary where cattle are sold on a rail grade basis. As many of you will know, internal fat is removed from carcasses before the weigh scale, unlike the procedure here. therefore it is necessary to monitor carcass trimming procedures. As a part of their responsibilities, our graders check their own record of the hot carcass weight against the settlement document sent to the seller whenever cattle are sold on a carcass weight basis. In very infrequent cases there are errors and in still more rare cases these errors may be deliberate. Our responsibility is to see that that does not occur and when it does,

we take appropriate action up to and including the withdrawal of the grading service.

But overall the experience of privatization has been a very positive. Producers are pleased in the realization that a private service has proven it can grade more efficiently and at lower cost. Most packers are pleased, especially the dubious ones who did not believe we would actually reduce rates in our second year of operations. I am convinced that we made the right decisions and no suggestions have been made that it was a mistake. Grading is something the industry can and should do for itself.

If I had it to do over again, the only thing I might propose we do differently would have been to phase in privatization on a plant by plant or regional basis. As the deadline approached, it occurred to me that we were placing an unnecessary burden upon ourselves and while a target date certainly focuses the mind, this is not like launching a space satellite where all systems have to be "go" at the same time. I would certainly think that in a much larger country with a much larger industry like the United States, your problems in converting the whole country on the same date might be considerable.

In any case, I hope that our experiences have been of some help to you and we are ever ready to offer whatever further information may be of further help.