

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



## Upland 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 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 upland suckled beef, finished beef and lamb production. Organic **suckled calf production** had lower output but also had lower variable costs, resulting in a slightly higher gross margin. Organic fixed costs were higher, but these were offset by much higher support payments, resulting in a far higher organic net margin. Organic **finished beef production** output was higher with higher variable costs but lower forage costs, resulting in a superior organic gross margin. However, organic fixed costs were higher but these were offset by greater support payments resulting in a superior organic net margin. Organic **finished lamb** systems achieved better gross margins than the conventional systems due to higher output or lower costs. However, organic systems had higher fixed costs but also received greater support payments, resulting in higher net margins, with conventional systems barely breaking even.

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

Beef Values (£/head)	Suckler cow		Finished beef		Sheep Values (£/head)	Low productivity		High productivity	
	Organic	Conv.	Organic	Conv.		Organic	Conv.	Organic	Conv.
Sample size	15	102	10	34	Sample size	9	58	29	138
Finished cattle sales	21	20	1164	1137	Finished lamb sales	27	31	81	61
Calf and store cattle sales	674	706	270	142	Store lamb sales	9	5	2	4
Other sales net of purchases	-46	-40	-111	-314	Other sales net of purchases	2	12	5	12
<b>Total output</b>	<b>649</b>	<b>686</b>	<b>1323</b>	<b>965</b>	<b>Total output</b>	<b>39</b>	<b>47</b>	<b>87</b>	<b>77</b>
Concentrates	82	129	179	211	Concentrates	5	9	13	13
Other inputs	179	162	321	178	Other inputs	9	14	19	14
<b>Total variable costs</b>	<b>261</b>	<b>291</b>	<b>501</b>	<b>389</b>	<b>Total variable costs</b>	<b>14</b>	<b>23</b>	<b>32</b>	<b>27</b>
<b>Gross margin (GM)</b>	<b>388</b>	<b>395</b>	<b>823</b>	<b>576</b>	<b>Gross margin (GM)</b>	<b>25</b>	<b>24</b>	<b>55</b>	<b>50</b>
Forage costs	29	90	59	175	Forage costs	2	5	3	9
<b>GM including forage costs</b>	<b>360</b>	<b>305</b>	<b>764</b>	<b>401</b>	<b>GM including forage costs</b>	<b>23</b>	<b>19</b>	<b>52</b>	<b>41</b>
Labour*	301	257	403	296	Labour*	21	26	33	29
Machinery*	228	223	457	244	Machinery*	17	17	29	22
Land and other costs*	380	320	701	428	Land and other costs*	22	22	38	27
<b>Total Fixed costs*</b>	<b>910</b>	<b>800</b>	<b>1561</b>	<b>968</b>	<b>Total Fixed costs*</b>	<b>61</b>	<b>65</b>	<b>100</b>	<b>78</b>
<b>Net margin (NM)</b>	<b>-550</b>	<b>-495</b>	<b>-797</b>	<b>-567</b>	<b>Net margin (NM)</b>	<b>-38</b>	<b>-46</b>	<b>-48</b>	<b>-37</b>
Other related outputs (ORO)	919	556	1024	595	Other related outputs (ORO)	56	47	63	39
<b>NM including ORO</b>	<b>369</b>	<b>61</b>	<b>227</b>	<b>28</b>	<b>NM including ORO</b>	<b>18</b>	<b>0</b>	<b>14</b>	<b>2</b>

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

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## 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 profitability on organic farms. Conventional profitability had improved in 2009/10 but remained below organic levels.

## 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 the 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 systems 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. 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 beef and lamb price 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, upland organic farmers are 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](mailto:jnp@aber.ac.uk) to receive this monthly market update email)

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

<i>Values (£/ha)</i>	2008/09		2009/10	
	Org	Conv	Org	Conv
Number in survey	33	210	33	210
Breeding cows	31.8	29	33	29
Breeding sheep	541	604	498	584
Farm size (ha)	143	124	141	123
Cattle output	186	195	195	195
Sheep output	188	228	197	290
Other outputs	456	368	501	407
<i>Total outputs</i>	830	791	893	892
Feeds	77	111	81	114
Other livestock costs	65	72	71	76
Crop costs	19	50	18	57
<b>Whole farm margin</b>	<b>670</b>	<b>558</b>	<b>723</b>	<b>645</b>
Labour	69	58	75	60
Machinery	147	147	151	157
Other fixed costs	200	192	225	207
<i>Total inputs</i>	576	630	621	671
<b>Net Farm Income</b>	<b>254</b>	<b>160</b>	<b>272</b>	<b>221</b>