

for immediate release **NEWS**

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CAB premiums hit \$250 million

Grid premium rewards for hitting the *Certified Angus Beef*[®] (CAB[®]) brand target have increased over the past two years, a January survey shows. However, the beef industry has not embraced grid marketing as rapidly as predicted, and that limits the efficacy of the pricing system.

A biannual survey of CAB licensed packers had shown a meteoric rise in annual grid premiums for the CAB component of value-based marketing, from \$7.5 million in 1999 to nearly \$37 million in 2002 before settling back toward \$23.4 million in 2005 as cash sales grew more attractive. The latest data show an increase in those CAB grid premiums to \$24.6 million in 2006 and then \$27.8 million last year (Chart). The percentage of USDA-inspected Choice and Prime carcasses (Table) did not increase during those years.

Several packers noted they also pay more on the cash market for cattle expected to achieve CAB acceptance.

Since 1978, CAB packers have paid producers \$250 million in direct grid premiums related to CAB acceptance, 95% of it in the last 8 years. In addition, they have funded the CAB program by paying \$140 million in commissions over the years, on sales of 7 billion pounds of CAB branded products.

Packers' gross totals are added together so that no single share can be seen. The 2007 total can be seen as \$535,000 per week, \$10,700 per day, \$1,338 per hour or about \$22.25 per minute of operation that CAB-licensed packers pay to producers for cattle that hit the CAB grid target. The mean CAB grid premium reported was approximately \$5 per hundredweight, though it cannot be stated precisely due to variations in volume and grid pricing requirements.

Those figures do not include the Choice premium over Select, which all CAB cattle earn. Nor do they include yield grade premiums, or those paid for CAB Prime.

Grid share stalls

Since the beef industry's War on Fat report in 1990, research has pointed to value-based marketing as a means of sending clearer pricing signals from consumer to producer. Higher quality, leaner cattle earn more premiums on the value-based grids, which quickly gained acceptance in the late

**TABLE: USDA
Reported Fed Cattle
Slaughter Grading
Percentages**

Year	All Regions % Ch & Pr
2000	55.53%
2001	55.61%
2002	57.25%
2003	54.98%
2004	56.23%
2005	55.77%
2006	54.28%
2007	55.24%

1990s. Grids were more efficient in pricing, but what of their efficacy in developing a supply of higher quality beef?

Clem Ward, Oklahoma State University economist, says a 2002 feedlot survey conducted with Land Grant universities in Kansas, Nebraska and Iowa, suggested grid pricing would reach 62% of marketings by 2006.

“That didn’t happen,” Ward says. Although research has not yet determined why, most economists figure the share has eased back to perhaps 45% of all finished cattle sold today.

Just this year, in February, South Dakota State University economist Scott Fausti presented an analysis of negotiated grid pricing volume. Work on his paper, “The Efficacy of the Grid Marketing Channel for Fed Cattle,” was hampered by limited access to data, Fausti admits.

A 1998 Fausti paper had warned that the risk of discounts would limit grid pricing of commodity cattle. “Packer buyers are highly skilled, but even they fall short of being able to guess the level of potential discounts in a pen,” Fausti says. “It’s a bigger problem for producers.”

USDA weekly data from Mandatory Price Reporting could only confirm volume for “negotiated grid transactions,” sometimes called “bid the grid.” The category ranged from 4.8% to 17.2% of all fed cattle weekly slaughter over the past three years, with an average of 9.1%. In a conclusion, Fausti says that finding “suggests the industry view of grid market share is overstated.”

A better-supported Fausti conclusion is that the grid share of weekly slaughter “exhibits greater relative variability than average pricing.” In turn, that points to “instability in the flow of information to producers, reducing the ability of the grid pricing mechanism to provide consistent information to fed cattle producers over time.”

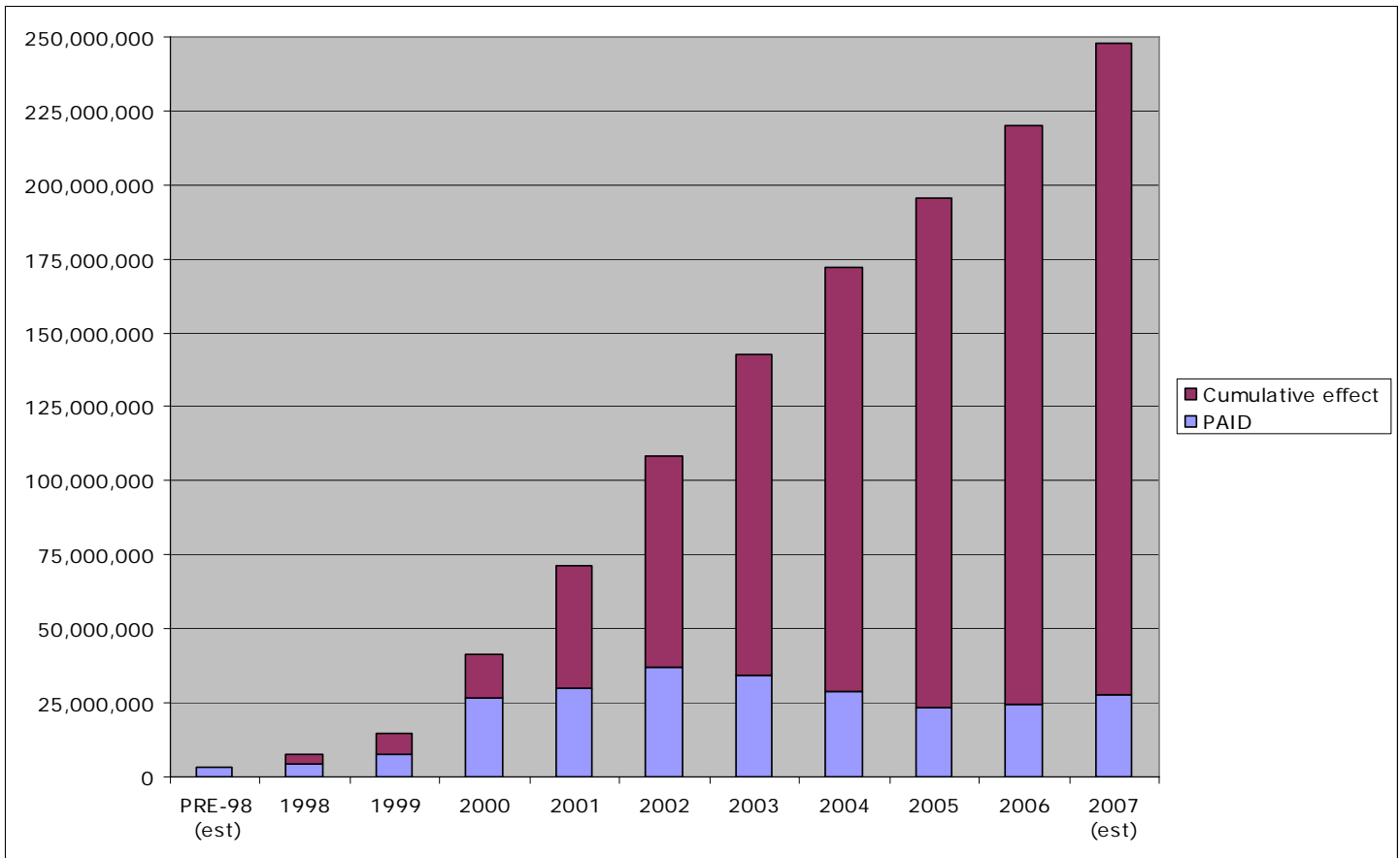
The variation in method of pricing is “more than I would have expected,” Ward says. However, he adds, “Negotiated grid pricing has declined as a share of overall grid marketing since the time when it was first reported. It was thought to be ‘the’ solution to formula trading. Maybe feeders found that not to be the case.”

A 2005 Ward paper noted having lower quality cattle to sell increases the odds they will be sold on an average, live-weight basis. Fausti’s recent study found the share of high-quality steers in the Plains area that could be sold without discounts increased from 1997 into mid-2000, and then gradually declined. Indeed, overall USDA-reported quality has shown no improvement since then.

Economists agree the apparent lack of efficacy in the U.S. grid marketing system needs further study. Record high feed prices and overcapacity in the packing sector do not bode well for a short-term increase in the grids’ power to dictate cattle type.

END

CHART: CAB Historical Packer Grid Premiums Paid



SOURCE: CAB PACKER SURVEY