

## North Carolina Organic Grain Budgets

S. Gary Bullen  
Extension Specialist  
Department of Agricultural and Resource Economics  
North Carolina State University

These budgets are an estimate of the full economic costs and returns for organic grain production in North Carolina. The budgets are based on but one set of many possible cultural and management practices that could be used in the production of organic grain. The most common cultural and management practices in North Carolina were used as the basis for the costs and returns shown in the budgets. Specific farm conditions will vary considerably, which affects both cost of production and yields. Organic production may have more variation in yields and price than conventional production systems. These budgets are only intended to be used a guide to developing costs and returns estimates for your farm specific situation. Individual farmers are encouraged to develop their own cost and return for their organic grain crops.

Each individual budget includes estimates of gross receipts, variable operating costs, and fixed costs for that crop. Budgets are a guide to what particular costs and returns are expected to be, on average, for a representative farm over time and at similar locations. They provide estimates of costs and returns for one year for one crop. An enterprise budget for a specific crop cannot take into account the effects of various crop rotations, which could greatly affect the production practices, costs and returns. Note also that the fixed costs include the costs associated with the transition from conventional farming to certified organic status. Farm overhead costs are not considered, including any cost or charge for land. The measure of profit is returns to land, management and risk.

Gross receipts are estimated from expected prices and normal yields. Yields were estimated to be twenty–five percent lower than for conventional production methods of the same crop. This reduction in yields was based on personal conversations with producers and industry sources. Over time experienced growers should expected to see yields improve to near conventional yields under good growing conditions. Price discovery is more difficult for organic production due to the smaller number of buyers.

Variable costs are those costs that will change based on the level of production. For example, increased production will require higher levels of soil fertility. Since most organic grain is not sold at harvest, drying, and storage costs for three months are included in budget. The machinery costs are based on new equipment prices for the year in which the budget was developed. Used equipment has lower ownership costs (depreciation, interest on investment, tax, insurance) but has higher annual repair and maintenance costs. Labor costs depend on the farm situation. Some activities may require extra hired labor with the associated additional expense, while on another farm the activity might be performed by the owner. A labor charge is included in the budget to

reflect either the cost of hiring someone to perform the work or the minimum return the owner wants for his or her time.

The fixed costs include machinery and equipment ownership costs and amortized transition costs. The ownership costs of machinery and equipment are depreciation, interest on investment, taxes and insurance. The transition cost reflects the fact that, during the transition period, cultural practices must be altered to come into compliance with the organic rules, type of crops grown and crop mix may need to be changed to meet soil fertility and weed management constraints. It is expected that costs increase and revenue decreases because yields are reduced and crop products cannot be sold as organic. The transition cost is estimated by the difference in organic and conventional revenue and costs during the three-year transition period. This transition cost can be thought of as an investment in certified organic production and, as such, it should be amortized over the farmer's planning horizon. In these budgets, the estimated transition cost was amortized at 8% over 10 years and listed as a fixed cost of production.