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

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Lowland organic beef and sheep production: financial performance

Market prospects

At present the Welsh organic beef and lamb markets are fully supplied, with many producers selling into the conventional market. For lamb the organic price premium is minimal for most of the year, with a premium only available during the spring when organic lamb supply is limited. The situation is slightly better for beef, but the premium available is still small and organic markets may not be available to new suppliers. Organic markets remain vulnerable to seasonality and exchange rate fluctuation with oversupply during late summer and early autumn, and shortages in early spring. *Producers should look to extending their organic lamb marketing season whilst keeping a critical eye on costs to improve margins.*

Beef and sheep gross and net margin summary

Table 1 indicates gross and net margins for lowland suckled beef, finished beef and lamb production. Organic **suckled calf production** had lower output but also had lower costs than conventional systems, resulting in a similar gross margin. Fixed costs were higher, but were offset by higher support payments, but still resulted in a negative net margin for both systems. Organic **finished beef production** output was lower but costs were also much lower, so gross margins were similar to conventional systems. Fixed costs were similar, but higher support payments for the organic system resulted in a break-even performance, conventional systems lost £200/head. Organic **finished lamb** systems showed a similar pattern of lower output and variable costs but higher fixed costs. The organic system received higher support payments but both organic and conventional systems resulted in a negative net margin.

Table 1 Gross margins for organic and conventional lowland beef and sheep production, 2009/10

Beef	**Suckler cow**		**Finished beef**	
Values (£/head)	**Organic**	**Conv.**	**Organic**	**Conv.**
Sample size	13	55	37	62
Finished cattle sales	87	227	710	1362
Calf and store cattle sales	510	816	185	206
Other sales*	-9	-248	1	-325
Total output	**589**	**795**	**896**	**1244**
Concentrates	30	104	93	333
Other inputs	110	175	188	216
Total variable costs	**140**	**279**	**282**	**549**
Gross margin (GM)	**449**	**515**	**614**	**695**
Forage costs	23	78	69	132
GM including forage costs	**425**	**437**	**546**	**563**
Labour	407	504	531	527
Machinery	367	289	359	345
Land and other costs	557	505	590	559
Total Fixed costs**	**1331**	**1297**	**1480**	**1431**
Net margin (NM)	**-906**	**-861**	**-934**	**-867**
Other related outputs (ORO)	882	717	912	668
NM including ORO	**-23**	**-144**	**-22**	**-199**

Sheep	**Lowland**	
Values (£/head)	**Organic**	**Conv.**
Sample size	37	150
Finished lamb sales	72	76
Store lamb sales	6	8
Other sales*	4	6
Total output	**82**	**90**
Concentrates	9	14
Other inputs	19	18
Total variable costs	**28**	**32**
Gross margin (GM)	**54**	**58**
Forage costs	4	10
GM inc. forage	**50**	**48**
Labour	59	51
Machinery	30	24
Land and other costs	52	42
Total Fixed costs**	**141**	**117**
Net margin (NM)	**-90**	**-69**
Other related outputs (ORO)	69	42
NM including ORO	**-21**	**-26**

* Includes imputed labour, rent and interest at 6% on tenants capital
** Net of purchases

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Organic Centre Wales ▪ Factsheet F14 May 2011
Published by Organic Centre Wales, Institute of Biological, Environmental & Rural Sciences (IBERS), Aberystwyth University, Ceredigion, SY23 3EB. Tel. 01970 622248.

Whole farm profitability

Table 2 shows figures from the Organic Farm Incomes in England and Wales 2009/10 report. The results indicate that organic lowland farms had more cattle and less sheep than conventional holdings, with similar output per hectare. Organic variable costs were lower with similar fixed costs, resulting in higher (but low) profitability on organic farms. Conventional profitability had improved in 2009/10 but remained below organic levels.

Table 2 Net Farm Incomes on lowland beef & sheep farms (identical sample both years)

	2008/09		2009/10	
Values (£/ha)	**Org**	**Conv**	**Org**	**Conv**
Number in survey	21	134	21	134
Breeding cows	33.9	22	33	22
Breeding sheep	158	189	131	184
Farm size (ha)	106	94	105	95
Cattle output	223	273	255	243
Sheep output	80	104	86	131
Other outputs	435	371	448	404
Total outputs	738	748	789	779
Feeds	31	82	34	74
Other livestock costs	74	67	70	65
Crop costs	16	37	19	37
Whole farm margin	**616**	**562**	**666**	**604**
Labour	74	71	76	70
Machinery	163	175	167	180
Other fixed costs	263	257	288	261
Total inputs	622	689	653	687
Net Farm Income	**115**	**59**	**135**	**92**

Benchmark costs of production

The organic **breeding beef** gross margin was higher at 75p/kg liveweight (LW), but total costs were also higher, resulting in a lower organic net margin of -86p/kg LW, the conventional data was also negative at -57p/kg LW. With the addition of farm resource costs and support payments the organic net margin improved to 197p/kg LW or £370/ha, considerably higher than conventional enterprises.

The organic **finished beef** production data indicated a slightly higher beef price but lower output per hectare. Lower variable costs were offset by higher fixed costs, resulting in higher total organic costs. The organic net margin was -35p/kg DW compared to conventional at -15p/kg DW. With the inclusion of support payments and farm resource costs the organic net margin was higher at 194p/kg DW and £315/ha.

The data indicated that organic and conventional **lamb** prices were identical, but the conventional lamb yield was around 43% higher than the organic system. Organic variable costs were lower, but fixed costs were much higher per kg, resulting in a negative organic margin and a positive conventional margin. With the addition of farm resource costs and support payments the organic lamb figures improve significantly to a net margin of 307p/kg DW and £447/ha, both far superior to conventional levels.

Summary

Survey data illustrates that while organic farms can achieve superior margins and profitability to conventional systems, the finances for both organic and conventional groups are at best marginal. Both systems are reliant on support payments to break-even. Organic premiums are minimal so cost control is important to maintain relative incomes. Some of the factors influencing performance are the increased role of cattle, with implications for housing and winter feed provision, as well as the emphasis on a closed flock/herd and forage as a cheaper feed source. In addition, lowland organic farmers were more reliant on agri-environment payments than their conventional counterparts and they should be aware of changes under the new Glastir scheme.

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 to receive this monthly market update email)