Teagasc review of Quality Payment System grid

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The beef price has been contentious for over 20 months now, with producers vexed at returns they receive for a premium product with full traceability for the consumer.

Much of this frustration has been evident, as the farm organisations have pushed for increased transparency within the beef sector at both processor and retailer level during Beef Taskforce meetings, which have been taking place since last August.

At one of the first meetings, the farm organisations called on DAFM to have the current differentials on the QPS grid reviewed. This task was given to Teagasc because the original differentials came as a result of work carried out by Dr Micheal Drennan.

His research, which was carried out in 2008, recommended the establishment of the 15 point payments grid. The grid was recommended following extensive research in Ireland, which determined the actual meat yield differentials, for both conformation and fatness, based on a dissection of almost 336 carcases.

For many years the Irish beef sector had been seeking the introduction of a pricing system that rewards producers for quality production. Prior to December 2009, cattle were graded based on fatness (on a 1 to 5 scale) and conformation (based on E, U, R, O, and P grades). Prices within the grades did not have standardised price differentials, as they were determined by the open market.

Drennan's work involved establishing 13 cuts from the pistola (loin/hindquarter) and a further 11 cuts from the forequarter. The amount of bone, lean and fat was calculated for each cut within the various grades. A wholesale value was put on each component. Once summed, this gave an overall value for the carcase. Better quality carcases would deliver a greater amount of higher value cuts and the producer would be rewarded.

As Table 1 shows the price differential between a U= 3 and O=3 is 36c/kg

At the time of the original study, the base price (R=/R- 2+ to 4=) was €2.96/kg. In the interveneing 10 years, we have seen the base price rise significantly. It was this rise that prompted the request for the review to determine if the differentials should change.

Aidan Murray and Michael McManus, Teagasc Derrypatrick herd.

Table 1: Price differentials on QPS grid

	U+	U=	U-	R+	R=	R-	0+	0=	0-	P+
2+	24	18	12	6	0	0	-18	-24	-30	-36
3	24	18	12	6	0	0	-12	-18	-24	-30
4-	24	18	12	6	0	0	-12	-18	-24	-30
4=	24	18	12	6	0	0	-12	-24	-30	-36
4+	18	12	6	0	-6	-6	-18	-24	-30	-36
5	0	-6	-12	-18	-24	-24	-36	-42	-48	-54

What did the review tell us?

The review was conducted by Prof Donagh Berry of Teagasc who, using all the original data, went back and looked for current wholesale values for the original 24 cuts and used these values to calculate carcase values. The wholesale value was the 2017 and 2018 average.

•In the original study, the base price was €2.96. A unit change in conformation was originally worth 5.63c, which was rounded up to 6c by the industry. A unit change in fat was worth -5.09c.

•Using the updated wholesale prices the base price had risen to €3.96. A unit change in conformation had increased to 6.86c and a unit change in fat had gone to -6.09c.

For many it would appear strange that we only got a one cent increase in per-unit conformation change considering we had a €1 increase in base price. This is particularly disappointing for producers with quality stock.

The reason for such a small increase in conformation relates to how the wholesale prices for the various cuts changed between 2009 and 2018. The higher value steak cuts increased by 8%, while the cheaper forequarter cuts increased by 57% over the same period.

This is reflected in the market, where demand for products such as mince has steadily grown, while the value of dearer steak cuts has stagnated. Therefore, most of the rise in overall carcase value has come from the increased value of forequarter cuts, which can make up 55-60% of the overall carcase.

Meeting the specifications for the QPS

In order to qualify for payments as outlined in Table 1, farmers need to have in-spec cattle and be quality assured. If cattle are to be deemed in-spec, they must be:

- Under 30 months (heifers and steers).
- Meet the necessary fat and conformation grades.
- Have had a maximum of four residencies.
- Be on a QA farm for at least 60 days pre-slaughter.

If heifers or steers comply with the above, they qualify for QPS and quality assurance. Before the beef talks, we had essentially one rate of QA, which for qualifying cattle equated to 12c/kg.

At the talks, there was a lot of pressure to include over 30-month cattle in the additional QA payment. The case for this was made easier when it was revealed that cattle between 30-36 months from a QA farm could carry the QA label once it left the processor.

After a weekend of negotiations, it was agreed that prime heifers and steers under 30 months would get an increased payment of 20 c/kg, cattle between 30-36 months would qualify for 8c/kg and O- and 4+ cattle under 30 months would get 12c/kg.

Based on 2018 slaughterings, this would deliver an extra €24m to producers.

Table 2: Value changes between the original and revised review.

Value	Base Value	Conformation	Fat
Original	€2.96	5.63c	-5.09c
Revised	€3.96	6.86c	-6.09c

Table 3: New rates of QA bonus.

	Three New QA Rates		
	20c/kg	12c/kg	8c/kg
Under 30 Months	Yes	Yes	30-36mths
Max. 4 Residencies	Yes	Yes	Yes
Conformation Grade	Min O =	O-	Min. O=
Fat Grade	2+ to 4=	4+	2+ to 4=
Min. 60 day residency on QA Farm	Yes	Yes	Yes

Table 4: Proportion of prime cattle meeting QPS in-spec bonus criteria (2018).

Category	Steer	Heifer	Young bulls (<16 months)
Age (<30 months)	73%	84%	21%
Conformation	70%	86%	85%
Fat	89%	85%	73%
70 days on the last farm	92%	92%	98%
Four farm residencies or less	98%	99%	100%
Satisfying all in-spec criteria	44%	59%	17%

Table 4 shows that only 44% of all steers qualified for the QPS bonuses, with cattle being over 30 months and conformation grade the prime reasons for them being ruled out. As we process more cattle from the dairy herd, achieving the higher QA bonus (20c) will become more of an issue.

Even though many producers view the over 30 month rule as a way of managing supply, it could prove difficult in the long-term to relax this because of future environmental requirements for beef to reduce its carbon footprint and Greenhouse gas emissions.

Fifty-nine per cent of the heifers qualify for QPS bonuses. Age, fat score and conformation are the main reasons why they miss out. For beef producers, age at slaughter and fat score are areas that potentially need to be worked on if returns are to be improved.

What next?

Teagasc has been tasked, as a result of the last Beef Taskforce meeting, to scope out how the current payment system could be improved.

We will review the work carried out by Dr Michael Drennan to see if the results could be enhanced by increasing the dataset to include a larger number of carcases and perhaps take account of any newer cuts at processor level.

There is also the possibility of considering the feasibility of using meat yield and/or meat quality as a basis for future payments, but no doubt all this will be up for negotiation.