By Fiona Scott, NSW Agriculture

GROSS MARGINS

Crop gross margins representing the difference between gross income and the variable costs of producing the crop are presented for solid and skip row plantings in the major cropping areas.

These budgets are a guide only, and individual growers should draw up their own.

It is advisable to only make comparisons of gross margins between enterprises which use similar resources. If major changes are being considered, more comprehensive budgeting techniques (that include overhead costs) are required to indicate the real profitability situation.

Gross margins do not take account of the following factors:

Risk: gross margins can show the proportion of costs in relation to income, but don't consider price and yield risk. The sensitivity tables following the budgets help to illustrate the effects of yield and price variations.

Cashflow pattern: **Figures 10** have been developed as a guide to show when costs may be incurred during the season.

Gross margin budgets do not show gross farm profit because they do not include fixed or overhead expenses such as depreciation on machinery and buildings, interest or insurance payments, rates, taxes or permanent labour which have to be met regardless of crop type. The amount of fixed costs per hectare varies considerably between properties, making it difficult to provide reliable estimates of such costs.

Assumptions used in these gross margins include:

- Average season yields following a winter cereal and long fallow
- Selection of pesticides varies markedly depending on pest species and season. Rotation of insecticides should be followed as per industry strategy, which changes each year due to changes in insect resistance to chemicals.

KEY POINTS:

- **Budgeting is a necessary ongoing process on all cotton farms**
- **Lint price per bale is critical to profitability**
- **Caution should be exercised when entering into forward contracts**

Listing of brand or chemical names in the budgets does not imply a recommendation of those brands/chemicals.

- An average to high number of insecticide applications using a soft approach to maintain predators.
- No labour costs (except for chipping)
- Machinery costs refer to the variable costs of fuel, oil, repairs and maintenance for both the tractor and the implement. For details on variable and overhead cost calculations, refer to NSW Agriculture's *Farm Budget Handbook 2001 Winter Crops*: Northern NSW- Summer Crops and the NSW Agriculture AgFact (M2.6) on machinery calculations (www.agric.nsw.gov.au)
- Chemical prices are those estimated at January 2001. For further information on chemicals, refer to NSW Agriculture's "Cotton Pest Management Guide".

FINANCE

Financing the crop is a major consideration.

Crop credit is available through agricultural chemical resellers and allows growers the option of deferring chemical costs until after picking. Interest is charged at current short term money market rates, e.g. bank bill rates.

At picking, pre-ginning loans (module advances) are available from most processors and merchants. Details should be discussed with appropriate personnel.

Payment timing depends on the type of contract. Many arrangements pay 60 to 75 percent in the July after ginning, with final payments in September and December.

DRYLAND COTTON BUDGETS

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The gross margin budgets are intended to provide a guide to the relative profitability and an indication of management operations involved in different dryland cotton enterprises.

Budgets are calculated using crop yields for the region that are consistent with the operations given, forecast commodity price, current input costs and technical information provided by agronomists and cotton industry development officers.

The degree to which these budgets reflect actual crop returns will be influenced not only by general factors common to all farms, such as prices and seasonal conditions, but also by the individual farm characteristics such as soil type, crop rotation, and management.

Consequently, it is strongly recommended that the budgets be used as a GUIDE ONLY and should be changed to take account of movements in crop prices, changes in seasonal conditions and individual farm characteristics.

Gross margins need to be used carefully when using them as a guide to deciding on the farms overall enterprise mix. Because overhead costs are excluded, it is advisable to only make comparisons of gross margins between enterprises which use similar resources.

Refer to the NSW Agriculture website (www.agric.nsw.gov.au) for downloadable specialised cotton budget forms in Excel format. Look for "Farm Forms" under Farm Business and Trade -> Economics Publications.

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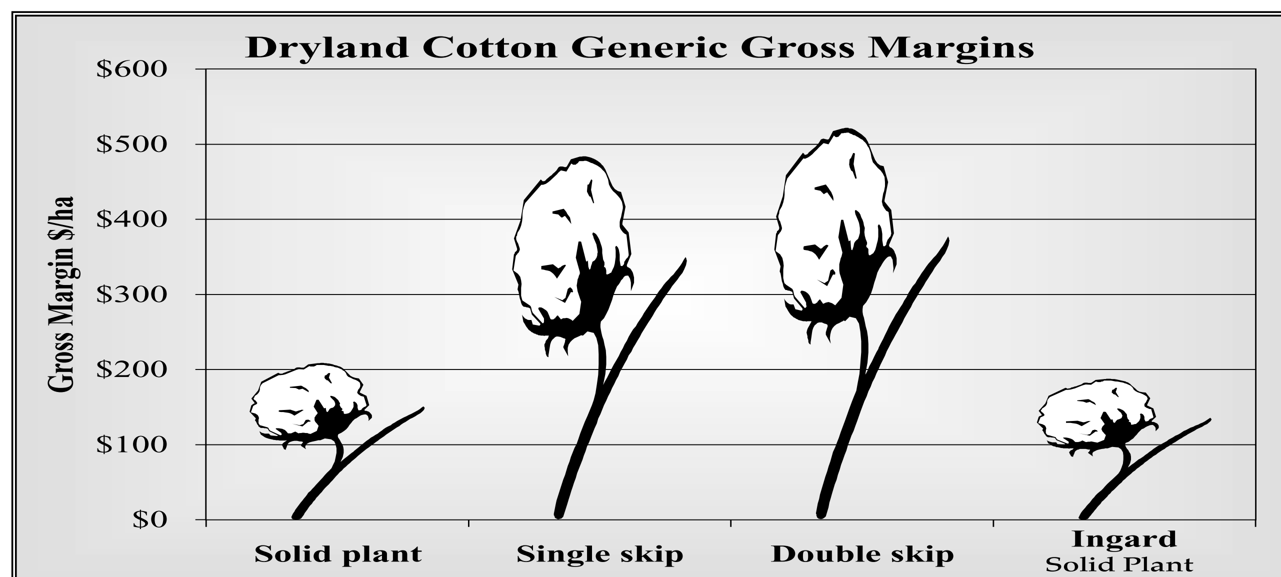
Table 7: Dryland cotton generic gross margins.



Dryland Crop	Yield (bales/ha)	Income	Costs	Gross Margin	Costs as a % of income	Est. Breakeven yield
Solid plant	3.00	$1,466	$1,257	$209	86%	2.92
Single skip	2.70	$1,316	$831	$485	63%	1.70
Double skip	2.50	$1,219	$696	$523	57%	1.43
Ingard-Solid Plant	3.00	$1,463	$1,274	$188	87%	2.61