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BUSINESS & MARKETS

# The financial performance of organic farms in England and Wales

Outcomes from Farm Business Survey data

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- Organic farm incomes  
in England and Wales

## ABSTRACT

A detailed knowledge of farm finances is critical for on-farm and policy-level decision-making. This is one of the key considerations for farmers who would like to convert to organic farming and yet still need detailed information about the financial implications.

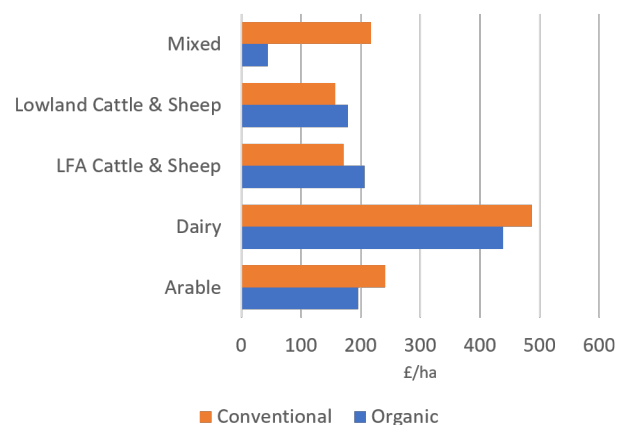
Between 2007 and 2015, ORC contributed to improving the knowledge base for organic conversion with a collection of reports about the financial performance of organic farms in England and Wales. These reports, based on the Farm Business Survey (FBS) data supplied by DEFRA, provide a comparison of financial figures of organic vs conventional farms.

Organic holdings were matched with clusters of comparable conventional holdings, to ensure meaningful comparisons between farms with a similar resource base such as similar land area, farm type and region. In this factsheet, some highlights from the last publication are presented together with some trends from the previous years.

## INTRODUCTION

At the time of the publication of the final report in 2015, 548,000 ha of agricultural land in the UK was farmed organically. This area has declined over the years to 474,000 ha of land farmed organically in 2018<sup>1</sup>. Different factors may hinder the adoption of organic farming practices. A good knowledge of the financial implications of organic farming can help farmers make decisions to convert on a sound basis.

The financial performance of farms is a complex subject. In this factsheet we look only at some aspects; we refer the reader to the full reports which are publicly available for a detailed overview<sup>2</sup>. Furthermore, external factors such as trade agreements and farming subsidies have a significant role to play, meaning that business performance is dynamic and requires review in light of changing circumstances. Here, we present highlights related to farm business income (FBI) and the costs of organic and conventional holdings to explore how understanding the financial performance of organic farms can be approached.



**Figure 1** Farm business income, comparison between organic and conventional farm by production sector in 2013/14 (LFA: Less Favoured Areas)

## MAIN RESULTS

Using data collected through the FBS in England and Wales (2013/14 data), organic holdings that met the pre-determined criteria were selected, namely farms that comprised of 70 % of their land area certified as organic. This included 190 organic holdings. Land area was controlled for by matching clusters of comparable conventional holdings. This led to data from 850 conventional farms being matched with 176 organic farms.

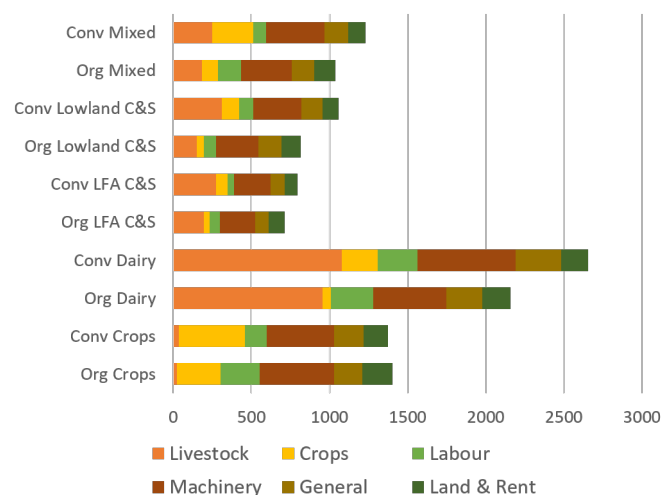
The analysis found that for most farm types, the performance of organic farms remains comparable to that of similar conventional farms. In terms of FBI (£/ha), organic farm incomes were higher for dairy and Less Favoured Area (LFA) and lowland cattle and sheep farm types, with organic arable cropping, horticulture and mixed farm types having lower FBI. The same pattern translated to total farm income.

Three figures are included to give an overview of the summarised data. **Figure 1** indicates that in 2013/14 the profitability (£/ha) of most organic farm types was in fact similar to that of comparable conventional farms. This was confirmed by no statistically significant t-test results in the data, except for some year-to-year changes within farm.

**Figure 2** shows the input costs for organic and conventional farms by farm types. Total costs were lower or similar for most organic farm types. Crop input costs such as fertiliser and crop protection were lower, as were livestock costs for all types except mixed farms; other costs varied by farm type.

Overall, whilst some fixed costs, in particular those related to labour, are higher, variable costs are generally lower in organic than in conventional farms.

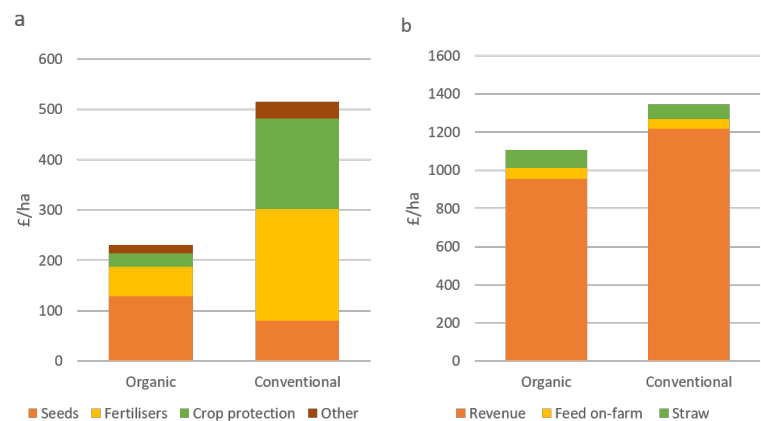
**Figure 3** shows, with the example of winter wheat in 2013/14, how organic enterprise output were 236 £/ha lower than conventional, whilst the variable costs in organic production were 283 £/ha lower than those in conventional production. This highlights the importance of understanding how costs and outputs partition across different categories in organic and conventional farming. For example, lower variable costs shown in **Figure 3** are mainly linked to the higher use of inputs (mineral fertilisers, crop protection) in conventional farms.



**Figure 2** Breakdown of farm input costs in 2013/14 (Conv: Conventional, Org: Organic, C&S: Cattle and Sheep, LFA: Less Favoured Areas)

## CONCLUSION

The comparison between organic and conventional farms in the 2015 report on the analysis in England and Wales showed no statistically significant differences in FBI per farm or per hectare, although some differences can be found by farm type and at enterprise level. Overall, looking at the trend in England and Wales since 2007 to 2014, the performance of organic farms was comparable with that of similar conventional farms. This analysis provides top-level data to inform practitioners and policy-makers when making decisions about organic farming.



**Figure 3** Variable costs (a) and enterprise output (b) breakdown: comparison between Conventional and Organic farms

It is important to consider the long-term financial performance of organic farming when considering the option to convert. Of course, every farm has its own set of circumstances that are relevant and need to be considered. It is worth noting that, since the publication of the last report of the series in 2015, the organic market in the UK has grown tremendously by more than 130 %, mainly driven by the increase in consumer demand<sup>3</sup>. This growing market potential is far from being fully exploited by the internal organic production.

## REFERENCES

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