

Sharemilking

Notes from Cluster meeting

Morrinsville 22nd November 2011

Speaker: Ciaran Tully - Chairman Federated Farmers Sharemilking section

Benefits for farm owner

- Free up time and money.
- Lifestyle change – less hands-on.
- Succession planning.

Benefits for sharemilker

- Opportunity to run own business.
- Responsibility of management and decision making.
- Lifestyle and wealth creation.

Types of sharemilking agreements

Herd Owning

- A contract between 2 parties – details can be altered by mutual consent.
- Farm owner provides land, infrastructure, fertilizer.
- Sharemilker provides cows, labour, machinery, fuel, power.
- Shared : grazing, nitrogen, supplements, feed, water.

Variable Order Sharemilking

- Sharemilker provides labour, some machinery, sometimes a share of nitrogen and feed.
- For herds of 300 cows or less, by law, the sharemilker must have a net income of at least 21% of milk payments (22 % if Fonterra dividend payments are not included).

Contract Milking

- Important IRD criteria define contract milking (see Dept of Labour website).
- Main requirement is that the Contract milker must have management control and flexibility, otherwise can be deemed to be an employee and the farm owner becomes liable for associated costs, PAYE, holiday pay etc.
- Contract milker is an independent contractor, provides labour, some machinery/tools.
- In a smaller herd situation, it is suggested that Contract milkers should receive at least \$1.25 / kg MS otherwise they would be better off on wages.

Equity Partnership

- Opportunity for milker to own land and farm owner to release capital.
- Key considerations: cash returns vs capital gain, number of partners, chances for wealth creation?

Keys for successful contracts

Communication

- General – ‘broad brush’ approach, outcomes based, assumes trust and skill.

- Specific – lists, targets, regular meetings, accountability, can be inflexible.
- Controlling – written, inflexible, no initiative, reduces potential.
- Empowering – discussion, planning, trust, long term, sum is better than two halves.

Take time

- Read and go through contract in full – should take several hours.
- Seek independent advice.
- Discuss and note individual clauses.
- Sign it !

Clearly defined

- expectations,
- production targets, maintenance/capital works, fertiliser, supplements policies,
- time frame,
- use an industry recognized contract, eg Federated Farmers,
- disputes resolution process.

Before signing

- Check infrastructure, houses, shed and stock on farm.
- Do reference checks.
- Remember ‘leopards don’t change their spots’.

Disputes resolution

- Keep calm, use common sense.
- Have a third party listen and facilitate (they don’t have to give a solution).
- Keep the issue in its simplest form.
- Remember arbitration and mediation are EXPENSIVE (90% of cases are sorted before this stage).

Conclusions

A successful sharemilking agreement is based on honesty and integrity. With clear goals and plans, and good communication to support this, it allows both parties to grow personally and financially. Sharemilking gives a good lifestyle and it is a way to create wealth for the next generation of dairy farmers.

Other information

For electronic copies of contracts see: <http://www.fedfarm.org.nz/n1112.html>