LMC Quarterly
Friday 16 December 2011 Pilot Issue

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RENEWED FOCUS FOR LMC

A MESSAGE FROM THE NEW LMC CHIEF EXECUTIVE

WELCOME to LMC Quarterly, a new publication from the Livestock and Meat Commission for Northern Ireland. This new periodical has been developed in response to research findings that producers would welcome a posted publication to complement the existing weekly Bulletin by providing updates on technical, economic and legislative issues impacting the industry. As the new LMC Chief Executive I see the launch of this quarterly publication as an excellent opportunity for LMC to communicate directly with levy-payers and in this pilot issue, I would like to start by explaining the work areas that I will be prioritising over the coming year.

The review of LMC has been completed and our organisation has been through a tough transition and restructuring phase.

Mr Ian Stevenson, LMC Chief Executive.

LMC now comprises a small team of talented staff who are committed to working in partnership with others in the industry to achieve the vision of a profitable and sustainable red meat supply chain. Over the coming year I intend to work closely with my staff to further develop that team and ensure that our people are best placed to serve your needs. In the LMC review, levy-payers and other stakeholders had many positive things to say about LMC and our contribution to the beef and lamb sector. While restructuring was necessary, LMC has retained those services most valued by the industry. These include:

- Farm Quality Assurance
- Market Information
- Industry Development
- Education
- Consumer Promotion

Throughout 2012, I will be focussing my attention on ensuring that our involvement in these core activities continues to deliver positive outcomes for beef and lamb producers and processors. In the coming months we will be further developing our strategic and business planning and throughout this process we will be engaging with industry. In the meantime our staff remain on hand to provide industry with whatever assistance is required in those core work areas identified in the review.

LMC BULLETIN MOVING TO FARMING LIFE IN JANUARY

LMC is now in a position to announce a new initiative whereby the LMC Bulletin will be published in the Farming Life newspaper each Saturday for the next three years.

This decision follows independent market research commissioned by LMC. The purpose of the research was to identify the best distribution methods for the Bulletin and to establish the readership's views on content and layout. The research was carried out by Perceptive Insight a local market research company. Their findings were very clear and indicated a definite direction for the Bulletin.

The research revealed very high satisfaction ratings with the content and layout of the Bulletin. However, the survey results gave rise to concerns about the current reach of the Bulletin. The research clearly showed that Farming Life is the most popular newspaper among those farmers surveyed with 83 per cent reading it most weeks. Based on these findings, LMC has come to this arrangement with Farming Life which we expect to be of significant benefit to levy-payers. To maximise distribution of our information, LMC will also make a short report available to the mid-week farming press each Wednesday.

LMC will take on board other suggestions raised in the market research. Where possible these suggestions will be incorporated into the weekly Bulletin which will be launched in Farming Life in the first week of January 2012.

ANALYSIS OF VIA AND THE

VIDEO Imaging Analysis for the grading of beef carcases was introduced into seven NI factories on 28 March 2011 having replaced the LMC classifiers who had previously provided a manual service to the industry for twenty years. The introduction of VIA was a step into the unknown for many producers who were wary of the technology. Computers only do what they are programmed to do and the VIA machine is no exception. It was calibrated by a panel of five EC expert graders in the spring of 2010 and operates to the standard set by those EC graders. As was generally expected, there has been a change in the distribution of grades following the switchover from manual to mechanical grading. Such a change is daunting and some producers are concerned that the change has impacted their revenue. In this pilot edition of LMC Quarterly we are are undertaking an analysis of the changes in the proportion of cattle killing out at each grade and considering the impact on price.

PRIME CATTLE CLASSIFICATION STATISTICS

Tables 1 and 2 below allow readers to compare classification results for the seven months after the introduction of VIA, with the same period last year (before VIA). The statistics clearly illustrate the tighter grading standard.

Table 1 shows that in the period from 28 March to 13 November 2011, U grades accounted for 13.8 per cent of the prime cattle kill. In the same period in 2010, 23.3 per cent of prime cattle were U grades. Meanwhile, 11.6 per cent of prime cattle were P grades in the last seven months. This compared with 3.2 per cent in the same period last year. On fat class (Table 2), the proportion of animals killing at fat class three was 47.5 per cent in the period between 28 March and 13 November 2011. This compares with 60.4 per cent in the same period in 2010. Since the introduction of VIA there has been an increased proportion of prime cattle grading at fat classes 1,2,4 & 5.

More detailed analysis shows that before VIA, 36 per cent of specialist beef breeds, produced from the suckler herd killed out at U grades. This year the proportion of U grades has fallen to 23 per cent and the proportion of R and O grades has increased. Before VIA, 41 per cent of beef-sired cattle bred out of the dairy herd killed out at R grades. Following the introduction of VIA this figure has fallen to 26 per cent, with the proportion of O grades rising from 55 per cent to 70 per cent. Whereas previously, O was the dominant grade for dairy-sired cattle, P is the dominant grade post VIA.

Readers should be aware that comparing grades before and after 28 March 2011 is not a straightforward analysis of VIA grading against manual grading. Since VIA has been introduced, a proportion of the price reported kill continues to be graded manually. Therefore the figures for 2011 in Tables 1 and 2 represent a mix of mechanical and manual grading.

The tighter grading standard which has been programmed into the VIA machines is assumed to be the major factor in the changes this year. However, other factors such as developments in the slaughter mix may have contributed to changes in grading statistics in the last year. Factors such as weight, age at slaughter and the rising cost of feed may also have influenced these figures, before any impact of a change in the grading standard is accounted for.

It is also crucial to point out that we are not comparing like-with-like, given the fact that manual graders operated to a five point scale while the machines operate to a 15-point scale. While the machine has the option of applying +,= and - sub-classes, the manual grader did not have the same flexibility.

Notwithstanding any of the drawbacks in making these comparisons, it is clear from the figures that grading is somewhat tighter. This was something that was generally expected within the industry. With more grades possible, a wider distribution is inevitable under a 15-point scale and by its very nature, a machine is more objective in how it applies grades. These differences should not detract from the service provided to the industry by LMC's manual graders with the benchmark for their licence and performance set by the EC and monitored by DARD (the competent authority on grading).

The expected changes in the application of the grading standard and the introduction of the 15-point scale was what prompted the industry to develop a new pricing grid (see backpage). This pricing grid was designed to compensate for an expected tightening of classification under VIA and to provide a greater reward for suckler-origin cattle. The crucial point is that the pricing grid was designed to be price neutral, so that the entire NI beef producing community should be no better or worse off as a result of the introduction of VIA. The article on page 3 provides some observations which ought to provide producers with some reassurances in this regard.

An important point to remember for those unhappy with the grades they have been awarded, is that the incremental impact of stepping down the grading scale (e.g. from U to R) is now lessened by virtue of the fact that the steps are no longer as steep from one grade to another under the 15-point scale as they were under the 5-point scale.

Table 1. Comparison of Conformation of Price Reported Prime Cattle, April - November 2010-11

Year	E	U	R	O	P	No. Cattle
2010	1.1%	23.3%	39.2%	33.1%	3.2%	186,129
2011	0.2%	13.8%	40.3%	34.2%	11.6%	157,281

Table 2. Comparison of Fat Class of Price Reported Prime Cattle, April - November 2010-11

Year	1	2	3	4	5	No. Cattle
2010	1.0%	14.0%	60.4%	23.9%	0.6%	186,129
2011	4.0%	20.0%	47.5%	27.3%	1.2%	157,281

TIGHTER GRADING STANDARD

MARKET COMPENSATES FOR TIGHTER STANDARD

THE tighter grading standard illustrated in Tables 1 & 2 adjacent have concerned producers. Strong market prices have certainly tempered the blow of tighter grading, but producers were quick to recognise these changes and concerns were raised. Given these changes, producers were bound to ask, how can we be anything *but* worse off as a result of the tighter standard?

Unchecked, this change in the grading standard had the potential to take a serious amount of revenue out of the system. However, the market has a way of dealing with such issues and it looks like it has compensated for this shift in grades down the scale.

The panel of five EU expert graders applying a tighter classification standard for cattle is a bit like examiners marking students' exams harder. If students become aware that their A-levels are being marked harder, they will be apprehensive. However, they may find that when they receive their results, while they may not compare favourably with previous years' results, their value in the marketplace is just as strong with universities adjusting entry requirements to reflect the harder marking. The same logic ought to apply to VIA; grading may be tighter, but producers may find that each grade becomes relatively more valuable in terms of the price paid.

Since the grading standard tightened there is little doubt that the quality of cattle at each grade has improved. Some cattle that would previously have graded U are now grading R and cattle that would previously have graded R are now grading O. This implies an improvement in quality within the R division since it now takes in some better carcases (previously U) and excludes those that may have been borderline O. The same can be said of every grade for conformation and fat class.

It is important then that the market price of these grades increases to reflect the improvement in quality / value described above. It is also necessary for this to happen to ensure that the introduction of VIA and the tighter grading standard has a price neutral impact.

Table 3 shows how this appeared to happen in Week 1 of VIA when graded prices increased significantly. With a shift down the grading scale from E > U >R > O > P, it took this sharp increase in graded prices to ensure a modest 1.3p/kg increase in the overall average price and that the trade wasn't distorted by the change in grading. But can we be sure that these price increases for individual grades were sustained over the longer term? The trade has moved on significantly and any such developments would be hidden in the substantial price increases that have occurred since then. Figure 1 may provide some answers.

It is notable that in the first week of VIA, the average price of each grade increased relative to the overall average price, again reflecting the increased value of each grade with tighter classification. Figure 1 shows the price at each conformation division expressed as a proportion of the overall average prime cattle price. Figures are provided for this year (post VIA) and for last year (pre-VIA). It demonstrates that as a proportion of average price, graded prices have continued to be relatively higher than last year over the last six months.

Figure 1 shows that since the introduction of VIA, U grades are typically 104% of the average price of all prime cattle. Last year (and in the previous two years) it was around 103%. This shows that U grades are now relatively more valuable than they were last year. In fact this is the case across all conformation and most fat class divisions. This demonstrates a continued increase in the relative value of each grade, which as we explained above, is necessary for the average price to be maintained.

With a tighter grading standard, quality at each grade has improved. This has put greater value into each grade and this appears to be reflected in the graded price relative to the average price. It appears that a combination of the new pricing grid and the "invisible hand of the market" has seen to it that *in general*, NI producers are not disadvantaged by the tighter grading standard. Each farm will have been impacted differently however, and that ought to be acknowledged in the context of this discussion.

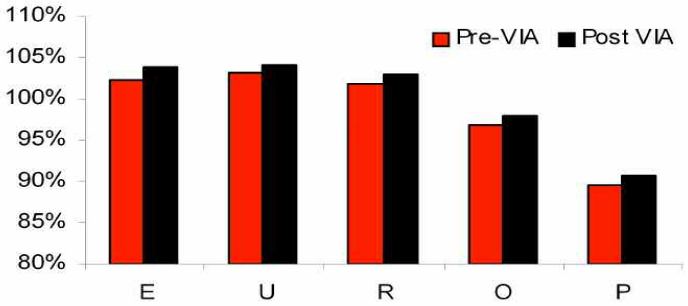
Further reassurance will have been provided by a comparison of prices in NI and GB in the first week of VIA. In that week there was no marked increase in the differential or deviation from the ongoing trend that would have indicated a distortion of the trade.

Table 3 - Price Change in Prime Cattle; First Week VIA v Last Week Manual

	Fat Class		
Conformation	2	3	4
E	+7.8	+14.7	
U	+3.3	+5.1	+6.4
R	+2.5	+3.6	+4.8
O	+2.3	+1.7	+1.4
P	+0.2	+3.0	+1.9

Table 3 illustrates how graded prices increased sharply in the first week of VIA. This reflects the tighter grading which results in improved quality at each grade. These sharp price increases, meant that average prices increased by 1.3p/kg, despite the tighter grading, standard.

Figure 1. Graded prime cattle prices expressed as a proportion of the overall average prime cattle price; Pre-VIA / Post VIA (28 March - 13 November 2010 / 2011)



This chart shows the average price for each conformation division expressed as a proportion of the overall average steer and heifer price. For example, before VIA, the average R grade price was 102% of the average price. After VIA it was worth 103% of the average price. If we assume a static average price of 260p/kg for both periods, this means that R grades would have been worth 265p/kg without a tighter grading standard, while with tighter grading R grades are worth 3p/kg more at 268p/kg. The same trend is evident for each grade. This development is a reflection of the increased value of each grade as a result of tighter grading. It also demonstrates how the market compensatesfor tighter grading with higher prices for each grade.

PRICING GRID FOR PRIME CATTLE

AT this stage many local producers will have encountered the new pricing grid for prime cattle in NI. However, some will not and the system is quite complex. LMC is still receiving many queries about it and we have therefore decided to print it in this pilot edition of LMC Quarterly. This pricing grid was introduced in March 2011 when seven Northern Ireland factories introduced Video Imaging Analysis to grade cattle. Under this system cattle are graded on a 15-point scale with each class for fat and conformation (e.g. E, U, R, 1,2,3) divided into three sub-classes (+, - , =). There are 225 potential grades. The payment grid was developed by the industry based on this 15-point scale, with prices specified for each grade. Factory quotes are now based on the U-3 grade and the guide price for all other grades can be derived from this base quote. Other criteria, such as age, weight and FQAS also determine price. Further details are provided in Tables 5 and 6 below. Most of these specifications have been in place for some time. This is an indicative guide. There may be variations from these general criteria at different factories and some may apply additional criteria. The application of deductions and bonuses varies and depending on factory requirements some deductions are applied more rigidly than others.

Table 4. Pricing Grid for Prime Cattle in Northern Ireland

Conformation	Fat Cover	1			2			3			4			5		
		1-	1=	1+	2-	2=	2+	3-	3=	3+	4-	4=	4+	5-	5=	5+
E	+	-16	-14	-12	BASE	+2	+4	+6	+6	+6	+4	BASE	-4	-8	-12	-16
	=	-16	-14	-12	BASE	+2	+4	+6	+6	+6	+4	BASE	-4	-8	-12	-16
	-	-16	-14	-12	BASE	+2	+4	+6	+6	+6	+4	BASE	-4	-8	-12	-16
U	+	-18	-16	-14	-2	BASE	+2	+4	+4	+4	+2	-2	-6	-10	-14	-18
	=	-20	-18	-16	-4	-2	BASE	+2	+2	+2	BASE	-4	-8	-12	-16	-20
	-	-22	-20	-18	-6	-4	-2	BASE	BASE	BASE	-2	-6	-10	-14	-18	-22
R	+	-24	-22	-20	-8	-6	-4	-2	-2	-2	-4	-8	-12	-16	-20	-24
	=	-26	-24	-22	-10	-8	-6	-4	-4	-4	-6	-10	-14	-18	-22	-26
	-	-28	-26	-24	-12	-10	-8	-6	-6	-6	-8	-12	-16	-20	-24	-28
O	+	-34	-32	-30	-18	-16	-14	-12	-12	-12	-14	-18	-22	-26	-30	-34
	=	-40	-38	-36	-24	-22	-20	-18	-18	-18	-20	-24	-28	-32	-36	-40
	-	-46	-44	-42	-30	-28	-26	-24	-24	-24	-26	-30	-34	-38	-42	-46
P	+	-52	-50	-48	-36	-34	-32	-30	-30	-30	-32	-36	-40	-44	-48	-52
	=	-58	-56	-54	-42	-40	-38	-36	-36	-36	-38	-42	-46	-50	-54	-58
	-	-64	-62	-60	-48	-46	-44	-42	-42	-42	-44	-48	-52	-56	-60	-64

Effective from 28th March 2011 in seven Northern Ireland red meat processing factories; In spec grades inside gold box

Table 5. Specification for 8p/kg bonus on steers and heifers

Bonus Specification	General Criteria
Grades	E, U, R, 3, 4-, 4= and O+3 Inside Gold Box Above
Weight	280-380kg
Age	Under 30mth
FQAS	Yes
Country of Origin	UK Only
Cattle must meet all criteria to attract bonus and further criteria may apply at some plants.	

Table 6. Specification where deductions may apply

Category	Criteria	Deduction from quoted price
Steers, Heifers	Over 30 Months	10p/kg
Young Bulls	Over 16 Months	10p/kg
Young Bulls	Over 24 Months	10-20p/kg
Steers, Heifers, Young Bulls	Under 260kg	£12/head
Steers, Heifers, Young Bulls	Under 240kg	£24/head
Steers, Heifers, Young Bulls	Over 420kg	10p/kg
All Cattle	Non-FQAS	£30/head

BENEFITS OF NI FARM QUALITY ASSURANCE FOR SHEEP PRODUCERS

WITH an upturn in the NI sheep kill this autumn, it appears that more producers have slaughtered lambs locally. With this in mind and given the importance of quality assurance to local factories, it may be useful for producers to consider the benefits of FQAS membership.

Keep your options open

- Almost 10,000 NI farmers are now approved members of FQAS. The beef and lamb they produce is eligible to carry the FQAS logo.
- As FQAS is approved for the Red Tractor Scheme, NI beef and lamb produced in NI on FQAS farms can be marketed throughout the UK under the Red Tractor logo.
- Factories often pay bonuses to secure FQAS lambs. Over the last 12 months, £4 bonuses have been common with some plants paying up to 22kgs only for FQAS stock.
- Lamb finishers will often look to purchase lambs for finishing from FQAS farms, particularly if they are not planning to keep them for the full FQAS residency period on their farm.

Reduce Risk

The Food Standards Agency and DARD Service Delivery Group recognise FQAS farms as lower risk. Members therefore have reduced likelihood of selection for certain statutory inspections (compared to non-FQAS farms).

Prepare for Cross Compliance

FQAS inspections are an excellent way of preparing your farm for cross-compliance and other statutory inspections. As FQAS is a voluntary scheme, an opportunity to rectify any non-conformances against relevant legislation is generally allowed without penalty, unlike breaches of Cross Compliance where penalties to your SFP can be automatically applied.

How do I join FQAS?

LMC owns the FQAS on behalf of the NI red meat industry. NI Food Chain Certification Limited (NIFCC) is contracted by LMC to independently certify the scheme. The registration, inspection and certification of producers is handled by NIFCC.

Application packs to join FQAS can be obtained by calling NIFCC on 02892633017. For further information about FQAS, the application process, the cost of participation, what is involved in a farm inspection, please call the FQAS helpline at LMC on 028 9263 3024.