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## OCW Benchmarking Project: costs of production for organic milk, beef and lamb

Organic Centre Wales, supported by Farming Connect, is benchmarking organic dairy, beef and sheep enterprises. The results provide a good basis for understanding the financial contribution of individual enterprises to the farm business, as well as a better basis for price setting. In 2004/5, data from over 50 organic farms in Wales (almost 10% of the total) was collected and analysed using standard Farm Business Survey methods.

### Variable Costs

Variable costs (feeds, forage, vet & med and other livestock costs) were typically lower for organic (OCW) than conventional (FBS) production, despite lower yields per head and stocking rates, and higher prices for organic feed (Table 1). Feed costs per litre or kg were lower due to lower quantities fed and increased reliance on home-grown forage. Forage costs reflected lower fertiliser use, offset by lower stocking rates. Fixed costs (labour, machinery, power, buildings, land and other overhead costs) were typically higher per litre or kg due to the lower production levels.

### Sales

Output values reflected organic premium prices as well as higher values of support payments, in particular from agri-environmental schemes (including OFS payments), resulting in higher net margins. The OCW costings also show an imputed value for the farm family's own labour, land and capital resources. Even with higher prices, the outputs achieved were not sufficient to cover these 'hidden' costs fully. Although similar data are not available for the conventional farms, it is likely that these too were not able to cover these imputed costs.

### Future Organic Market

Since 2005, organic prices, particularly for milk, have risen further due to continued growth in consumer demand. The prospects for milk producers are therefore quite positive as long as the market can absorb new converters. For meat producers, the outlook is more challenging, because of their reliance on support payments to meet the costs of production. This raises significant questions about their ability to continue with these enterprises if not subsidised out of the single farm payment.

However, organic farming relies on the beneficial interactions between enterprises such as beef and sheep, and focusing only on the net margins may adversely affect technical performance as well as animal health and welfare. Benchmarking tools need further development to take these factors into consideration.

For further information on conversion to organic production, or to participate in the organic farm benchmarking project, contact the Organic Centre Wales helpline on 01970 622100.

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**Table 1: Organic and conventional milk, beef and lamb production costs and net margins, 2004/05.**

	<i>Milk</i> (pence per litre)		<i>Beef stores</i> (pence per kg LW)		<i>Beef finishing</i> (pence per kg LW)		<i>Lamb</i> (pence per kg LW)	
	<i>OCW</i>	<i>FBS</i>	<i>OCW</i>	<i>FBS</i>	<i>OCW</i>	<i>FBS</i>	<i>OCW</i>	<i>FBS</i>
<b>Holdings</b>	17	132	36	42	33	20	37	92
<b>Feeds</b>	3.5	3.7	12	16	28	30	16	23
<b>Vet &amp; meds</b>	0.5	0.6	9	9	4	3	8	7
<b>Forage</b>	1.1	1.5	16	24	10	23	9	16
<b>Other variable</b>	1.6	1.4	20	13	17	12	12	9
<b>Herd replacement</b>	1.1	1	10	10	--	--	17	15
<b>Labour</b>	0.7	0.9	13	5	8	5	9	4
<b>Power and machinery</b>	3.2	2.2	65	45	41	30	35	27
<b>Land and buildings</b>	1.0	0.5	19	14	12	10	9	10
<b>General farm costs</b>	1.3	1.3	41	20	25	14	19	14
<b>Rent and finance</b>	2.1	0.9	24	14	13	6	14	11
<b>Total costs</b>	16.0	13.9	227	170	156	130	148	134
<b>Output value including support payments</b>	22.1	21.6	284	184	275	152	238	164
<b>Net margin before imputed costs</b>	6.1	7.7	58	15	119	21	90	29
<b>Imputed costs</b>	5.6	n/a	217	n/a	132	n/a	120	n/a
<b>Net margin after imputed costs</b>	0.5	n/a	-99	n/a	-80	n/a	-30	n/a

Sources: Organic Centre Wales Benchmarking Project; Farm Business Survey in Wales Welsh Farm Income Booklet

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