

# The Organic Development Programme:- run by Organic Centre Wales delivering on behalf of Farming Connect



## Organic milk production: financial performance

### Market prospects

Following a decline in the organic milk price, these have now stabilised and are beginning to increase. A stable producer base and increasing export sales due to shortages in the EU organic milk market are likely to lead to further price increases. Farm-gate organic milk prices remain around 5-8ppl higher than conventional, though recent converters and small producers may struggle to sell all their milk organically.

Liquid milk sales have remained high during the recession though demand for some organic dairy products has fallen. Organic milk marketing campaigns continue to highlight the higher Omega 3, vitamin and antioxidant content of organic milk as well as increasing consumer demands for better animal welfare and food quality.

*Producers looking to convert to organic production should seek advice from any of the organic milk co-operatives and ensure that they secure an organic supply contract prior to conversion to form a realistic business plan, as an organic milk market cannot be guaranteed.*

### Dairy enterprise performance

Dairy data recorded by the Farm Business Survey in England and Wales showed a worse financial performance in 2009/10, mainly due to lower milk prices. Figures in Table 1 indicate reduced margins for both conventional and organic holdings, though organic businesses remained ahead.

Herd sizes were similar, but conventional milk yield was almost 20% greater. The organic milk price remained higher but the difference had reduced to 4.5ppl. Both sectors saw reduced feed costs but organic costs remained 6% greater; this was offset by 74% lower forage costs while other variable costs were similar, resulting in a higher organic gross margin in both years.

Both sectors had higher fixed costs and negative net margins in 2009/10. When other related outputs (inc. Support payments) are included the organic holdings remained ahead of conventional farms.

**Table 1 Gross/net margins for organic and conventional dairy herds (Identical farms in 2008/09 and 2009/10)**

Values (£/cow)	2008/09		2009/10	
	Organic	Conv.	Organic	Conv.
Sample size	44	112	44	112
Average herd size (cows)	115	112	117	113
Average yield (litres/cow)	5799	6965	5946	7064
Implied milk price (ppl)	33.8	25.9	28.9	24.4
Milk sales	1969	1823	1783	1714
Calf sales	71	72	97	91
Other sales net of purchases	-159	-149	-162	-173
<b>Total output</b>	<b>1881</b>	<b>1745</b>	<b>1718</b>	<b>1632</b>
Concentrates	585	472	491	464
Other inputs	209	211	224	219
<b>Total variable costs</b>	<b>794</b>	<b>683</b>	<b>716</b>	<b>683</b>
<b>Gross margin (GM)</b>	<b>1087</b>	<b>1062</b>	<b>1002</b>	<b>949</b>
Forage costs	30	85	26	99
<b>GM including forage costs</b>	<b>1057</b>	<b>977</b>	<b>976</b>	<b>850</b>
Labour*	352	323	351	328
Machinery*	264	209	271	213
Land and other costs*	390	347	400	371
<b>Total Fixed costs*</b>	<b>1006</b>	<b>879</b>	<b>1022</b>	<b>913</b>
<b>Net margin (NM)</b>	<b>51</b>	<b>98</b>	<b>-45</b>	<b>-62</b>
Other related outputs (ORO)	215	151	234	166
<b>NM including ORO</b>	<b>266</b>	<b>249</b>	<b>189</b>	<b>104</b>

\* Includes imputed labour, rent and interest at 6% on tenants capital

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## Whole farm profitability

The "Organic Farm Incomes in England and Wales, 2009/10" report indicated a reduction in dairy farm profitability (Net Farm Income). In particular, LFA organic dairy farms had a large reduction in profitability though lowland organic dairy profitability remained similar and ahead of conventional farms.

Organic feed costs remained higher, though lowland organic costs were similar to conventional. Whilst cropping costs were much higher for conventional farms, other costs were similar, reflecting the cost of artificial fertiliser inputs. Overall, organic LFA costs remained higher than conventional, but lowland organic dairy farm costs were lower.

Table 2 Net Farm Incomes on identical LFA & lowland dairy farms

Values (£/ha)	LFA				Lowland			
	2008/09		2009/10		2008/09		2009/10	
	Org	Conv	Org	Conv	Org	Conv	Org	Conv
Number in survey	7	48	7	48	38	220	38	220
Dairy cows	70	69	67	65	125	112	128	112
Milk yield (litres/cow)	5889	6519	6113	6331	5895	6949	6035	6947
Milk price (ppl)	32.5	24.2	26.2	21.2	33.0	25.5	28.6	23.5
Farm size (ha)	93	88	85	88	136	117	137	119
Dairy output	1550	1311	1319	1069	1846	1735	1707	1566
Other cattle output	247	360	307	364	302	409	295	414
Other outputs	476	458	498	554	475	513	478	532
<b>Total outputs</b>	<b>2273</b>	<b>2129</b>	<b>2124</b>	<b>1986</b>	<b>2622</b>	<b>2657</b>	<b>2481</b>	<b>2512</b>
Feeds	677	485	660	432	697	622	599	592
Other livestock costs	185	236	246	220	235	226	248	240
Crop costs	34	117	38	133	57	193	54	218
<b>Whole farm margin</b>	<b>1377</b>	<b>1291</b>	<b>1180</b>	<b>1202</b>	<b>1633</b>	<b>1616</b>	<b>1580</b>	<b>1461</b>
Labour	228	139	243	146	265	276	269	298
Machinery	328	332	362	318	410	415	427	422
Other fixed costs	375	355	402	369	448	451	442	481
Total inputs	1826	1665	1951	1617	2112	2182	2039	2252
<b>Net Farm Income</b>	<b>446</b>	<b>464</b>	<b>173</b>	<b>370</b>	<b>510</b>	<b>474</b>	<b>442</b>	<b>259</b>

## Cost of milk production

Data for 2009/10 showed the net margin for organic milk at 7.1 pence per litre (ppl), substantially higher than the conventional figure of 4.2ppl. Milk output per hectare was lower on organic holdings but the organic milk price was considerably higher at 28.8ppl. Organic feed costs were higher, but other variable costs were similar, whilst fixed costs were higher due to lower output per hectare. When farm resource costs and support payments are included the organic net margin per litre was 4.4ppl, conventional at 2.0ppl, or £378/ha and £254/ha respectively.

## Summary

Organic milk production continued to be profitable in 2009/10, but at a reduced level than in 2008/09. In particular, organic LFA dairy farm results indicate that organic costs can be higher than conventional and all results highlight the reduced organic milk price margin.

## Further reading

- Organic Farm Incomes in England and Wales 2009/10, IBERS, Aberystwyth University
- Welsh Organic Producer Survey 2010, OCW/IBERS, Aberystwyth University
- Organic Market report 2010, Soil Association
- Organic Farm Management Handbook (2009 edition), IBERS, Aberystwyth University/Organic Research Centre Elm Farm
- E-Market Bulletin, OCW (contact [jnp@aber.ac.uk](mailto:jnp@aber.ac.uk) to receive this monthly market update email)