

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



## Lowland organic beef and sheep production: financial performance

### Market prospects

The area of Welsh organic farms has increased considerably in 2007 and 2008, leading to a large increase in the number of livestock being managed organically. This increase and the effects of the UK recession mean the organic meat market has remained static, though demand for beef and lamb overall have increased in part due to exchange rate changes. In 2008 and into 2009 the lamb price has improved considerably, though organic beef prices have failed to improve significantly, and both organic beef and lamb markets are now subject to lower or minimal price premiums than previously. This situation is likely to continue, and organic producers must keep a critical eye on costs as a way to maintain margins. The lamb industry is also still vulnerable to the seasonality of production, with the organic market saturated in the autumn and short in the spring.

### Beef and sheep gross margin summary

The key factors influencing the performance are prices, stocking rates and feed and forage costs, as livestock growth rates are likely to be similar or just below conventional levels.

Organic beef prices have remained fairly static over the last two years, while the conventional price has risen considerably from a low level in 2007. For suckler cow enterprises, the costs of purchased feed are less significant, so that the potential exists for similar financial performance to be achieved even at conventional prices, especially when combined with good forage management. Finished cattle producers are more susceptible to higher feed prices but data indicates that existing producers have successfully controlled their feed costs, which remain significantly below conventional levels.

Current prices for lamb are considerably higher than last year, though the organic premium is smaller. For sheep enterprises, physical performance can be similar to conventional, provided that appropriate health management and parasite control strategies are adopted, including the integration of sheep and cattle and effective grazing management. The figures below highlight a superior organic financial performance per animal, though this may not indicate a better performance per hectare as stocking rates may be reduced, particularly during conversion.

**Table 1 Gross margins for organic and conventional lowland beef and sheep production, 2007/08**

<b>Beef</b> <i>Values (£/head)</i>	<b>Suckler cow</b>		<b>Finished beef</b>		<b>Sheep</b> <i>Values (£/head)</i>	<b>Lowland</b>	
	<b>Organic</b>	<b>Conv.</b>	<b>Organic</b>	<b>Conv.</b>		<b>Organic</b>	<b>Conv.</b>
Sample size	12	56	35	58	Sample size	38	151
Finished cattle sales	185	34	638	752	Finished lamb sales	56	46
Calf and store cattle sales	316	469	147	188	Store lamb sales	1	8
Other sales*	82	-28	8	-158	Other sales*	2	-2
<b>Total output</b>	<b>584</b>	<b>475</b>	<b>793</b>	<b>781</b>	<b>Total output</b>	<b>59</b>	<b>52</b>
Concentrates	94	79	94	210	Concentrates	8	12
Other inputs	138	106	140	133	Other inputs	14	14
<b>Total variable costs</b>	<b>231</b>	<b>185</b>	<b>234</b>	<b>343</b>	<b>Total variable costs</b>	<b>22</b>	<b>27</b>
<b>Gross margin</b>	<b>353</b>	<b>290</b>	<b>559</b>	<b>438</b>	<b>Gross margin</b>	<b>37</b>	<b>25</b>
Forage costs	32	56	35	70	Forage costs	3	5
<b>GM inc. forage</b>	<b>321</b>	<b>234</b>	<b>525</b>	<b>368</b>	<b>GM inc. forage</b>	<b>34</b>	<b>20</b>

\* Net of purchases

## Organic Centre Wales - Factsheet F1 - May 2009

Published by Organic Centre Wales, Institute of Rural Sciences, Aberystwyth University, Ceredigion, SY23 3AL. Tel. 01970 622248. Organic Centre Wales and its partners cannot accept any responsibility for the consequences of any actions taken on the basis of its factsheets or other publications.



Cronfa Amaethyddol Ewrop ar gyfer Datblygu Gwledig:  
Ewrop yn Buddsoddi mewn Ardaloedd Gwledig  
The European Agricultural Fund for Rural Development:  
Europe Investing in Rural Areas



Canolfan Organig Cymru  
Organic Centre Wales



Llywodraeth Cynulliad Cymru  
Welsh Assembly Government

## Lowland organic beef and sheep production: financial performance (cont.....)

### Whole farm profitability

Survey data for the year 2007/08 for UK organic cattle and sheep farms illustrate some key differences: Organic farms tended to have more cattle and fewer sheep, (an advantage in controlling parasites), with lower output for both sectors in 2007/08. Other outputs, (including single farm and agri-environment support payments) contributed over half of total output. Organic variable costs were generally lower, though fixed costs were higher, but with similar costs overall. In summary organic farms showed greater profitability in 2007/08, conventional decreasing by over 50% relative to 2006/07.

### Benchmark costs of production

Organic finished beef production in 2007/08 showed a considerable improvement, with a net margin of 4p/kg DW, conventional at -38p/kg. Variable costs were almost identical, higher organic overheads (mainly due to lower yield per ha), more than offset by the greater output value. Net margin for organic breeding beef at -118p/kg LW was lower than conventional beef at -69p/kg, mainly due to lower output per hectare. Organic variable costs were lower than conventional, as was output, but organic fixed costs were higher per kilogram. When including support payments in the net margin there was little difference between the two systems, with organic at 47p/kg and conventional at 57p/kg. Both organic and conventional lamb net margins were negative, at -44p/kg DW and -71p/kg DW respectively. Organic output was higher as a result of higher prices, while variable costs were lower and overheads higher. The organic net margin including support payments was 77p/kg or £200/ha, while conventional remained negative at -43p/kg or £-110/ha.

Sensitivity analysis showed that at reduced organic price premiums, organic farmers would achieve a similar or slightly lower margin than their conventional counterparts; however both beef and lamb sectors only broke even, highlighting the importance of support payments for overall farm profitability.

### Summary

Survey data illustrates that while organic farms can achieve similar incomes to conventional, the finances for both organic and conventional groups are at best marginal, and the models illustrate the importance of support payments. Organic premium prices are important to maintain relative incomes, especially in the lowlands with increased reliance on dairy and arable income. The main factors that will influence performance are the increased role of cattle, with implications for housing and winter feed provision, as well as the emphasis on closed flocks and herds and an increase on feeds produced on farm to avoid purchasing expensive concentrates or conserved forage. In addition, lowland farmers should consider whether agri-environment payments could contribute to income, as organic farming and agri-environment schemes can work closely, and can form a significant part of overall farm profitability, (subject to the newly announced Glastir proposals).

**Further reading** – Welsh Organic Production and Market Report 2008, OCW/IBERS, AU  
 - Organic Farm Management Handbook (2009 edition), IBERS, AU  
 - Organic Farm Incomes in England and Wales 2007/08, IBERS, AU

### Net farm incomes on lowland beef and sheep farms, (identical farms in 2006/07 - 2007/08)

<i>Values (£/ha)</i>	2006/07		2007/08	
	Org	Conv	Org	Conv
Number in survey	26	165	26	165
Breeding cows	33.8	26	30	26
Breeding sheep	189	223	188	212
Farm size (ha)	96	87	99	88
Cattle output	221	193	219	205
Sheep output	97	144	98	95
Other outputs	407	437	366	352
<i>Total outputs</i>	725	774	683	652
Feeds	52	78	47	68
Other livestock costs	71	67	65	58
Crop costs	14	40	13	37
<b>Whole farm margin</b>	<b>588</b>	<b>588</b>	<b>558</b>	<b>488</b>
Labour	72	63	71	53
Machinery	159	154	165	157
Other fixed costs	285	285	243	238
<i>Total inputs</i>	653	688	605	611
<b>Net Farm Income</b>	<b>72</b>	<b>85</b>	<b>79</b>	<b>40</b>