

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

The number of Welsh organic upland farms has increased considerably in 2007 and 2008, leading to a large increase in the number of upland 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 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 performance to be achieved even at conventional prices. Finished cattle producers are more susceptible to higher feed prices but data indicates that producers have successfully controlled their feed costs.

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 to the right 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 upland beef and sheep production, 2007/08

Beef Values (£/head)	Suckler cow		Finished beef	
	Organic	Conv.	Organic	Conv.
Sample size	7	98	18	28
Finished cattle sales	6	30	1242	645
Calf and store cattle sales	566	498	139	113
Other sales net of purchases	9	-68	-282	-33
Total output	580	460	1099	724
Concentrates	95	96	165	213
Other inputs	121	105	215	154
Total variable costs	216	202	380	367
Gross margin	364	259	719	357
Forage costs	22	61	41	97
GM including forage costs	342	197	677	260

Sheep Values (£/head)	Low productivity		High productivity	
	Organic	Conv.	Organic	Conv.
Sample size	9	70	23	120
Finished lamb sales	29	20	54	40
Store lamb sales	6	3	7	2
Other sales net of purchases	-4	2	3	3
Total output	31	25	64	45
Concentrates	5	8	10	11
Other inputs	7	11	14	12
Total variable costs	12	18	24	23
Gross margin	19	6	40	22
Forage costs	2	4	2	5
GM inc. forage	17	2	38	17

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Upland 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 less sheep, (an advantage in controlling parasites), as well as higher output, both from livestock and other sources (such as single farm payment and agri-environment payments). Upland farm support payments accounted for nearly 50% of output in 2007/08. Organic variable costs were however generally lower, though labour costs were higher. Overall, organic farms showed far greater profitability, which increased by 46% in 2007/08.

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, but are less so in the uplands compared with dairy and arable holdings. 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, upland farmers should consider whether agri-environment payments should contribute to income, as organic farming and agri-environment schemes can work closely, and can form a significant part of overall farm profitability.

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 upland 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	27	193	27	193
Breeding cows	37.3	31	37	30
Breeding sheep	592	748	584	725
Farm size (ha)	145	143	147	146
Cattle output	160	131	179	112
Sheep output	148	193	145	168
Other outputs	420	355	428	322
<i>Total outputs</i>	728	679	752	602
Feeds	68	96	63	92
Other livestock costs	65	63	57	58
Crop costs	18	42	19	35
Whole farm margin	577	478	612	417
Labour	86	56	84	54
Machinery	127	135	133	117
Other fixed costs	217	213	180	169
<i>Total inputs</i>	580	605	537	525
Net Farm Income	147	73	215	77