

Economics of Organic Farming: Agronomic Crops

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Program for Beginning Organic Farming

Outline

- Comparison of returns between organic and conventional
- Comparison of risks
- Economics of transition

Comparison to Conventional Returns

- Need to look at returns over whole rotation, i.e. 3 to 4 years (Ex. South Dakota Budget)
- Need to update budgets with your information
 - S. Dakota budget assumes yields are 75% conventional, which may not be accurate
- Returns= Revenue – Cost
(Price*Yield)

Comparison of Costs (per acre variable costs, does not include land rent)

	Corn	Soybeans
Conv (IL)	\$196	\$96
Organic (IL)	\$189	\$104
Organic (SD)	\$185	\$145
Organic (KA)	\$87/\$122	\$71/\$107

Comparison of Revenue to Conventional

	Organic	Conventional
Corn prices	\$4-\$7.25	\$1.71-\$3.29
Corn yields	135	155
Corn Revenues	\$540 to \$978	\$265 to \$510
Soybean prices (feed)	\$10-\$14.75	\$5.15-\$5.60
Soybean yields	35	49
Soybean Revenues	\$350 to \$516	\$252 to \$275

*prices from www.newfarm.org and IL, yields from IL

Comparison of Risks

- Organic operations are more diversified
 - Key strategy for managing risk
- Marketing Risks
 - Quality Risk: Food-grade premiums higher, but quality much higher too
 - Growing demand for feed lowers risk
 - More negotiation required and may wait longer for payment

Comparison of Risks

- For corn: contamination from GMOs (pollen drift)
- Certification Risk
 - Need to have good records
- “Learning Curve”

Economics of Transition

- Transitioning is tough
 - No transition markets, i.e. no premiums
 - Low yields during first 3 years
 - After 3-5 years in organic, yields may be 90 to 95% conventional
 - Exceptions: CRP into soybeans, yr 3 yields high
 - Initial cost increase/Learning period
 - Retooling and new equipment purchases
 - Is storage adequate?
 - Additional labor

Hidden Costs of Transitioning

- Learning Curve
- Does your banker support you?

Strategies for Successful Transition

- Don't need to convert the whole farm at once
 - Instead, convert a bit and learn how to farm organically
- CRP land that is documented without pesticides can be organic tomorrow
- Forages/Grazing land during transition period

Use Government Programs

- Organic Certification Cost Share, National Organic Program (USDA-AMS) up to 75% cost of certification, not to exceed \$500
- Environmental Quality Incentives Program (USDA-NRCS)
- Conservation Security Program (USDA-NRCS)
- Value-Added Agricultural Producer Grants (USDA-RBCS)

More Information

- Crop Budgets:
 - Illinois, corn:
<http://web.aces.uiuc.edu/value/factsheets/corn/fact-organic-corn.htm>
 - Illinois, soybeans:
<http://web.aces.uiuc.edu/value/factsheets/soy/fact-organic.htm>
 - South Dakota, multiple crops:
<http://www.ext.nodak.edu/extpubs/agecon/ecguides/2003org.pdf>
 - Kansas, multiple crops:
<http://www.kansasruralcenter.org/publications/Organic%20cropping.pdf>

More Information

- Organic field trials:
 - <http://extension.agron.iastate.edu/organicag/rr.html>
- SARE publication on transition
 - <http://www.sare.org/publications/organic/organic.pdf>