

Agriculture Factsheet

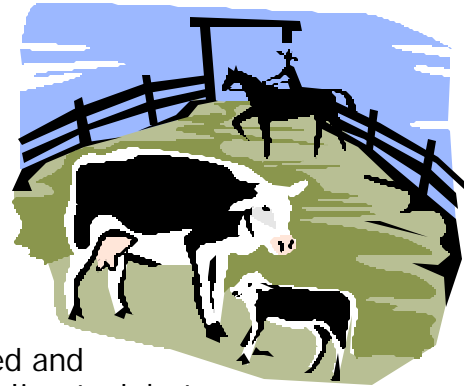
Cow Leasing Agreements

Introduction

Livestock leasing is a long-standing and useful management tool used by farmers to aid in production and expansion. Leasing agreements encourage more efficient management by maximizing available resources.

A variety of lease arrangements may be arrived at depending upon the need of the participants to the agreement. For example, producers lacking sufficient capital to purchase livestock may consider leasing cattle from another farmer. This allows a farmer to lease good quality livestock for herd building purposes.

Another situation lending itself to a leasing arrangement may involve a producer, short of cattle, who has available extra feed and facilities to generate additional income. A neighbour may own livestock but need additional feed and facilities. Together, they may be able to reach a lease agreement to meet these needs. Non-farmers who own livestock or facilities also may enter into similar lease agreements with farmers.



Other situations which may result in a lease agreement include a farmer wishing to lease livestock to his / her son / daughter to assist in developing a new farm or a farmer leasing cattle to a neighbour while leaving his / her farm temporarily. Under these arrangements, the owner could share in the profits when the animals are marketed.

Note: A lease is a legal agreement. This factsheet describes livestock leasing based on good business practices. Consultation with a lawyer is advised before entering into a lease agreement.

Main Types of Cow Lease Agreements

1. Cash Lease
 - (a) Fixed for term of agreement
 - (b) Variable - re negotiated after set period
2. Share lease based on contributions
 - (a) Based on percentage split of revenue from calf sales
 - (b) Based on share percentage of actual calves

Cash Lease Agreement

In a cash lease agreement, the owner receives a fixed annual payment from the operator. The annual payment can be negotiated each year or set for the term of the agreement.

The operator accepts all production and market risk. The operator receives all income from the sale of the calves and pays a direct cash payment to the owner. The operator's returns will vary with weaning percentage, weaning weight, calf price and feed costs, while the owner's return is not affected by production or price.

In negotiating the cash lease, the owner must receive enough income to cover all costs of owning the breeding herd. The cost of owning cattle should include a cost for replacement, interest on investment and a value for death loss.

When operating costs are high, calf revenues are low, and cow markets are disrupted - then cow cash lease values drop, until markets and revenue recover.

The Contributions (%) Agreement

The livestock share lease is the most common type of agreement. Each party's share will vary with the weight and price of cattle when sold. The owner and the operator share the money received from the sale of cattle in whatever manner they have agreed. The actual revenue to be split varies with the weight and price of the cattle when sold.

Three things need to be determined for an equitable leasing arrangement. These need to be done by the owner and the operator working together. They are as follows:

1. Determine the cost categories that should be considered
2. Determine the major costs each will be contributing
3. Determine the percentage of the total costs each party has contributed

When these three factors have been determined, then the owner and operator should share the income in the same proportion as they contributed to the operation.

Contributions from either owner or lessee are varied and therefore the percentage of revenue should also vary. When the main or only contribution is the cow, then the value of that cow greatly influences the percentage share.

** Work sheet examples are available at MAFRI Offices or they can be accessed directly from several Internet sites. Specific information sites are listed on the back page.



Advantages and Disadvantages of Leasing

Before proceeding with a cow-calf leasing agreement, both parties should consider the overall advantages and disadvantages.



Advantages of leasing

The owner can:

- Retain ownership of the herd even when not active in farming
- Adjust the scale of the operation to a manageable size by leasing out part of the livestock assets
- Have access to skilled management if own experience is limited
- Maintain an active interest in cattle production while phasing into retirement

The operator can:

- Reduce fixed capital costs when starting or expanding the operation
- Make further use of resources such as livestock buildings and pasture
- Test an enterprise before making an investment
- Gain experience in beef production under the direction of an experienced producer

Disadvantages of leasing

The owner might:

- Receive lower returns because of inefficient management and lack of direct control
- Find it difficult to sell cows on short notice if for some reason the agreement is terminated

The operator might:

- Find that the owner interferes with management decisions

Points to Consider in a Lease Agreement

If both parties agree that it is to their mutual advantage to enter into a share agreement, they should then work through the management decisions that are going to arise. Time spent preparing a written contract will help avoid misunderstandings during the life of the agreement.

Points to consider:

1. Duration of agreement
2. At what time of year is the agreement over?
3. What provisions exist for ending agreement?
4. How is agreement renewed
5. Right of refusal on delivery (re: disposition / health / injury in transit).
6. Where will cattle be wintered & pastured?
7. Can cattle be moved without owner consent?
8. Who selects the bulls?
9. When are bulls put out and when pulled?
10. Who designs the health and feeding program?
11. What condition are cows to be maintained? B.C.S. (Body Condition Score) - Arrival : Departure

12. Which veterinarian will be used?
13. Will cattle be pregnancy checked? (when?, who pays?)
14. How are cattle identified?
15. If dispute of identification / ownership - who resolves?
16. How are replacements made? (when and by whom)
17. When are the calves sold? (season/month/week/specific sale)
18. How are the calves sold? (Auction / other). If calves are retained by either or both - who picks / what order?
19. Inspection by owner
20. How are retained calves handled & valued?
21. Who picks the culls and when are they sold?
22. Who gets the income from cull cows and bulls?
23. Are marketing costs shared?
24. Are livestock sold in joint name? (manifest)
25. Are there liens on the cattle?
26. Who is carrying liability insurance?
27. How is cattle death handled and verified?
28. How are lost or stolen cattle handled? (if lost / strayed - who finds - who retrieves?)
29. How are death / disability of either party handled?
30. If weaned calf guaranteed %age - are substitute calves accepted?
31. Will there be a minimum and maximum number of head that must be maintained at all times? (By whom?)
32. Are shares in the cow herd earned or is the agreement limited to the calf cheque? Can the operator transfer his share into equity in the cow herd?
33. Who determines the grazing capacity of the pasture?
34. Is there a back-up plan if the grass runs out?
35. How much warning is required before the cattle can be taken away from the operator?
36. Check with Agricultural Crown Lands office prior to putting lease cattle on Crown land.

** When markets and international trade are disrupted the resulting revenues can be volatile. Cow / calf lease agreements need to be flexible to be fair and workable for all parties to an agreement. **

Links

Manitoba Cow-Calf Share Lease Agreement

<http://www.gov.mb.ca/agriculture/financial/farm/doc/samplecowcalfshareleaseagr.doc>

<http://www.gov.mb.ca/agriculture/financial/farm/caf22s01.html>

Alberta Ropin the Web 1-800-292-5697 or (780) 427-0391

[http://www1.agric.gov.ab.ca/\\$department/deptdocs.nsf/all/agdex65?opendocument](http://www1.agric.gov.ab.ca/$department/deptdocs.nsf/all/agdex65?opendocument)

Saskatchewan Cow Calf Leasing Arrangements

2003 -

http://www.agr.gov.sk.ca/docs/livestock/beef/production_information/Livestockleasing.asp

2004 -

http://www.agr.gov.sk.ca/DOCS/livestock/beef/production_information/LivestockLeasing.pdf

Factsheet by: Gerry Orr

Peter Blawat

Ian McCartney