

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



## 2007/08 costs of production and margins for Welsh organic milk, beef and lamb

Benchmarking data collected from 38 Welsh organic farms by the Welsh Farm Business Survey based at IBERS, Aberystwyth University, show that Welsh organic farms were generally producing better returns than conventional farms in 2007/8, before the credit crunch started to impact on the organic market. Organic output was higher or similar in all cases, with lower or similar variable costs. Where organic yields per ha were lower, overhead costs per kg were higher, as were the value of own resources used and support payments. Despite this, overall net returns per litre or kg were higher, although this does not necessarily translate to better per ha performance.

Dairy results shown in Table 1(overleaf) indicate 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%). Organic output 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 shows that if conventional prices were paid for organic milk, organic farms would be at a disadvantage, and whilst this unlikely to happen in the short term, producers need to bear in mind that organic farms have higher costs, and look at ways to reduce them, to remain competitive.

Organic finished beef production in 2007/08 showed a considerable improvement, with a net margin of 4p/kg DW compared with -38p/kg for conventional beef. Variable costs were almost identical, higher organic overheads per kg (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 support payments were included in the net margin however 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.

During 2008 the price differential between organic and conventional meat has contracted, to a point where the organic premium for beef has almost evaporated, and for lamb is considerable reduced from a year previously. Lower differentials between organic and conventional prices mean it is likely that this relatively favourable picture in 2007/08 may look less good in 2008/9.

To understand the possible affects of similar prices, the last two rows of

Table 1 and Table 2 show the net margins if produce was sold at conventional prices, and highlights that although margins are reduced they are likely to remain superior or at least similar to conventional margins. It does however highlight the need for organic producers to be aware of their costs of production, and reduce them where possible. Purchased feed remains the largest cost, and could possibly be reduced through better use of forage, or by growing alternative feeds, to replace purchased concentrates.

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The European Agricultural Fund for Rural Development:  
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(cont.....)

**Table 1 Welsh organic and conventional milk production costs and margins (pence per litre), 2006/7 and 2007/8, with additional margins shown assuming same price for organic and conventional sectors (Source: FBS (2007,2008))**

Year	Milk (ppl)			
	2006/7		2007/8	
Production system	Organic	Conv.	Organic	Conv.
Holdings (n)	10	113	8	107
Yield/ha	11152	14234	13460	12929
Price/litre/kg	22.1	17.2	27.6	20.6
<b>Total output</b>	<b>22.8</b>	<b>18.3</b>	<b>28.3</b>	<b>21.8</b>
Feeds	5.0	4.2	6.5	5
Veterinary and medicines	0.7	0.6	0.6	0.7
Forage	1.4	1.7	1.8	1.8
Other variable costs	2.1	1.5	1.8	1.7
Herd replacement	1.8	0.7	1.0	0.9
<b>Total variable costs</b>	<b>11.0</b>	<b>8.7</b>	<b>11.7</b>	<b>10.1</b>
<b>Gross margin</b>	<b>11.8</b>	<b>9.6</b>	<b>16.6</b>	<b>11.7</b>
Labour	1.3	0.8	0.8	0.6
Power and machinery	2.1	1.8	2.5	2.1
Land and buildings	1.5	1.1	1.9	1.5
General farm costs	1.1	0.8	1.0	0.8
Rent and finance	1.6	1.0	1.0	1.1
<b>Total fixed costs</b>	<b>7.6</b>	<b>5.5</b>	<b>7.2</b>	<b>6.1</b>
<b>Total costs</b>	<b>18.6</b>	<b>14.2</b>	<b>18.9</b>	<b>16.2</b>
<b>Net margin</b>	<b>4.2</b>	<b>4.1</b>	<b>9.4</b>	<b>5.6</b>
<b>Net margin per ha</b>	<b>468</b>	<b>584</b>	<b>1265</b>	<b>724</b>
Value of farm family's own resources	4.7	5.4	5.9	5.7
<b>Net margin incl. own resources</b>	<b>-0.5</b>	<b>-1.3</b>	<b>3.5</b>	<b>-0.1</b>
Tir Mynydd, agri-environment	0.5	0.3	0.3	0.5
Organic Farming Scheme support	0.7	0	0.3	0.0
Single farm payment	3.4	3.6	2.8	3.5
<b>Net margin incl. support payments</b>	<b>4.1</b>	<b>2.6</b>	<b>6.9</b>	<b>3.9</b>
Net Margin	(assuming 26ppl for both sectors)		8	11
Net margin incl. support payments & own resources	(assuming 26ppl for both sectors)		5	10

Notes:

Column totals may add up differently due to rounding.  
Value of farm family's own resources (imputed costs) include farmer and spouse unpaid hours, rental value of owner occupied farm land and capital costs are calculated at 6% of tenants capital less interest payments on borrowed capital.



## **2007/08 costs of production and margins for Welsh organic milk, beef and lamb** (cont.....)

### **Summary**

Welsh organic livestock costs of production are generally higher than their conventional counterparts, sometimes as a result of higher feed costs, but often due to a higher level of fixed costs. Higher feed costs can often be reduced through better utilisation of forage, or even home-grown production of arable crops. Higher organic costs of production fixed costs reflect lower stocking rates/yields per hectare, which limit the spreading of overhead costs over more output. Organic whole farm income data (Moakes and Lampkin, 2009) indicates that fixed costs are often similar between organic and conventional farms, and this can also be seen by multiplying up the fixed costs/unit by the yield/ha presented in Tables 1 and 2.

In both 2006/07 and 2007/08 significant organic premiums were able to compensate for the higher total costs in most cases, to give similar or superior than conventional net margins. This applies before and after including the value of farm family's own land, labour and capital resources (imputed costs) and support payments. It also applies on a per hectare basis, despite the lower organic yields, as well as per kg basis, the exception being breeding beef, due to lower organic price applied to the transfer out of store animals.

To an extent, the negative margins resulting from lower-than-production-cost prices and imputed costs can be offset by other support payments including Tir Mynydd, Organic Farming Scheme and other agri-environment payments, as well as the Single Farm Payment. However, given the political pressure to reduce Tir Mynydd and Single Farm Payments, and the theoretical desirability of using this income to support the development of the farm as a whole, rather than cross-subsidise loss making enterprises, there is a real challenge to be faced by both organic and non-organic producers.

- 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
  - Upland organic beef and sheep production. Technical guide, OCW/IBERS AU and ADAS
  - Wales Farm Income Booklet 2007/08 Results, FBS/IBERS, AU