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

Organic milk production: financial performance

Market prospects

Following a period of high milk prices and milk supply matching market demand, there is currently more uncertainty in the organic dairy sector. There is currently downward pressure on the world milk price with some processors already reducing organic milk prices. The global recession is likely to continue to push prices lower, though currently still at a level considerably above conventional prices, circa 7-8ppl organic premium.

There is however steady demand for organic milk from processors, and it is unlikely that existing producers will be unable to sell their milk organically and media coverage continues 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. This is essential to form a realistic business plan, as there is a danger that organic milk may return to a situation of oversupply, and a market cannot be guaranteed.

Dairy enterprise performance

The gross and net margin performance for dairy herds recorded by the Farm Business Survey is higher under organic production at the recorded price levels in 2007/08 than for conventional production. Herd sizes are similar, and although conventional yields are considerably higher in this sample the organic milk price is 8ppl higher. Organic feed costs are greater, mainly offset by lower forage costs, while other variable costs are similar, resulting in a better gross margin in both years. Organic fixed costs appear to be slightly higher, increasing in 2007/08, but the organic net margin is significantly higher than the conventional in both years. However, organic producers must be aware that their superior performance relies on a substantial price premium, and that costs need to be controlled as the organic premium may be eroded in the future.

Gross margins for organic and conventional dairy herds (Identical farms in 2006/07 and 2007/08)

	2006/07		**2007/08**	
Values (£/cow)	**Organic**	**Conv.**	**Organic**	**Conv.**
Sample size	28	104	28	104
Average herd size (cows)	113	104	114	106
Average yield (litres/cow)	5604	7145	5752	7022
Implied milk price (ppl)	26.7	17.4	29.4	21.3
Milk sales	1485	1256	1704	1523
Calf sales	60	61	59	63
Other sales net of purchases	-78	-79	-110	-117
Total output	**1467**	**1237**	**1654**	**1469**
Concentrates	336	321	425	374
Other inputs	185	176	187	196
Total variable costs	**521**	**498**	**611**	**570**
Gross margin	**946**	**739**	**1042**	**899**
Forage costs	22	66	21	68
GM including forage costs	**924**	**674**	**1021**	**831**
Labour	316	325	341	327
Machinery	207	179	221	182
Land and other costs	369	329	406	344
Total Fixed costs*	**892**	**833**	**968**	**853**
Net margin*	**32**	**-159**	**53**	**-22**

* Including imputed labour, rent and interest on tenants capital

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Organic milk production: financial performance (cont…..)

Whole farm profitability

Survey data for 2007/08 for the dairy sector show net farm incomes for all farm sizes averaged £380/ha for LFA farms, and £580/ha for lowland, both sectors significantly outperforming conventional farms. The organic milk yield continued to improve in 2007/08, exceeding the conventional in the LFA, with milk price premiums of around 35-40%. Organic dairy output was considerably higher, mainly due to the milk price, while feed costs were higher, other livestock costs similar and crop costs (including forage) were lower. Organic fixed costs remained higher, with total input costs 34% on organic lowland farms.

Net farm incomes on identical LFA and lowland dairy farms (2006/07, 2007/08)

Values (£/ha)	LFA 2006/07 Org	LFA 2006/07 Conv	LFA 2007/08 Org	LFA 2007/08 Conv	Lowland 2006/07 Org	Lowland 2006/07 Conv	Lowland 2007/08 Org	Lowland 2007/08 Conv
Number in survey	6	193	6	193	23	193	23	193
Dairy cows	66	69	68	68	122	107	127	110
Milk yield (litres/cow)	5698	6084	5782	5709	5772	7000	6062	6713
Milk price (ppl)	26.0	16.9	29.0	20.5	25.9	17.2	29.0	21.4
Farm size (ha)	90	143	87	146	118	143	121	146
Dairy output	1123	976	1395	1077	1609	1221	1824	1479
Other cattle output	172	174	212	229	184	251	237	343
Other outputs	366	421	355	371	448	526	453	535
Total outputs	1660	1571	1961	1676	2241	1999	2513	2357
Feeds	419	372	508	402	447	452	571	529
Other livestock costs	117	157	159	171	207	192	234	210
Crop costs	39	102	31	96	40	140	37	152
Whole farm margin	**1085**	**940**	**1264**	**1007**	**1547**	**1215**	**1670**	**1467**
Labour	222	129	269	126	253	233	271	244
Machinery	270	260	306	285	326	347	348	383
Other fixed costs	296	393	309	363	481	426	472	421
Total inputs	1363	1413	1582	1443	1754	1790	1934	1938
Net Farm Income	**297**	**157**	**380**	**234**	**487**	**209**	**580**	**419**

Cost of milk production

2007/08 data showed that the net margin for organic milk at 9.4 pence per litre (ppl) was significantly higher than the conventional at 5.6ppl. Organic production costs were higher at 18.9ppl, compared with 16.2 ppl for conventional, but the higher costs were more than offset by higher organic output (30%), which was higher in 2008, increasing by 24% in 12 months, with very similar costs, while conventional prices rose by only 19%, and costs went up by 14%. Milk yields were similar, though organic milk commanded a considerably higher price, and whilst organic feed costs were slightly higher, other variable costs were similar. Sensitivity analysis showed that if conventional prices were paid for organic milk, organic farms would be at a disadvantage, and producers should look to reduce costs, to remain competitive.

Summary

Organic milk production is an alternative for dairy producers, depending on the price that can be obtained and whether costs can be kept under control. A premium is required to match conventional incomes and producers should be looking to secure a milk price that will at least cover costs of production. Previous studies have indicated that a premium of ca. 5 ppl is needed for organic farmers to achieve similar results to conventional, although market conditions at present indicate better price premiums. This is a significant step forward from previous years when organic producers were only obtaining 21-23 ppl, and those selling on conventional markets at only 16-18 ppl, which was below the cost of production for many producers. A key message for farmers considering conversion is to obtain an organic supply contract prior to conversion to ensure a price premium; otherwise the economics of conversion to organic farming can be poor.

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