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PENALTIES AND DEDUCTIONS ON WEIGHT

PRODUCING cattle that meet factory specifications is one possible option to help improve the profitability of beef finishing enterprises by attracting available bonus payments and avoiding costly penalties. This was one of the messages from the AFBI/CAFRE/AgriSearch beef events held in Enniskillen and Greenmount this week which looked at improving technical efficiencies in beef production. The seven major NI plants currently have a series of bonuses and penalties in place to encourage more cattle to be killed within the desired specification.

However while there is clear evidence from the price reporting system that bonuses are being paid by the processors for in spec cattle the application of penalties for out of spec cattle has shown great variation. The 8p/kg bonus was introduced in November 2009 for steers and heifers that are killed 'within spec' as an effort by the processor to increase the proportion of prime cattle produced that meet the specification of their customers. There are also a series of penalties in place across the plants for animals that are killed outside current market specifications (Table 1).

In general the preferred weight range of the processors for steers and heifers is within 280-380kg, although there may be some variance in this between plants due to differences in different retailer specifications. Carcases within the 280-380kg range produce cuts which are the correct size to meet the specification of pack sizes for major retail customers. Reports suggest consumer preferences in recent years have moved towards smaller cuts and pack sizes with the increase in the number of smaller households and a reduction in consumer spending power.

Killing cattle within the preferred weight bands is an important factor in meeting current factory specifications. With this in mind we will consider the proportion of steers and heifers slaughtered that fall within each weight bracket. Figure 1 provides a breakdown of the steer and heifer kill with regards to carcase weights for the four month comparable periods July-October 2009-2012.

There was a slight reduction in the proportion of steer and heifer carcase weights under 260kg when comparing the period July-October 2009 and the same period in 2011, declining from 8.1 per cent to 6.6 per cent respectively. A similar trend can be observed for the proportion of cattle in the 260-280kg carcase weight range during the same period, down from 8.9 per cent to 7.5 per cent. Meanwhile the proportion of prime cattle killing out 280-380kg increased from 61.4 per cent in July-October 2009 to 64.2 per cent in July-October 2011, presumably as some producers responded to the availability of the bonus payments. On an annual kill of around 450,000 this is an estimated increase in the number of cattle with in spec carcase weights of around 12,600 head between 2009 and 2011 However the proportion of cattle within the preferred weight band in July-October 2012 has fallen back to the levels during the same period in 2009-2011.

The difficult weather conditions experienced during summer 2012 seem to have, in general, had a detrimental effect on carcase weights. Figure 2 plots average steer carcase weights between 2009 and 2012. Steer carcase weights for the first six months of 2012 were an average of 358.8kg, markedly higher than the same period in the previous three years as indicated in Figure 2. As the year progressed however the average steer carcase weight showed a marked decline with the average carcase weight for the month of October 2012 being 351.0kg. This compares to an average steer carcase weight of 355.8kg in October 2011.

In the period July-October 2012 7.4 per cent of steer and heifer carcases were less than 260kg compared to 6.6 per cent in July-October 2011. There are a number of potential reasons for this increase. Beef animals are likely to have been lighter at housing than in previous years due to the wet weather and poor grass growing conditions this summer and lower levels of animal performance as a result. This will have meant that beef cattle will have had more ground to gain to achieve the same carcase weights as previous years. It is also possible that animals were killed at lower carcase weights in response to the high cost of concentrates this autumn.

Interestingly however there has also been an increase in the proportion of steers and heifers being killed with carcase weights of over 420kg, up from 6.5 per cent in July-October 2011 to 8.0 per cent in July-October 2012. The proportion of the steer and heifer kill within this weight range is now above the 7.1 per cent recorded in July-October 2009, prior to the bonus payment for in spec cattle being introduced. The proportion of the steer and heifer kill with carcase weights between 380-420kg has also increased slightly, up from 15.3 per cent in July-October 2011 to 15.9 per cent in the same period in 2012.

This increase in the proportion of the kill with carcase weights over 380kg is also perhaps a consequence of the current high store cattle and feed prices with producers aiming to cover costs and maximize returns per head by increasing carcase weights. It is however important that producers consider the cost of the extra gain achieved from prolonging the finishing period and whether or not it is economically viable to do so. Another factor which should be considered is that increases in the proportion of heavier carcases may be a sign of resistance from producers towards producing the 280-380kg carcase the processors prefer. It is also possible that producers are continuing to produce heavy cattle which are outside current market specifications as they are not being severely penalised for doing so.

Table 1: Current charges and penalties in seven major plants for out of spec cattle

Category	Criteria	Quoted Deduction
Steers and Heifers	Over 30 Months	10p/kg
Young Bulls	Over 16 Months	10p/kg
Young Bulls	Over 24 Months	20p/kg
Steers, Heifers and Young Bulls	Under 260kg	£12.50/head
Steers, Heifers and Young Bulls	Under 240kg	£24/head
Steers, Heifers and Young Bulls	Over 420kg	10p/kg

All Deductions from applicable base price. Factories paying base price for cattle between 260-280kg and 380-420kg. There may be variations from these criteria at different factories.

Table 2: Expected and actual penalties for weight on R3 steers and heifers that otherwise qualify for the 8p/kg bonus July-October 2012

		Differential <260kg	Differential 260-280kg	Average price 280-380kg	Differential 380-420kg	Differential >420kg
R3 Price	Quoted Difference	-18p/kg	-8p/kg	325.2p/kg	-8p/kg	-18p/kg
	Actual Difference	-0.8p/kg	0.0p/kg	325.2p/kg	-2.6p/kg	-6.7p/kg

Table 2 outlines the current deductions that the processors have in place for animals that kill outside specification in terms of weight but fulfill all other criteria of the 8p/kg bonus. Using the R3 steer and heifer price as an example the actual deductions for the period July-October 2012 have also been tabulated. Steers and heifers with carcase weights between 260-280kg and 380-420kg do not qualify for the 8p/kg bonus payment and for this reason can be expected to attract a price around 8p/kg less than those within the desired weight range of 280-380p/kg. Animals with carcase weights less than 260p/kg and over 420p/kg attract further penalties in the region of 10p/kg as outlined in Table 1 and can therefore be expected to attract prices in the region of 18p/kg less than the average price of animals within the desired weight range.

It is obvious from Table 2 that penalties for cattle out of spec in terms of weight are not being strictly implemented across the plants as some processors can utilise these lighter and heavier carcases which are outside their current preferred specification to fulfill particular orders. It is however important to note that the slaughter plants are not the only outlet for beef available to producers. Markets for these carcases may include local processing (primary and secondary), the butchery trade, auction marts and also live exports to GB but regardless of the outlet upper and lower weight limits may apply. It is therefore important that producers approach their beef outlet in advance of producing these out of spec cattle as penalties can be severe. With this in mind another of the messages from the AFBI/CAFRE/AgriSearch meetings this week was to challenge current retailer and processor specifications.

At present there is significant variation in how penalties on weight are being applied in the NI plants. For example the average penalty for an R3 steer or heifer with a carcase weight <260kg was 0.8p/kg as outlined in Table 2. If the quoted penalties were applied it could be as much as 18p/kg. A similar trend can be observed if we consider R3 steers and heifers with carcase weights over 420kg. The average penalty implemented across the plants was 6.7p/kg but if all penalties were strictly adhered to it should also be 18p/kg. It should be noted however that the level of throughput of prime cattle has a key role to play in how strictly penalties are applied. We understand that some plants have indicated that they would like to tighten up on applying out of spec penalties. It is however important that processors give producers plenty of notice if they plan to tighten up on their buying policies to allow production systems to be changed at farm level.

This variance in the level of penalties being implemented across the plants is creating a mixed message to the NI beef industry. On one hand the processors are encouraging producers to finish cattle within a preferred specification by promoting the 8p/kg bonus for doing so but on the other hand they are failing to implement market specifications by not penalising animals presented for slaughter outside specification. As a result 38.5 per cent of steers and heifers killed in NI between July-October 2012 which fulfilled all the other criteria of the bonus but were outside the preferred weight specification of 280-380p/kg compared to 35.9 per cent in the same period last year.

Figure 1: Weight categories of steer and heifer carcases July-October 2009-2012

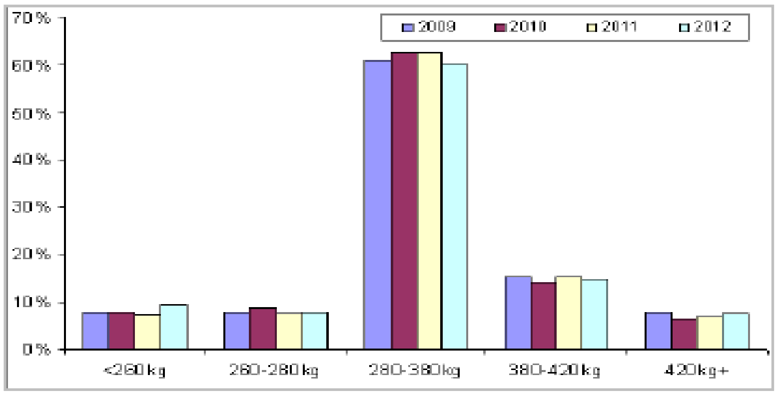
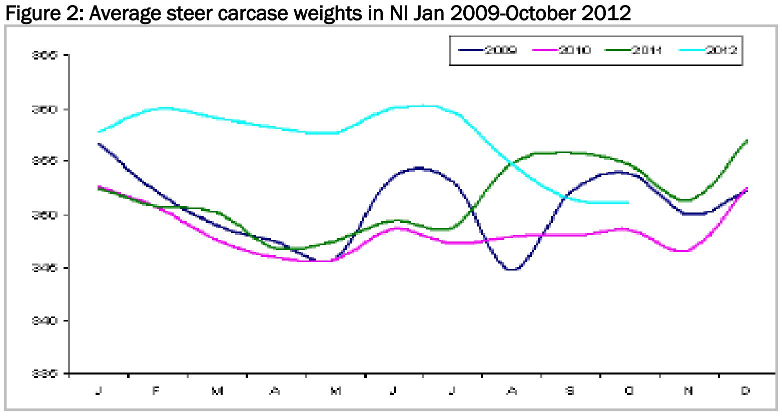


Figure 2: Average steer carcase weights in NI Jan 2009-October 2012



WEEKLY BEEF & LAMB MARKETS

LMC

CATTLE TRADE

NI FACTORY QUOTES FOR CATTLE (P/KG DW)	This Week 29/10/12	Next Week 05/11/12
Prime		
U-3	312-314p	312-316p
R-3	306-308p	306-310p
O+3	300-302p	300-304p
* Plus 8p/kg in spec bonus where applicable		
Cows		
O+3 & better	260-275p	260-275p
Steakers	180-245p	180-245p
Blues	160-180p	160-180p

REPORTED NI CATTLE PRICES - P/KG

W/E 27/10/12	Steers	Heifers	Young Bulls
U-3=	321.8	325.9	314.0
U=3=	323.9	326.6	317.9
U=4=	320.7	329.8	308.0
R=3=	319.3	319.9	312.0
R=4=	318.5	320.7	298.5
O=3=	301.2	303.4	295.5
O+3=	314.6	311.4	302.8
Average	311.0	309.1	304.0

REPORTED COW PRICES NI W/E 27/10/12

Grades	Price (p/kg)	Avg Wgt
O+3=	276.0	318.8
O-3+	254.9	308.7
P+2+	241.5	286.9
P+3+	250.7	297.1
P-1-	168.2	219.7

COMMODITIES

COMMODITY PRICE

W/E 02/11/12	Price (£) per tonne / 1000litre	% weekly changef
Barley	203.50	+1.50%
Wheat	217.50	+0.93
Soya	484.00	+1.47
Straw	16.00	-
Red Diesel	720-750	-

Deadweight Cattle Trade

BASE quotes from the plants this week for U-3 grade prime cattle have increased and are now 312-314p/kg for steers and 314-316p/kg for heifers. There have however been reports this week of producers receiving higher prices than base quotes from the plants would suggest. Producers should negotiate with the plants to ensure they get the best deal. Quotes for cull cows have remained in the range of 260-275p/kg with the plants reporting strong supplies for the next few weeks. The cow kill has been increasing gradually week on week since the start of October to last week's record total of 2,918 head.

The prime cattle kill in NI last week totalled 6,785, a reduction of 500 head on the previous week. This decline in the prime kill would support reports from the plants of a tightening in supplies. Exports of cattle to GB for direct slaughter last week totalled 430 head. In the last eight weeks 2,744 head have been exported to GB for direct slaughter, an 80 per cent increase on the 1,519 head exported during the same period last year. Meanwhile imports of prime cattle from ROI for direct slaughter last week totalled 862 head with 788 of these being steers. The average steer price in NI last week was 311p/kg, a 2p/kg increase on the previous week. Meanwhile the average heifer price was 309.1p/kg, a 2.4p/kg reduction on the previous week.

The R3 steer price in NI last week increased by 2p/kg to 321.4p/kg while the R3 heifer price was back 1p/kg to 320.2p/kg. Meanwhile in GB the average R3 steer price came back by 2p/kg to 353.4p/kg while the R3 heifer price increased by 1.5p/kg to 352.6p/kg. Average steer prices were back in the region of 1-3p/kg across all the regions of GB. Average heifer prices were within 1p/kg of the previous week in most GB regions but were back 6.8p/kg to 327.9p/kg in Southern England.

Prices for prime cattle in ROI came under pressure last week with the majority of reported prices back in the region of 1-2p/kg. The R3 steer and heifer prices in ROI last week were 298.5p/kg and 310.5p/kg respectively.

This weeks marts

TRADE across the marts this week was fairly similar to last week with first quality finished steers selling to an average of 186p/kg while plainer types sold to an average of 170p/kg. The trade for finished heifers was slightly improved on last week with good quality heifers selling to an average of 190p/kg (+14p/kg) and second quality heifers selling to 170pkg (+10p/kg). The cull cow trade was similar to last week with well fleshed beef cows selling to an average of 156p/kg while well fleshed dairy origin cows sold to an average of 109p/kg.

The trade for store bullocks was reasonably similar to last week with the exception being first quality bullocks in the 400-500kg category which sold to an average of 210p/kg, up 12p/kg on last weeks 198p/kg. Meanwhile the store heifer trade showed an improvement with first quality heifer prices up in the region of 5p/kg. Second quality heifers up to 450kg sold to an average of 170p/kg, up 14p/kg on last week.

LAST WEEK'S DEADWEIGHT CATTLE PRICES (UK / ROI)

W/E 27/10/2012		Northern Ireland	Rep of Ireland	Scotland	Northern England	Midlands & Wales	Southern England	GB
Steers	U3	325.4	308.7	365.8	358.3	357.6	355.5	359.8
	R3	321.4	298.5	361.4	358.4	345.1	345.5	353.4
	R4	319.3	297.9	365.1	358.5	348.4	345.6	356.6
	O3	306.5	283.7	350.8	344.6	332.6	326.7	340.8
	AVG	311.0	-	360.9	350.9	343.3	335.2	349.2
Heifers	U3	327.2	322.2	368.1	359.8	356.2	354.4	360.3
	R3	320.2	310.5	361.0	349.9	349.9	345.9	352.6
	R4	318.2	309.3	362.6	352.0	346.9	340.7	352.1
	O3	306.4	293.8	347.0	340.4	332.2	316.9	336.5
	AVG	309.1	-	360.7	346.9	343.9	327.9	346.8
Young Bulls	U3	314.8	308.6	355.3	340.8	349.9	346.7	346.2
	R3	311.6	300.3	349.7	335.4	336.0	339.1	337.7
	O3	297.2	287.4	328.8	318.9	316.5	324.8	320.9
	AVG	304.0	-	339.2	328	329.2	322.4	328.5
Prime Cattle Price Reported		4772	-	6966	6277	5895	4089	23227
Cows	O3	264.2	250.9	265.4	257.4	253.4	248.7	256.3
	O4	266.1	253.4	269.7	260.4	258.9	250.7	259.9
	P2	224.3	223.8	209.4	213.0	213.2	204.5	208.6
	P3	246.9	243.9	232.4	231.6	227.4	227.6	229.9
	AVG	227.8	-	256.8	231.2	234.3	210.3	231.4

Notes: (i) Prices are p/kg Sterling-ROI prices converted at 1 euro=80.85p Stg
(ii) Shading indicates a lower price than the previous week.
(iii) AVG is the average of all grades in the category, not just those listed

LATEST LIVEWEIGHT CATTLE MART PRICES NI

	1st QUALITY			2nd QUALITY		
W/E 27/10/12	From	To	Average	From	To	Average
Finished Cattle (p/kg)						
Steers	180	197	186	160	179	170
Friesians	130	166	142	105	126	116
Heifers	182	209	190	158	181	170
Beef Cows	145	170	156	115	144	129
Dairy Cows	100	133	109	75	99	86
Store Cattle (p/kg)						
Bullocks up to 400kg	190	225	203	170	189	180
Bullocks 400kg - 500kg	204	225	210	170	203	185
Bullocks over 500kg	181	201	187	160	180	170
Heifers up to 450kg	180	196	183	160	179	170
Heifers over 450kg	170	190	180	150	169	160
Dropped Calves (£/head)						
Continental Bulls	230	300	250	150	228	180
Continental Heifers	205	280	220	100	200	150
Friesian Bulls	80	150	100	10	78	45
Holstein Bulls	50	120	75	1	48	20

SHEEP TRADE

LAMB QUOTES		
(P/Kg DW)	This Week 29/10/12	Next Week 05/11/12
NI Factories to 21kg	340p	-
NI Factories to 22kg	335p	330p
ROI Factories	335p	335p

Notes: (i) Lambs up to 21kg
(ii) ROI prices converted at 1 euro=80.85p Stg

REPORTED LAMB PRICES - P/KG			
(P/KG DW)	W/E 13/10/12	W/E 20/10/12	W/E 27/10/12
NI Liveweight	293.4p	296.9p	295.9p
NI Deadweight	320.9p	335.3p	333.8p
ROI Deadweight	337.6p	340.8p	339.2p
GB Deadweight	364.8p	364.9p	364.6p

Deadweight Sheep Trade

QUOTES for R3 grading lambs early this week were 335p/kg to 22kg and 340p/kg to 21kg. Later in the week quotes came under pressure with the plants reporting a sticky trade for lamb in the GB and French markets which take a large proportion of NI lamb. As a result quotes on Friday were 330p/kg to 22kg with similar quotes expected for Monday.

Lamb slaughterings in NI last week totalled 10,872, back 529 head on the previous week. Meanwhile exports to ROI for direct slaughter increased by 1,150 head to 13,975 head, the second highest figure since November 2010. The deadweight lamb price in NI last week was back 1.5p/kg to 333.8p/kg while deadweight prices in ROI and GB were relatively unchanged on the previous week's prices.

This week's marts

THE trade across the marts this week was slightly quieter than last week with good numbers passing through many of the sale rings. In Massereene on Monday 1426 lambs sold from 285-310p/kg compared to 1218 lambs last week selling from 290-314p/kg. In Saintfield on Tuesday 711 lambs sold to an average of 294p/kg compared to 1101 lambs last week selling to an average of 304p/kg. A similar trade in Rathfriland on Tuesday saw lambs sell to an average of 293p/kg, back 10p/kg on the 303p/kg average last week. The trade for cull ewes remains fairly strong with top prices generally in the region of £70-80 across the marts.

LATEST SHEEP MARTS						
From: 27/09/2012 To: 01/11/2012		Lambs (P/KG LW)				
		No.	From	To	Average
Saturday	Omagh	1152	275	313	-
	Donemana	648	278	312	297
	Hilltown	900	299	322	300
Monday	Kilrea	700	288	298	294
	Massereene	1426	285	310	-
Tuesday	Saintfield	711	292	305	294
	Rathfriland	953	287	320	293
	Armoy	462	285	302	297
Wednesday	Ballymena	1513	270	324	284
	Enniskillen	551	292	320	-
	Markethill	850	288	310	294

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