

Business

Organic option can give smaller operators a viable foothold in dairying

Higher milk prices and lower inputs make organic dairying a potentially profitable niche for farms where large-scale expansion is not an option



Diarmuid Foley

Nowadays, life can sometimes appear to be all about running faster to stand still. This applies in spades to dairy farming. It is not too long ago that a 50-cow dairy herd was regarded as a substantial operation that could provide the farmer and his family with a decent income.

Sadly, this is no longer the case and the viability threshold keeps creeping up, resulting in the average holding being incapable of the economy of scale currently required for a decent standard of living. The only option for many smaller dairy farmers it is to expand or get out. However, there may be another alternative.

Organic dairying is a small but growing sector. There are approximately 45 organic dairy farmers nationwide with over one-third located in counties Cork, Limerick and Tipperary. At present the main demand is for liquid milk, fresh milk and yogurts, but there is also a growing demand for milk to manufacture cheese and other products.

In this article I will look at the viability of organic milk production and the costs associated with it.

Demand

So why the increase in the demand for organic milk? Recent Bord Bia research shows that 66pc of shoppers surveyed buy organic dairy products on a regular basis.

Given the current consumer focus on healthy options, sustainable land use and a lower carbon footprint, organic production ticks all of the boxes.

Organic production involves lower stocking levels, promotes higher levels of biodiversity, relies on natural resources and encourages higher levels of animal welfare standards.

This all adds up to an appealing option for a growing cohort of consumers who are prepared to pay a little extra. Furthermore, with Ireland's Nitrates Derogation coming under pressure, a move towards lower stocking rates looks inevitable unless there is a dramatic improvement in Irish water quality in the coming years.

Coupled with an increasing emphasis on antimicrobial resistance along with restricting the use of certain pesticides and herbicides, this makes a strong case for a closer look at organic dairying.

Profitability

The profitability on well managed organic farms compares very favourably to conventional dairy farms on a return per litre basis. Typically, the organic producer will get a far better margin per litre and this delivers viability with a much lower herd size. The organic producer is generally not concerned with scale, but rather with getting the most from his existing resources.

The majority of co-ops and manufacturers who purchase organic milk directly from farms pay a spilt price. Based on current pricing, the five winter months command a price of circa 60c/l. The

remaining months deliver a price of 37c/l.

Unlike the conventional system whereby you are paid above or below the base price for your milk solids, this payment structure does not exist in the organic system.

Currently there is no issue with demand from milk purchasers. The longer established organic milk companies such as Glenisk are actively seeking new milk suppliers.

Unfortunately, the route to supplying organic milk is quite a complex one.

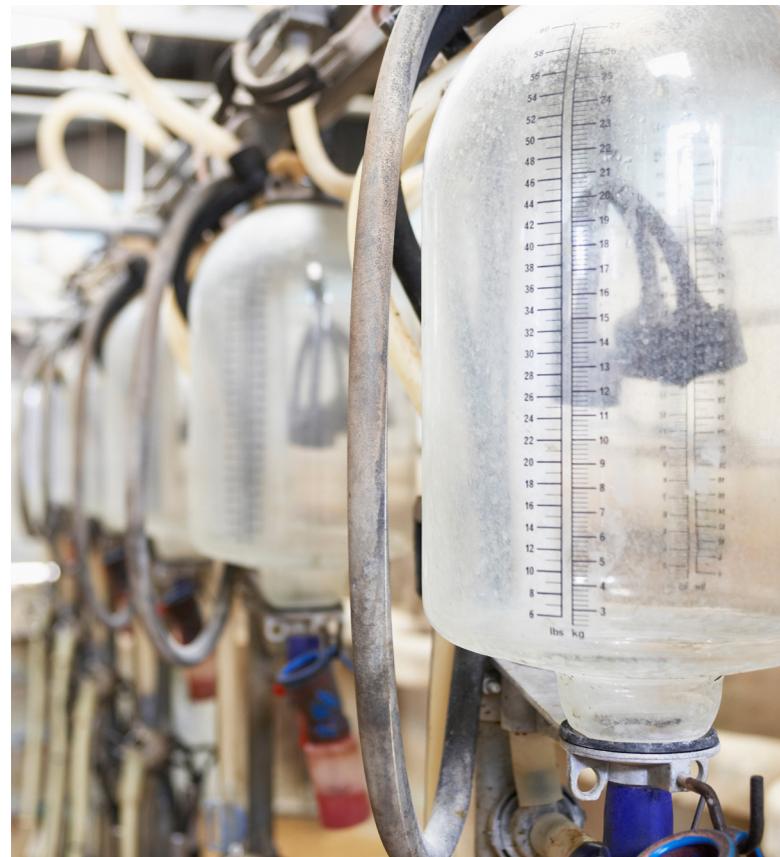
Firstly, you must be accepted into the Organic Farming Scheme which is currently closed to applicants and following that you must go through a two-year conversion period. The other big impediment to profitability on organic dairy farms is the cost of concentrates.

A tonne of organic concentrate for milking cows can cost €530-€550/t. Some co-ops and feed mills are currently looking for cheaper alternatives in a bid to reduce the high feed costs that are associated with autumn calving herds in particular.

Table A sets out the expected returns from a 70-cow organic herd with a split calving pattern where 60pc of the herd are calving in the autumn to avail of the increased milk price for the five winter months (October-February).

When one adds the Organic Scheme payment and the Basic Payment, the profit should be well north of €70,000.

Table B sets out the expected return from a similar 70-cow herd in non-organic production. While there is a significant



Premium: The typical organic producer gets a far better margin per litre and this delivers viability with a much lower herd size.

difference in the return between both enterprises, the organic operation requires at least 20pc more land area so the actual return per hectare may not be any greater from the organic system.

For the organic farmer this may not be a consideration where land availability is not an issue.

Organic scheme

Qualifying farmers for this scheme will receive €220 per hectare on the first 60 hectares and €60 per hectare on any area in excess of 60 hectares during the two-year conversion phase.

When full organic status is achieved, they will receive €170 per hectare on the first 60 hectares and €30 per hectare on any lands in excess of 60 hectares. There is also a red clover top-up of €30 per hectare on up to 10 hectares.

For a typical 40-hectare farmer this payment could amount to up to €9,100 during the conversion phase and €7,100 thereafter.

Organic production may have limited appeal to many farmers but it does afford the operator of a small to medium sized dairy herd an alternative to scaling up which inevitably involves substantial additional infrastructure and stock costs and, in many instances, additional labour.

Farmers interested in exploring the possibility of becoming an organic farmer should contact their local Teagasc or ACA advisor.

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TABLE A

FARM		Per cow	Total
Dairy cows	70		
Stocking rate (lu/ha)	1.35		
Litres sold/cows	4,800		
GROSS OUTPUT	Cent/litre	Euro	Euro
Milk Sales	48.5	2,328	162,960
+Cow & calf sales	4.31	207	14,482
- Replacement cost	6.5	312	21,840
Gross Output*	46.31	2,223	155,602
VARIABLE COSTS			
Feed	7.53	361	25,301
Fertiliser	1.02	49	3,427
Veterinary	1.75	84	5,880
AI/breeding	0.64	31	2,150
Contractor	2.51	120	8,434
Other variable costs	3.89	187	13,070
Total Variable Costs	17.34	832	58,262
Gross Margin	28.97	1,391	97,339
Fixed costs	13.2	634	44,352
Net profit	15.77	757	52,987

*Gross output does not include direct payments

TABLE B

FARM		Per cow	Total
Dairy cows	70		
Stocking rate (lu/ha)	2		
Litres sold/cows	5,500		
GROSS OUTPUT	Cent/litre	Euro	Euro
Milk Sales	31	1,705	119,350
+Cow & calf sales	4.31	237	16,594
- Replacement cost	4.2	231	16,170
Gross Output*	431.11	1,711	119,774
VARIABLE COSTS			
Feed	5.2	286	20,020
Fertiliser	2.5	138	4,235
Veterinary	1.1	127	8,855
AI/breeding	2.3	31	2,150
Contractor	2.51	120	8,434
Other variable costs	1.6	88	6,160
Total Variable Costs	13.34	734	51,359
Gross Margin	17.77	977	68,415
Fixed costs	8.5	468	32,725
Net profit	9.27	510	35,690

*Gross output does not include direct payments