LMC Quarterly
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INCREASED PENALTIES PLANNED FOR OVER 16 MONTH BULLS

IN recent weeks, some beef processors have indicated that bulls aged over 16 months are likley to attract increased penalties in the new year and there are indications that these penalties may be as high as 50p/kg. With this in mind, producers currently planning on finishing over-age bulls in the new year should speak with factory procurement staff as soon as possible and consider their options.

These proposed penalties will have consequences for those farmers who give bulls a grazing or store period, or who have higher target slaughter weights and therefore retain their bulls beyond 16 months. This issue of LMC Quarterly explores some of the developments in the trade that may have prompted processors to consider the introduction of such penalties, current penalties on overage stock and the impact of these penalties.

Rising number of young bulls

In the last quarter there has been a significnt increase in the proportion of young bulls in the prime cattle slaughter mix. With young bulls not regarded as in-spec for many retail or food service contracts and given the wider range of available markets for steer beef, the increased proportion of young bulls in the slaughter mix, compared to steers, will be an issue for some factories.

This issue is exacerbated by the fact that more than half of young bulls have been slaughtered at over 16 months of age over the last year (see Figure 1). The 16 month threshold is long standing and is referenced by both retailers and processors. It reflects the greater potential of older bull beef to be at risk of being dark cutting, firm and dry.

A number of motivating factors encourage producers to finish bulls instead of steers. The feed conversion efficiency of bulls compared to steers is one important factor, along with the potential to finish bulls cattle at a younger age and potentially at a better grade. However given the narrower range of markets available for bulls producers are generally advised that when considering bull production, they should ensure that they have arranged a market for these cattle in advance. This is particularly relevant for producers planning to slaughter bulls at over 16 months of age.

Emphasis on specification

Since the horsemeat incident in early 2013 there has been an increased emphasis in the beef industry on adherence to specification. Penalties on non-FQAS stock increased sharply early in the year while in September some factories increased bonuses payable on in-spec cattle.

Young bulls are not generally regarded as being in-spec with over-age bulls in particular becoming increasingly regarded as unacceptable to processors. These developments concerning over-age young bulls reflect this general trend where factories are focusing heavily on specification.

Figure 1. Young Bulls at Slaughter by Age Bracket
January 2012 - October 2013

INCREASED PENALTIES PLANNED

Current penalties on over 16mth bulls

Over recent years there has been a quoted penalty on over 16 month bulls of 10p/kg (sometimes 20p/kg). At certain times, these penalties have been applied more rigorously than others. Recently the penalties on over-age bulls have been applied on a fairly consistent basis (see Figure 2). Since the start of the year, price reports show that over-age bulls have been attracting deductions of up to 15-20p/kg. This is in contrast to previous years when there was a negligible difference between the price of bulls aged younger and older than 16 months (see Figure 2).

In general bulls finished under 16 months are intensively fed on concentrates with less emphasis on grazing. The slaughter of bulls at older ages is often associated with perceived lower input costs (through a grazing period) or higher target carcase weights. The decision to finish bulls at older ages is often driven by the price of concentrates, the availability of grazing and depends on how penalties on over-age stock are being applied at the plants. The weather problems of 2012-13 may also have delayed the finishing of some bulls and this would have been compounded by isses around the quality of feed (cereals in particular) and cashflow to pay for feed.

Sufficient fat cover by 16 mths

Some producers will have concerns that it is difficult to finish bulls under 16 months with an adequate grade for fat. However, there is no question that, using the appropriate finishing system, it is possible to slaughter bulls with satisfactory fat cover at 15 months. Tables 1 and 2, which show the grades of dairy sired and continental sired (with a continental dam) bulls illustrate this quite clearly.

This information shows that in the case of dairy sired bulls, there is a slightly higher proportion of under 16 month old dairy bulls killing out at fat class one compared to older bulls. However, an equal proportion of under 16 month and overage bulls (59%) killed out at fat class 2 in 2013 to date. More than a quarter of under 16 month bulls killed out at fat class three. Again this was similar to the figures for over-age dairy-sired bulls.

Although, a larger proportion of under 16 month continental bulls were fat class two (compared to over 16mth continental bulls) it is evident that 37 per cent of continental bulls killed under 16 months were fat class three, illustrating that a relatively large proportion of continental bulls slaughtered at under 16 months are achieving the target fat score.

Table 2 shows that when it comes to conformation, there is not a significant difference in the performance of bulls by age bracket. Almost 60 per cent of under 16 month dairy bulls were awarded an O grade this year to date. This was only slightly lower than the equivalent figure for over-age bulls. Almost 40 per cent of over-age bulls were P grades. Again this was similar to the figures for under 16 month stock. With regard to continental bulls, a slightly higher proportion of under 16 month bulls killed out at U grades, with a similar proportion awarded an R grade.

These figures clearly show that it is possible to acheive a target grade under 16 months. However, producers who generally kill bulls at older ages will be concerned about the margins associated with a more intensive approach to finishing that may be required to bring bulls to an optimum state of finish by 16 months.

With this in mind, LMC would encourage bull producers to speak to their CAFRE advisor or a specialist animal nutritionist about the optimum approach for slaughtering bulls under 16 months and maximising margins through the adoption of more efficient production practices.

Benefit of heavier carcases offset by lower price per kilo

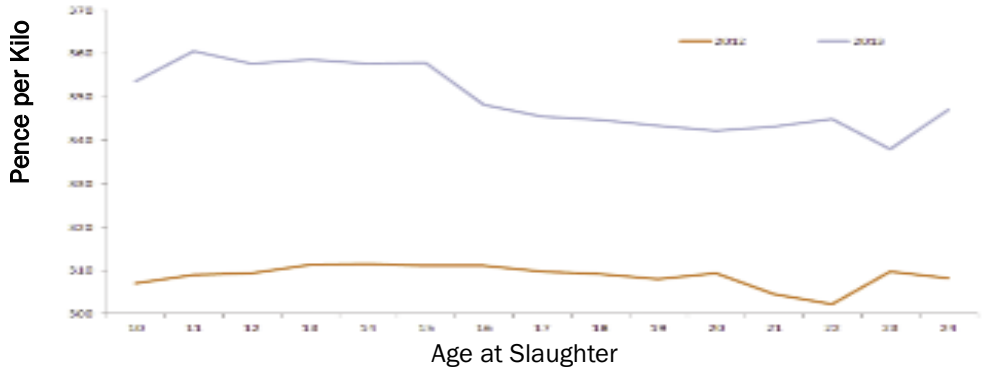
Bull producers are generally motivated by the growth rates / feed conversion associated with bulls and some producers are inclined to retain their cattle beyond 16 months with higher target carcase weights to maximise the revenue from the carcase.

To a lesser or greater extent penalties at 16 months will offset any increase in carcase value gained from feeding cattle beyond 16 months. This is illustrated in Figure 3 using the prices and slaughter weights of young bulls killed during September and October this year. Figure 3 shows that even at the current penalties of 15p/kg producers need to put on an additional 13-15kgs to put the carcase into the same value as it would have been worth had it been killed at 15 months. This is a strong incentive to slaughter bulls under 16 months, before any consideration is given to the potential for declining feed conversion as bulls get older. With the over-age penalty likely to be doubled or trebled by some plants, it is difficult to see any reason why producers would produce overage bulls, unless they had secured an attractive market for them elsewhere.

Exploring Options

Producers of over 16 month bulls will need to weigh up the impact of these penalties. There is firstly the short-term question about what to do with bulls that are currently in the house with a planned kill date in the new year. Then there is the longer term question about alternatives to producing older bulls.

Figure 2. Price per Kilo of Young Bulls by Age at Slaughter
January - October - 2012 & 2013 - Excludes Veal



FOR OVER-AGE YOUNG BULLS

In the long run, some producers may opt to reduce their age of slaughter while others may opt to produce steers. Others again may consider continuing with their current approach and explore different markets. One option that some producers may be likely to consider is alternative markets, either at home, ROI or GB.

In the domestic market, it is possible that an opportunistic trade may emerge for over-age bulls in the new year among some abattoirs and secondary processors. However, this remains to be seen and with the proposed penalties in place elsewhere, and a limited market for over-age bulls generally, any such trade is likely to reflect the lower prices available elsewhere for this type of over-age stock. Some producers may be interested in exploring export options on bulls. The latest figures from GB, show that R3 young bull prices in GB were on average 23p/kg higher than in NI. Prices in Scotland were 50p/kg higher than NI.

However, transporting young bulls over longer distances by boat is not necessarily viable for farmers, hauliers or processors given the likelihood of bulls coming under stress. This potentially makes them harder to handle, lose weight and condition and could affect the meat quality. Exports from NI to GB for direct slaughter are more likely to be focused on high-quality in-spec steers and heifers for the multiple retail market in GB.

Export to the ROI market is another option. However, it is worth noting that in early November the ROI R3 young bull price was 23p/kg behind NI levels and the O3 young bull price was 29p/kg lower than NI levels. Furthermore, NI bulls will not attract the ROI quality assurance bonus. It remains to be seen what the relative price of bulls is in ROI in the new year, but it is likely that the market in the south for NI bulls will be limited.

In the long run, producers will benefit from carefully considering their options and weighing up which approach returns the best margins, bearing in mind the proposed price adjustments. It is clear that there is a limited market for over-age bulls and it is important that producers keep their marketing options open. In this regard producers would be advised to slaughter bulls under 16 months. Indeed, producers may consider increasing their marketing options by producing steers where R3 prices were 27p/kg higher than young bulls in mid-November.

However, farmers currently producing bulls will obviously need to weigh this up against the efficiency benefits of bull production. To help with such considerations LMC recommeds that producers discuss the details with CAFRE advisors who are available to provide information and advise about the technical merits of different finishing systems.

To contact CAFRE's advisors, telephone: 028 9442 6771.

Table 1. Fat class and cold weight of young bulls by age bracket
January - October 2013

Age Band	Fat Class - Dairy Bulls					Avg Cold Weight (kg)
	1	2	3	4	5	
Under 16 months	15%	59%	26%	1%	0%	258
Over 16 Months	13%	59%	27%	1%	0%	283

Age Band	Fat Class - Continental Bulls					Avg Cold Weight (kg)
	1	2	3	4	5	
Under 16 months	6%	55%	37%	2%	0%	354
Over 16 Months	8%	48%	41%	3%	0%	392

Table 2. Conformation and cold weight of young bulls by age bracket
January - October 2013

Age Band	Conformation - Dairy Bulls					Avg Cold Weight
	E	U	R	O	P	
Under 16 months	0%	0%	1%	59%	41%	258
Over 16 Months	0%	0%	1%	61%	38%	283

Age Band	Conformation - Continental Bulls					Avg Cold Weight
	E	U	R	O	P	
Under 16 months	4%	48%	44%	5%	0%	354
Over 16 Months	5%	45%	43%	7%	0%	392

Dairy Bulls - Sire Breeds = Hol, Fr / Dam Breeds = Hol, Fr - Excludes veal
Continental Bulls - Sire Breeds = Charolais, Blonde, Belgian Blue, Limousin, Sim / Dam Breeds = Charolais, Blonde, Belgian Blue, Limousin, Sim

Figure 3: Average prices and slaughter weights for young bulls killed at 15 months and over 16 months
August - October 2013

Dairy Bulls (ex veal)	Age at Slaughter	
	15 Months	Over 16 Months
Average Price	330p/kg	315p/kg
Average Slaughter Weight	272kg dw	280kg dw
Average Price Per Head	£898	£882

Continental Bulls	Age at Slaughter	
	15 Months	Over 16 Months
Average Price	358p/kg	343p/kg
Average Slaughter Weight	357kg dw	384kg dw
Average Price Per Head	£1,278	£1,317

Figure 3 shows the price per kilo, average slaughter weight and average price per head of young bulls slaughtered at 15 months and young bulls slaughtered at over 16 months. The table indicates that any benefits of heavier weights in over-age bulls resulting in a higher price per head, is offset by the application of penalties on bulls aged over 16 months.

For example, the average price of a 15 month old dairy bull is 330p/kg with the average price of over-age dairy bulls at 315p/kg. To achieve the same price per head at slaughter as the average 15 month bull, an over-age dairy bull would need to achieve a cold weight of 285kgs. This means incurring the cost of adding an extra 13kgs without any additional benefit in the overall price of the bull. The average price of an over-age continental bull is 343p/kg, compared to 358p/kg for a 15 month old bull. The average price per head of an older continental bull is £39 more than a 15 month old bull and this is possible because on average, over 16 month old bulls are 27kg heavier (deadweight). However, by feeding the bull past 16 months, the finisher must add 15kg to the carcase weight in order to achieve the same price per head as the average 15 month old bull. Furthermore, It is highly unlikley that the additional £39 would cover the feed and labour required to add the 27kg deadweight.

In both cases, the producer of the older bull incurs the cost of adding 13-15kgs with no additional income. These factors must be considered in the context of the overall cost of rearing the bull and producers need to work out for themselves the extent to which any perceived benefits of lower input costs associated with a more extensive rearing system are offset by these penalties.

SHEEP MARKET UPDATE AUTUMN 2013

THE combined influences of a prolonged winter, fodder shortages and poor levels of grass growth right up until May this year provided NI sheep farmers with a very difficult start to 2013. While the warm summer and good grass growth right into early October may have gone some way to help alleviate these problems, reports from industry have indicated that the effects are still being felt in lamb performance.

Some producers and processors have reported lower than expected kill out percentages for lambs and have attributed this in some part back to production difficulties this spring. While the average carcase weight during the month of October 2013 was fairly similar to the previous October at 21.5kg some producers and processors have indicated that lambs have had to be slaughtered at heavier liveweights than previous years to achieve this.

While the lamb's poor start may go some way to explain this trend other factors must also be considered. The good summer's grass growth followed by a prolonged mild autumn encouraged some sheep producers to reduce or cut out meal feeding at grass with the belief that lambs would perform well at grass without supplementation. This may also have been done in an attempt to reduce costs of production and to try and offset some of the high meal bills carried forward from the difficult spring and winter.

However while average carcase weights have been maintained between October 2012 and 2013, despite the reduction in meal feeding levels, there have been reports of lambs being slaughtered leaner than would usually be expected.

Analysis of the sheep price reporting has indicated this to be the case. The most notable change has been the reduction in the proportion of fat class fours in the price reported lamb kill, declining from 14.5 per cent of the kill in October 2012 to 9.5 per cent in October 2013.

Meanwhile the proportion of lambs awarded a three for fat cover has increased from 72.6 per cent to 77.7 per cent between the two periods. Changes in the proportion of lambs falling within each fat class between October 2012 and October 2013 are outlined in Figure 1.

While there has been some movement towards leaner lambs being slaughtered industry sources have indicated that the quality of lambs being presented for slaughter has generally been very good in terms of conformation. Table 2 outlines the proportion of price reported lambs falling within each conformation score during October 2012 and October 2013.

Lambs awarded a U grade made up 39.2 per cent of the NI price reported lamb kill in October 2013. This is 3.4 percentage points lower than October 2012 when 42.6 per cent of price reported lambs achieved a U grade. However the proportion of lambs achieving an R grade increased from 53.1 per cent of the lamb kill in October 2012 to 57.9 per cent in October 2013. If U and R grading lambs are combined they account for 97.1 per cent of the lamb kill in 2013, an increase of 1.4 percentage points on October 2012.

The NI plants have reported continuing good supplies of lambs with 57,422 head slaughtered during October 2013, 7.5 per cent higher than October 2012. Throughput in the NI plants for the year to date is currently running 3.6 per cent ahead of the same period in 2012.

Exports to ROI for direct slaughter have also remained strong throughout October 2013 with 56,346 lambs making their final journey to ROI plants. This is 11.4 per cent lower than October 2012 and has been driven by an increase in domestic supply in ROI and strong demand from NI factories for local lambs. There has however been some indication in recent weeks of tightening lamb supplies on both sides of the border which could lead to increased competition for available lambs.

The average deadweight lamb price in NI during October 2013 was 358.7p/kg, an increase of 29.3p/kg on the prices paid in October 2013. On a 21.5kg lamb this equates to an extra £6.30 per head year on year. Meanwhile prices in GB increased by 28.9p/kg from 363.5p/kg in October 2012 to 392.4p/kg in October 2013. In October 2012 deadweight lamb prices in ROI were 9p/kg ahead of NI prices and in October 2013 this has turned around with NI prices 5p/kg ahead of ROI prices.

The DARD Agricultural Census indicated a one per cent drop in ewe numbers on farm in June 2013 when compared to June 2012 and a three per cent drop in lamb numbers year-on-year due to the difficult spring.

However ewe numbers were still three per cent higher than the number recorded in June 2011 but reports would indicate quite a high culling rate at farm level this summer/autumn. This said the improvement in farm gate prices outlined above may help to offset the higher costs of production incurred by sheep farmers during 2012/13 and encourage growth in sheep sector output. Lamb production however is very difficult to predict and it will be next year before we can truly analyse the effect the difficult production conditions experienced in 2012/2013 have had on the NI sheep industry.

Figure 1: Proportional change in fat cover allocation of lamb kill between October 2012 and October 2013

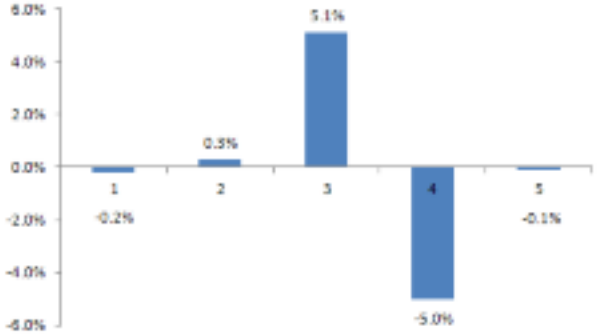


Table 1: Proportion of lambs falling within each conformation score during October 2012/2013.

	2012	2013	Change
E	2.6%	1.7%	-1.0%
U	42.6%	39.2%	-3.3%
R	53.0%	57.9%	+4.8%
O	1.7%	1.2%	-0.5%
P	0.0%	0.0%	-