Canolfan Organig Cymru
Organic Centre Wales

Upland 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 further co-operation and good planning in the domestic 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 continues to be essential for producers thinking of conversion.

Beef and sheep enterprise summary

The key factors influencing the performance are prices, stocking rates and feed and forage costs, as growth rates are likely to be similar or just below conventional levels. Since 1996, organic livestock prices have been relatively static, while conventional prices fell significantly as a consequence of BSE and FMD but then recovered in 2001/02. For lamb the price differentials are now similar to those that existed five years ago. 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.

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

Suckler cow			**Sheep**		
Values (£/head)	*Conv.*	*Org.*	*Values (£/ewe)*	*Conv.*	*Org.*
Store price (£/kg lw)	1.00	1.25	Lamb price (£/kg dcw)	2.30	2.60
Finished price (£/kg dcw)	-	-	Lambs finished per ewe	1.0	1.0
Weight (kg/head lw or dcw)	270	270	Lamb liveweight (kg)	36	34
Sales net of purchases	246	300	Sales net purchases	42	44
Support payments	167	167	Support payments	17	17
Total output	413	467	Total output	59	61
Feedstuffs	90	60	Feedstuffs	9	7
Other inputs	115	115	Other inputs	7	7
Total variable costs	205	175	Total variable costs	15	14
Gross margin	208	292	Gross margin	44	48
Forage costs	90	75	Forage costs	9	7
GM inc forage	118	217	GM inc forage	35	41
Stocking rate (head/ha)	1.5	1.2	Stocking rate (ewes/ha)	8	6
GM inc forage (£/ha)	177	260	GM inc forage (£/ha)	276	244
GM at conv prices (£/hd)	-	163	GM at conv prices (£/ewe)	-	36
GM at conv prices (£/ha)	-	196	GM at conv price (£/ha)	-	215

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 and 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.

Published by Organic Centre Wales, Institute of Rural Studies, University of Wales Aberystwyth, Ceredigion, SY23 3AL. Tel. 01970 622248

Whole farm profitability

Survey data for the year 1998/99 (the most recent available) for UK organic cattle and sheep farms illustrate some key differences in performance. These were lower stocking rates and fixed costs on the organic farms, the latter resulting in a slightly higher net farm income, which was just positive for both types.

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

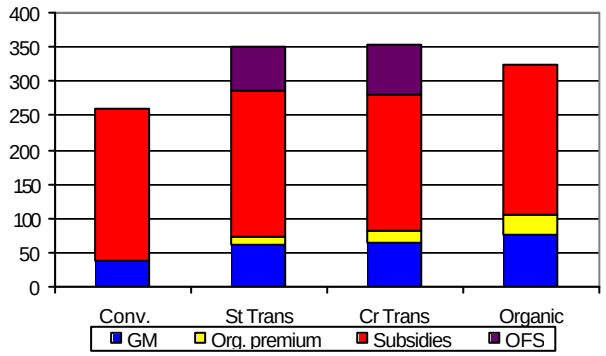
Values (£/ha)	*Conv 1998/99*	*Organic 1998/99*
Cattle (livestock units)	73	69
Sheep (livestock units)	68	91
Cereals (ha)	2	19
Forage (eff. ha)	89	152
Stocking rate (LU/eff. ha)	1.5	1.1
Size (ha)	91	171
Dairy output	24	0
Other cattle output	244	181
Sheep output	371	258
Other output	80	196
Total output	719	634
Feeds	119	74
Other livestock costs	71	45
Crop costs	59	67
Whole farm margin	470	448
Labour	84	30
Machinery	133	206
Other fixed costs	204	141
Total inputs	670	562
Net farm income	49	72

Modelling costs of conversion

The upland cattle and sheep farm models are based on a predominantly sheep farm moving to a more mixed system with reduced stocking rates and home-rearing of replacements. This seems to offer financial advantages, even at conventional prices, but this may simply be a reflection of the assumptions concerning the initial starting point. The organic premium plays a less important role than for other systems, but any reduction will still have an impact on overall performance. The most important factor determining the whole farm margin is the contribution from support payments. A reduction in stocking rates reduces income from this source, but with careful planning, income can be maintained at similar levels to conventional.

Upland farmers converting to organic production need to ensure that they have adequate access to forage conservation areas to provide for the feed requirements of stock in winter to comply with standards, as well as housing for cattle that may need to be introduced to help with parasite control and grassland management.

Whole farm GM (£/ha) for a converting 90 ha upland cattle & sheep farm, 2001/02 prices



Physical assumptions	*Conv.*	*Organic*
Cattle (LU)	31	42
Sheep (LU)	85	54
Lamb price (£/kg lw)	1.00	1.25
Beef price (£/kg lw)	0.90	1.20
Forage (effective ha)	83	83
Stocking rate (LU/ha)	1.4	1.2

Source: Institute of Rural Studies, UWA

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 here 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 increase on feeds produced on farm to avoid purchasing expensive conserved forage. In addition, upland farmers should consider whether agri-environment payments should contribute to income.