

Annex 3.17

Mutual Recognition of Grading Programs For the Purpose of Marketing Beef

Further to Article 3.17(4), this Annex sets out commitments of each Party to recognize the other Party's grading programs for beef.

Background on the Chilean and U.S. Grading Programs

The Official Chilean "Norms" for grading beef (*Norma Chilena 1306-2002*) provide for five categories (*V, C, U, N, and O*) that differentiate the beef carcass population based on a combination of yield and palatability characteristics. Those characteristics include sex class, maturity as determined by dentition, and a subjective overall fat covering score. The "*V*" and "*C*" classifications are perceived as highest in "value," while the "*U*" and "*N*" classifications are considered the lowest in "value." The "*O*" classification applies only to calves. Bulls in Chile are only eligible for the "*U*" and "*N*" categories.

The Official United States *Standards for Grades of Carcass Beef* outline two distinct types of beef grades for use in the United States – quality grades and yield grades. Beef carcasses may carry a quality grade, a yield grade, both a quality and a yield grade, or may be left ungraded. USDA quality grades indicate expected palatability or eating satisfaction of the meat and USDA yield grades are estimates of the percentage of a carcass that yields boneless, closely trimmed retail cuts from the round, loin, rib and chuck.

USDA beef quality grades are *USDA Prime, USDA Choice, USDA Select, USDA Standard, USDA Commercial, USDA Utility, USDA Cutter, and USDA Canner*. Beef steers and heifers are eligible for all the quality grade designations. Cows are eligible for all but the *USDA Prime* grade. Bullocks may only be graded *USDA Prime, USDA Choice, USDA Select, USDA Standard, and USDA Utility*. Bulls may not be quality graded.

Because grading is voluntary in the United States, not all carcasses are quality graded. Beef products merchandised as ungraded in the United States usually originate from those carcasses that did not qualify for one of the highest three grades (*USDA Prime, USDA Choice, and USDA Select*). The U.S. industry generally terms ungraded beef carcasses and their resulting cuts as "No Roll" beef, because a grade stamp has not been rolled on the carcass. For the USDA quality grade standards, maturity and marbling are the major considerations in beef quality grading.

Because most beef that packers market in the United States is not in carcass form, but instead is in the form of vacuum packaged subprimal cuts, only the quality grade is routinely used as a value determining trait in the marketing of beef products in the United States and ultimately passed on to the consumer. Accordingly, Article 3.17 and this Annex do not apply to USDA yield grades.

Commitments Regarding Mutual Recognition of the Chilean and U.S. Grading Programs

The Parties confirm their shared understanding that:

1. Chile acknowledges that USDA's Agricultural Marketing Service (AMS) is a competent entity of grading quality, certifying all materials referred to in Article No. 5 of Regulation No. 19.162, with respect to meats exported to Chile from the United States.
2. The United States recognizes the competency of certification entities inscribed in the *Registro de Certificadores de Carne* division of the *Servicio Agrícola y Ganadero* of Chile (SAG) to certify Chilean meats destined toward that market.
3. AMS and SAG shall recognize each other's respective beef grading systems for the purposes of:
 - (a) the marketing of USDA graded beef in Chile;² and
 - (b) the marketing of beef classified by SAG to Chilean norms in the United States.
4. The comparative beef cut nomenclature table set out in Appendix 3.17-A shall serve as a reference for the labeling of beef traded between the two markets under the terms of Article 3.17 and this Annex.
5. The standards of grading systems employed by Chile and the United States are described in Appendix 3.17-B. The Parties may modify Appendix 3.17-B by means of exchanges of letters between the USDA, AMS and the SAG. Furthermore, by means of written communications, the USDA, AMS, and the SAG may institute and modify standards of Chilean meat cuts and North American meat cuts.
6. USDA graded beef (*e.g.*, *USDA Prime*, *USDA Choice*, and *USDA Select*) produced in the United States may be exported to Chile provided that a label indicates its Chilean equivalent and its country of origin.

7. Beef produced in Chile may be exported to the United States provided that the label or sticker indicates the applicable Chilean norm and country of origin.

8. AMS and SAG shall work cooperatively to assist the beef industries of the United States and Chile in following these procedures.