



Lowland organic beef and sheep production: financial performance

Market prospects

The 2001/02 period was a difficult year for livestock producers due to the FMD epidemic and oversupply of the market as a large number of farmers completed conversion between 2000 and 2001. There has also been pressure from cheaper imports and more established import supply chains where consistency of supply and specification is guaranteed, especially in the organic beef sector, highlighting the need for co-operation and planning in the home markets. This is important for extending the season of organic lamb production, improving the balance between store and finishing units, collaboration between hill and lowland farms and the availability of small abattoirs. Demand for organic beef and sheep continues to rise and lamb trading between 220 and 270p kg/dw and beef at 220 to 240p kg/dw is typical. Projections for both organic lamb and beef suggest that supplies will continue to increase in 2002/03, so forward planning is essential for producers thinking of conversion.

Gross margin summary

Key factors influencing performance are prices, stocking rates and feed and forage costs. Growth rates are mostly similar or just below conventional levels. Since 1996, organic livestock prices have remained relatively static, while conventional prices fell as a consequence of BSE and FMD, leading to the emergence of a 'premium' price, which has narrowed in 2001/02 as conventional prices have recovered. For beef enterprises, the higher prices lead to higher performance per animal, despite higher costs of feed for finishing, and higher prices also compensate for the reduced stocking rates. However, without the higher organic price, organic beef finishing would yield lower returns than conventional. For suckler enterprises, the costs of purchased feed are less significant, so that the potential exists for similar performance to be achieved even at conventional prices.

Gross margins for conventional and organic lowland beef and sheep production, 2001/02 prices

Values (£/head)	Suckler cow		Finishing beef		Values (£/ewe)	Sheep	
	Conv.	Organic	Conv.	Organic		Conv.	Organic
Store price (£/kg lw)	1.00	1.25	-	-	Lamb price (£/kg dcw)	2.30	2.60
Finished price (£/kg dcw)	-	-	1.7	2.2	Lambs finished per ewe	1.2	1.2
Weight (kg/head lw or dcw)	270	270	290	290	Lamb liveweight (kg)	40	38
Sales net of purchases	246	300	212	287	Sales net purchases	59	63
Support payments	167	167	162	162	Support payments	13	13
Total output	413	467	374	449	Total output	72	76
Feedstuffs	90	60	60	90	Feedstuffs	9	7
Other inputs	115	115	75	75	Other inputs	8	8
Total variable costs	205	175	135	165	Total variable costs	16	15
Gross margin	208	292	239	284	Gross margin	56	61
Forage costs	90	75	70	55	Forage costs	10	9
GM inc forage	118	217	169	229	GM inc forage	46	52
Stocking rate (head/ha)	1.5	1.2	2.0	1.6	Stocking rate (ewes/ha)	10	8
GM inc forage (£/ha)	177	260	338	366	GM inc forage (£/ha)	456	416
GM at conv prices (£/hd)	-	163	-	154	GM at conv prices (£/ewe)	-	45
GM at conv prices (£/ha)	-	196	-	247	GM at conv price (£/ha)	-	364

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 cattle for grazing management. Despite this, the recovery in conventional prices means that organic prices no longer result in higher performance per hectare. At conventional prices, organic flocks may achieve similar financial performance per animal, but performance per hectare would be significantly reduced.

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Whole farm profitability

Key differences in performance from 1998/99 survey data (the most recent available) for organic and non-organic lowland cattle and sheep farms illustrate lower stocking rates on the organic farms – although stock numbers kept are similar, farm size is higher on the organic sample, compensating for the reduced stocking rates. Despite an advantage at the output and gross margin levels on the organic farms, net farm incomes are negative for both groups in that year, but are lowest for the organic group. This is likely due to higher fixed costs from a greater presence of dairy herds in the organic sample. This may also account for the higher level of labour, in particular paid labour, machinery and other fixed costs on the organic farms.

Net farm incomes on medium sized lowland cattle & sheep farms 1998/99

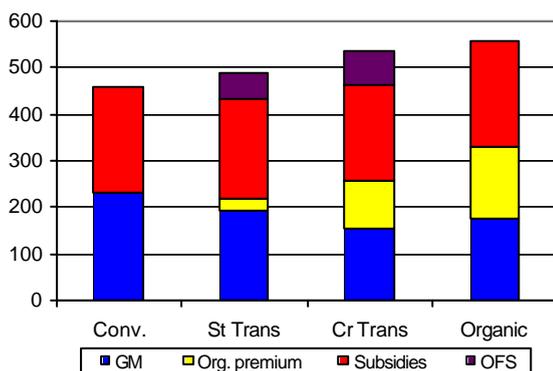
Values (£/ha)	Conv 1998/9	Organic 1998/9
Cattle (livestock units)	67	74
Sheep (livestock units)	49	37
Cereals (ha)	15	15
Forage (eff. ha)	62	85
Stocking rate (LU/eff. ha)	1.9	1.3
Size (ha)	80	100
Dairy output	56	224
Other cattle output	236	211
Sheep output	227	176
Other output	204	429
Total output	724	1040
Feeds	118	164
Other livestock costs	55	105
Crop costs	85	36
Whole farm margin	465	735
Labour	74	243
Machinery	174	215
Other fixed costs	235	324
Total inputs	741	1121
Net farm income	-17	-81

Costs of conversion

Models prepared for DEFRA to evaluate the impact of conversion on different farm types provide an insight into the role of the organic premium and the Organic Farming Scheme payments, as well as different possible strategies for conversion.

A model for the conversion of a lowland farm with a proportion of arable cropping shows that organic premiums are essential to maintain similar gross margins. Premiums available in early 2002 combined with the increased proportion of cattle, introduction of home-reared replacements and reduced reliance on purchased feed resulted in better potential performance under organic management. With a recovery in conventional prices, the differential between organic and conventional stock prices will lead to a reduction in the premium necessary to achieve higher performance, resulting in similar overall margins. Support payments make a large contribution to the whole farm margin, but the value of these can be maintained under organic management despite any reduction in stocking rates.

Whole farm GM (£/ha) for a converting 180 ha lowland cattle & sheep farm, 2001/02 prices



Physical assumptions	Conv.	Organic
Cattle (LU)	68	105
Sheep (LU)	160	105
Lamb price (£/kg lw)	1.00	1.25
Beef price (£/kg lw)	0.90	1.20
Forage (ha)	120	140
Arable (ha)	60	40
Stocking rate (LU/ha)	1.9	1.5

Source: Institute of Rural Studies, University of Wales Aberystwyth

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 reliance of farms on support payments. Organic premium prices are required to maintain relative incomes, especially on lowland farms 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 and the emphasis on closed flocks and herds and increase in feeds produced on farm to avoid purchasing expensive conserved forage.