

BSES Limited



**FINAL REPORT - SRDC PROJECT BSS298
SHARE-FARMING OPTIONS FOR
THE AUSTRALIAN SUGAR INDUSTRY**

by

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SD07005

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SUMMARY

The Australian sugar industry is faced with an aging farmer population, high land prices that limit expansion and a large number of small farms. Share farming and leasing have the potential to solve these three problems.

This report presents a snap shot of share-farming and farm-leasing practices in four cane-growing regions: Cairns, Mackay, Bundaberg-Maryborough and New South Wales. Key learnings from the project include:

- Leasing is the most common arrangement in Queensland, while only share-farming arrangements were found in New South Wales;
- Arrangements vary considerably among regions;
- Land 'rents' vary from under 10% to over 25% of gross income;
- Arrangements where rent is varied according to sugar price and production are becoming more common;
- Share farmers and lessees all considered "It was worth it";
- Greater economy of scale was the main reason given;
- Land owners enjoy tax and other benefits from retaining the land for agricultural use;
- Share farming is a way of securing land for future generations.

The information contained in this report and subsequent articles should help potential share farmers and lessees as well as land owners understand the issues associated with farming on another's land. An expansion of share farming and leasing will improve viability for individual farmers and reduce the loss of productive land from the industry.

1.0 BACKGROUND

Three problems currently faced by the Australian sugar industry include:

1. An aging farmer population;
2. High land prices that make it difficult for new farmers to enter the industry and for existing farmers to expand; and
3. A large number of small farms in the industry.

Increasing the amount of share farming and leasing will have a positive impact on these three problems. Share farming and leasing allow farmers to expand and better utilise their time and existing equipment without incurring large capital costs. For a farmer seeking to retire or change jobs without selling the family farm it provides an income stream. Greater use of share farming will also reduce the number of farm enterprises in the industry.

Share farming and leasing are widely practised overseas. Over half of the land farmed in Illinois (second-largest US farming state) is share farmed; approximately 80% of cane land in Louisiana is share farmed. Both share farming and land leasing are commonplace in Europe and UK.

In the areas visited, share farming or leasing accounted for under 10% of total cane grown to around 30% in one mill area (Broadwater).

2.0 OBJECTIVES

This study sought to identify and describe different share farming practices used in the Australian sugar industry. To do this, I spoke with share farmers, lessees and land owners as well as CANEGROWERS' managers plus legal and financial advisors in four major cane-growing areas (far-northern Queensland, Mackay, Bundaberg and New South Wales) about their experiences with leasing or share-farming practices used in those areas.

The second objective was to identify the advantages and disadvantages to both share farmers or lessees and land owners of different arrangements and contract conditions.

Family leasing and share farming arrangements were excluded, as they are often done on non-commercial terms.

3.0 KEY LEARNINGS AND KNOWLEDGE GAINED

3.1 Survey results – Share farmer/lessee

Interviews were conducted with 20 share farmers and lessees.

3.1.1 Share farmer/lessee profile

Experience with share farming or leasing ranged from less than 1 year to over 20 years among the people I spoke with. Most farmers surveyed had 5 years or more experience. Most (65%) also leased or share farmed more than one farm. The area share farmed or leased ranged from 12 ha to 400 ha, with the median about 80 ha. All farmers also farmed their own land; the median area of cane land owned by lessees and share farmers was about 100ha. One farmer had started share farming before he owned land himself using equipment from his family's farm.

Farming land next door to their own farm was the most common situation. 65% of respondents said the extra land was less than 10 minutes away. No one was farming more than 30 minutes away from their own farm.

How they got started

Reasons for starting share farming or leasing varied from “It’s what I know” to “I got bored”. The most common reason cited was the need for additional income without the expense of buying additional land. Two farmers said they took on additional farms when the sugar price reached 18 cents per pound. Two said that adopting minimum-tillage planting on their own farms had allowed them to expand. A quarter of respondents said that the land owner had approached them to “take on” the farm.

Advantages of share farming or leasing

Most farmers surveyed cited more than one advantage to them from share farming or leasing. 80% of farmers cited either the additional income from the extra land or better economy of scale as advantages. Half said it allowed them to better utilise existing equipment or to buy larger or better gear.

20% cited the additional throughput the new farm gave either their own harvester or a harvester they owned with other farmers. 15% cited better use of capital or avoiding debt.

One lease farmer cited the “spreading of risk” as a major advantage. His farms were spread over 13 km across different soil types and rainfall areas. This set up allowed him to spread the risks associated with floods, wet harvesting and canegrub infestations. As this same farmer cut all the cane he grew, this spread of farms allowed him to geographically harvest. He could cut a farm on flood-prone country when it suited and cut other farms as their CCS peaked. Cutting whole farms in one round also allowed him to fertilise and spray those farms “in one hit.”

Disadvantages of share farming or leasing

Almost half (45%) of farmers I spoke to could not think of any disadvantages due to farming extra area. 30% indicated that share farming or leasing were not attractive in

times of low prices. To quote one farmer, “When the price is low you don’t make anything”. Several of these farmers also said that fixed rate agreements were a problem when prices were low. In one area, several share farmers (not interviewed) renegotiated the agreement with the owner when prices were low; one share farmer on marginal country paid only rates until the price recovered.

Not owning the land so that no capital gain accrued was also recognised as a disadvantage, as was the uncertainty that arose near the end of the lease. Farmers wondered how much to plant in their last year or so of the agreement if they were uncertain if they would continue farming the extra land.

Few people mentioned the extra work (“including shed work”) involved. One farmer said, “You lose your lifestyle, now it’s a business. I don’t grow it the same way as my father did”.

Is it worth it?

Of those farmers who had been share farming or leasing for more than 1 year all said it was worth it, although some qualified it by saying things like, “Yes, when the price is good”. Many farmers were willing to take on more land (“Would take on another tomorrow”).

3.1.2 How income is split

With lease agreements ‘rent’ was based on a proportion of gross income or in one case on a fixed rent of \$500 per ha. When the mill paid a bonus, the owner received the same proportion of the bonus as he did from the normal cane payment; the balance of the bonus stayed with the lessee.

For share-farming agreements in New South Wales, rent is based on a proportion of income after harvesting and levy costs are deducted. In a few cases, input costs are also shared.

District	General rate range	Comments
Leasing (all % gross)		
Cairns	12.5 – 15%	
Mackay	12.5 – 15%	Lowest: 10%. Highest: 19% (signed when sugar 19 c/lb)
Bundaberg-Maryborough	8 – 13%	12% was most common 8% applies to some leases when the sugar price is below \$290/t One farm was \$500/ha
Share farming		
Mackay	16% (% of gross)	Included bonuses.
New South Wales	20 – 33.3% (% of net)	Older arrangements were at 33.3%; recent arrangements ranged from 20-30% some of which had been renegotiated from previous ‘2/3:1/3’ arrangements. The average of all arrangements was 29%.

3.1.3 Flexible arrangements for rent

Only one farmer interviewed (lease arrangement) had a flexible arrangement for rent with the land owner. In this case, rent varied from 8% to 15% based on the sugar price.

Without this flexibility, the share farmer or lessee bears all the risk relating to both low production and low prices. A flexible arrangement allows this risk to be shared more equitably between the two parties. When prices and/or production are high, the owner can receive a 'bigger slice of the cake' than occurs with a fixed arrangement.

30% of those I spoke to cited low prices or inflexible rent arrangements as disadvantages when share farming or leasing.

3.1.4 Sharing costs

Growing costs

In many, older share-farming agreements in New South Wales, the owner shares some input costs, such as fertiliser, in the same proportion as the income is split (often 2/3 – 1/3). These old agreements date back at least to the 1940s. A small number of current agreements in New South Wales still include input-cost sharing.

Harvesting costs

All New South Wales share-farming agreements include sharing the harvesting costs plus levies in line with the income split. In all other districts, harvesting costs are borne by the lessee or share farmer.

Capital costs

Half of the share farmers and lessees I spoke to had met some capital costs on the farm, although many felt it was not really their responsibility. In other cases, the owner would maintain existing capital works on the farm, eg drain crossings. Some farmers had split (usually 50:50) laser-grading costs with the owner.

Other costs and arrangements

In most cases, the owner paid the rates, but there were two exceptions to this. Public liability is usually the share-farmer or lessee's responsibility.

With income from break crops, the most common arrangement was that the share farmer or lessee received all of the income. In some share-farming arrangements, the owner received the same share of the income from break crops as they received from cane.

Most share farmers and lessees had the use of any sheds on the property and maintained those sheds.

Length and form of agreements

Agreements ranged from 7 x 7 (7 years with an option for 7 more) to year-by-year arrangements. The most common were 5 x 5, or 3 x 3 x 3.

In most cases, a written agreement existed, but several successful agreements were done 'on a handshake'.

In all nearby districts, written agreements are available through local CANEGROWERS' offices or NSW Canegrower's Association offices at no charge. In Queensland, legal advice is also available on share farming and leasing.

Disputes

Disputes were rare, with only 2 of 20 farmers surveyed saying they had been in dispute with the owner.

Lease, share farm or contract rate?

In Queensland, all arrangements except one were lease agreements. In New South Wales, there were mostly share-farming agreements. Working the farm on a contract (per hour) rate is common in the Harwood (New South Wales) area but not encountered outside New South Wales. No leasing agreements were found in New South Wales.

Other comments

Other comments by lessees and share farmers:

- "I'm doing more than the farmer did";
- "Would take on another 40 ha";
- "Wouldn't do under 5 years [length of agreement]";
- "Haven't met one bloke yet" (arrangement made via telephone);
- "A good way to keep sons on farm and bring in young people";
- "Our three farms kept others [share farms] afloat in poor years";
- "Growing 27,000 tonnes now, could do 40,000 with existing equipment";
- "Need a good relationship with owner. Would take on another 50 ha, but wouldn't employ a full-time man";
- "J... (wife) is the taxi driver when I shuttle machinery around".

Value of the stool

Only one agreement considered the state of the farm at the beginning and end of the agreement. This agreement compensated the lessee if the average age of stool on the farm was reduced. If the average age increased, the owner was compensated. Compensation is based on the cost of land preparation and planting. Compensation was based on the following table:

Stool age*	Stool value (\$/ha)
Plant cane	1,500
First ratoon	1,200
Second ratoon	900
Third ratoon	600
Fourth ratoon and older	300

* based on year-old cane

3.1.5 Managing a farm for an owner

In the Harwood mill area (New South Wales), several farmers were ‘working land’ for the owner on a contract basis. In these situations, the farmer generally works the farm as he sees fit and invoices the owner for work performed. The farmer is usually authorised to operate on the owner’s account at local rural suppliers for buying fertiliser and pesticides. All mill payments go to the owner. This arrangement was only encountered in New South Wales.

3.2 Survey results – Owner/lessor

I spoke with five land owners during the project. The number of farms owned ranged from a single farm to over 20. The size ranged from small holdings under 20 ha to large corporate farms. The reasons for entering a share-farming or lease arrangement ranged from buying a rural lifestyle block and wanting the land cared for, to mill owners who wanted to maintain cane supply. Owners held mixed views in response to the question “Do you think it is worth it?”. “Low returns” was the reason given for a negative response.

In one area, the mill owner has leased land from the farmer at a nominal rate, with the farmer then share farming the property for the mill. To guarantee inputs are maintained, the owner pays all major inputs. The share farmer/manager is then paid on a sliding scale based on yield. The arrangement was put in place to secure ongoing cane supply and to assist the farmer with cash flow. Incentive schemes based on productivity were seen as being successful in raising production.

Other advantages to the owner included:

- maintaining productivity maintains the value of the farm;
- keeps the owner’s options open (eg son may return to the farm);
- capital gain;
- reduced local government rates on agricultural land (important for rural lifestyle blocks);
- no GST is payable on the sale of agricultural land;
- capital gains tax concession on agricultural land;
- land tax concessions are available on agricultural land in Queensland;
- for mill owners – cane supply is maintained.

3.3 Share farming or leasing?

From the owner’s point of view, leasing at a fixed rent provides a more certain financial return than rent as a proportion of farm income. However, fixed-rent arrangements leave the risk of both low prices and poor seasons with the share farmer or lessee.

Setting the ‘rent’ as a proportion of the gross income shares some of the risk between the two parties. However, as the person growing the crop meets all the growing and harvesting costs, they still bear most of the risk. Basing the rent on a proportion of net

income after harvesting costs and levies are deducted shares the risk further, although the share farmer or lessee still bears the majority of risk.

When a farm is leased, the lessee becomes the supplier to the mill and the owner ceases to deal with the mill. In a co-operative mill, the lessee becomes the co-operative member. All payments, including bonuses, are paid to the lessee. A lease is akin to a temporary sale. In a share-farming arrangement, both parties receive payment directly from the mill, as they are joint suppliers.

3.4 Share farming and leasing arrangements in other crops

Lease rates in cotton range from 15-20% of gross income. In wheat, the rate is lower at 12-15% of gross. In horticultural areas, rent is typically paid on a per hectare basis, with \$600-800 per hectare per year quoted as a typical figure. At Bundaberg, land leased for growing vegetables ranges \$1,250-1,500 per hectare, which includes irrigation water. The owner pays rates only.

3.5 Other comments by interviewees

- Share farming is a way of securing land for future generations.
- Share farming is a more accepted practice in broad-acre farming.
- If farmers don't know their break-even point, share farming can cost them money.
- Basing rent on a sliding scale shares both the risks and rewards more equitably.
- A sliding scale encourages the farmer to better maintain the asset for the owner in times of low prices.
- In the past, everyone paid the same rate. Now lease and share farm rates paid are being varied according to farm size, soil type and location.
- Standard industry leases are too rigid.
- In the past good returns allowed a margin of error; this is no longer the case.
- Older growers still try to set lease rates based on when prices were better.
- Many land owners are not aware of the costs of production, so do not understand the net return to the share farmer or lessee.

4.0 BENEFITS TO INDUSTRY

The Australian sugar industry is faced with an aging farmer population, high land prices that limit expansion and a large number of small farms. Share farming and leasing have the potential to solve these three problems. This study tour provides a snapshot of share farming and leasing in four major regions, as well as reporting on the experience of many people directly and indirectly involved in the practices. The information contained in this report and subsequent articles should help potential share farmers and lessees as well as land owners understand the issues associated with farming on another's land. An expansion of share farming and leasing will improve viability for individual farmers and reduce the loss of productive land from the industry.

This travel and learning grant has provided me with a worthwhile professional development opportunity.

5.0 COMMUNICATION OF FINDINGS

The findings from this travel and learning project have been communicated via:

- An interview on ABC Radio, North Coast (Renee Dupreez);
- A press release has been sent to rural press in Queensland and New South Wales (Appendix 6);
- A spreadsheet has been sent to all BSES extension staff - the spreadsheet calculates the return to both the share farmer or lessee and to the land owner for different, cane prices, input costs and land values (Appendices 2-4);
- One-to-one discussions with existing and potential share farmers.

A *BSES Bulletin* article will also be prepared and this report will be sent to all BSES Extension Officers. An article will also be prepared for the *Sunshine Sugar News* for distribution to the New South Wales sugar industry.

6.0 RECOMMENDATIONS ON TRANSFER OF KNOWLEDGE GAINED

BSES should promote share farming and leasing as a way for existing and new farmers to enjoy better economies of scale. In each region, BSES should have an extension officer with the skills to advise potential land owners and share farmers/lessees on likely returns. This extension officer and other interested extension officers should receive training in the Farm Economic Analysis Tool (FEAT) developed by QDPI&F.

Potential share farmers and lessees should obtain advice from CANEGROWERS' on lease and share farming agreements.

QDPI&F should further develop FEAT to include a worksheet showing the returns to owners and share farmers or lessees from different financial arrangements.

For some farms that are underperforming, engaging a farmer with good equipment and skills can mean a better income from cane, while still enjoying capital appreciation from the land. In such cases, proceeds from the final crop (expenses have already been met) and selling off machinery can be used to pay off debt or otherwise invested. This too needs to be promoted by BSES and other sugar-industry organisations.

The Australian sugar industry should promote more flexible share-farming and leasing arrangements such as use of a sliding scale to determine rent and basing rent on net income.

7.0 ACKNOWLEDGMENTS

My thanks go to SRDC and BSES Limited for financially supporting this study tour and to BSES and the NSWSMC who allowed me the time for the project.

The willingness of so many farmers and land owners to share their experience is very much appreciated. Thanks also to the many industry advisers who made their time and knowledge available to help with this project. They include: David Calcino (BSES), Maryann Neilsen and Scott Perkins (Mackay CANEGROWERS), Chris Sarich (ANZ), Trish Cameron (QDPI&F), Tony Linedale (BSES), Clinton Scott and Chris Cooper (CANEGROWERS), Peter Grant (Grant & Brady Accountants), Andrew Tickle (NSW Canegrowers Association) and Pat Battersby (Clarence Canegrowers).

APPENDIX 1 - Useful websites

Rural law handbook

<http://www.rurallaw.org.au/handbook/xml/ch02s11.php>

South Island Dairy Event

<http://side.org.nz>

Successful land leasing in Australia: A guide for farmers and their advisers

www.rirdc.gov.au/reports/Ras/03-080sum.html-12k

APPENDIX 2 – Spreadsheet to compare four payment methods

Comparison of 4 payment methods for share farming or leasing

Dollar per ha return to sharefarmer & land owner								
Cane price	Rent as % of gross		Rent calc net of harvest costs		Rent fixed as % of land value		Rent is 1/3 after harvest costs	
	Sharefarmer	Owner	Sharefarmer	Owner	Sharefarmer	Owner	Sharefarmer	Owner
\$ 18	56	304	110	250	-220	580	20	360
\$ 20	200	340	245	295	-40	580	140	420
\$ 22	344	376	380	340	140	580	260	480
\$ 24	488	412	515	385	320	580	381	539
\$ 26	632	448	650	430	500	580	501	599
\$ 28	776	484	785	475	680	580	621	659
\$ 30	920	520	920	520	860	580	741	719
\$ 32	1064	556	1055	565	1040	580	861	779
\$ 34	1208	592	1190	610	1220	580	981	839
	Rent =	20%	75%	25%	Rent =	5%		
		of gross cane\$				of land value		

Figures in green can be changed

Assumptions:

Cane yield	90	t/ha
Growing variable costs	700	\$/ha (includes repairs and maintenance)
Harvesting costs (incl levies)	6	\$/t
Land value	12,000	\$/ha
Rates (if paid by owner)	20	\$/ha

Note: Fixed costs are assumed not to change when additional land is farmed

Note: Rates are assumed to be paid by the land owner and have been deducted from the owner's share.

APPENDIX 3 – Share farming comparison: Rent based on gross income versus Rent based on net income

Share farming comparison: Rent based on gross income v Rent based on net income

Dollar per ha return to sharefarmer & land owner				
Cane price	Rent as % of gross		Rent after grow & harv costs + rates	
	Sharefarmer	Owner	Sharefarmer	Owner
\$ 18	137	223	209	151
\$ 20	290	250	308	232
\$ 22	443	277	407	313
\$ 24	596	304	506	394
\$ 26	749	331	605	475
\$ 28	902	358	704	556
\$ 30	1055	385	803	637
\$ 32	1208	412	902	718
\$ 34	1361	439	1001	799
	Rent =	15%	55%	45%
		of gross cane\$		

Figures in green can be changed

Assumptions:

Cane yield	90	t/ha
Growing variable costs	700	\$/ha (includes repairs and maintenance)
Harvesting costs (incl levies)	6	\$/t
Land value	12,000	\$/ha
Rates (if paid by owner)	20	\$/ha

Note: Fixed costs are assumed not to change when additional land is farmed

Note: Rates are assumed to be paid by the land owner and have been deducted from the owner's share.

APPENDIX 4 – Using a sliding scale for rent

Using a sliding scale for rent

Dollar per ha return to sharefarmer & land owner				
Cane price	Rent as % of gross			Rent %
	Sharefarmer	Owner		
\$ 18	250	110		8%
\$ 20	380	160		10%
\$ 22	502	218		12%
\$ 24	618	282		14%
\$ 26	726	354		16%
\$ 28	826	434		18%
\$ 30	920	520		20%
\$ 32	1006	614		22%
\$ 34	1086	714		24%

Assumptions:

Cane yield	90	t/ha	
Growing variable costs	700	\$/ha	(includes repairs and maintenance)
Harvesting costs (incl levies)	6	\$/t	
Land value	12,000	\$/ha	
Rates (if paid by owner)	20	\$/ha	

Figures in green can be changed

Note: Fixed costs are assumed not to change when additional land is farmed

Note: Rates are assumed to be paid by the land owner and have been deducted from the owner's share.

APPENDIX 5 – Land values and cost of production

District	Cost of cane land (\$/ha) (as quoted by interviewees)	Cost of production (\$/t)* (as quoted by interviewees)
Cairns	18,000 – 25,000	19 - 21
Mackay	10,000 – 17,000 (irrigated)	18 – 20
Bundaberg	12,000 – 15,000	25
NSW	7,500 – 20,000	19 – 21

*For share-farming and leasing purposes production costs should be calculated on a per ha basis

APPENDIX 6 – Media releasesugarcane **for the future**

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Not quite an off-farm job

For many Australian cane farmers, a second job is simply taking on the farm next door or down the road. A recent survey funded by BSES Limited and SRDC showed that better economy of scale was the main reason most farmers took on additional land on a share or lease basis.

Peter McGuire, a senior extension officer with BSES spoke to share farmers, lessees and land owners in four major cane growing regions from Cairns to Grafton. All farmers who had been farming additional land for over 12 months said that it was worth the extra work.

One Cairns farmer cited "spreading the risk" as a major advantage. His farms were spread over 13 km across different soil types and rainfall areas. This allowed him to spread the risks associated with floods, wet harvesting and canegrub infestations. It also allowed him to harvest his farm geographically, taking advantage of the best conditions or CCS at times through the season.

Twenty percent of farmers said the additional tonnage for their harvester made the group more viable. Fifteen percent said that share farming or leasing allowed them to expand without taking on additional debt.

"Extra work, including shed work" was the only disadvantage most farmers found with growing cane on someone else's land. A third of farmers indicated that share farming or leasing were not attractive in times of low prices. One NSW farmer said, "When the price is low you don't make anything."

Fixed-rate agreements were seen as the problem when prices were low. The problem with these agreements is that the share farmer or lessee pays the same percent of their gross income to the owner even when the farm is running at a loss. Changing the proportion paid as rent according to cane price is one way to overcome this problem. A sliding-scale payment shares the risk of low prices between the owner and lessee. In times of high prices it also shares the rewards more evenly.

A recent report by the Rural Industries Research and Development Corporation showed that only 6% of all Australian farm land is leased. This compares with 35% in the UK and up to 50% in the USA. In the Louisiana sugar industry, around 80% of the land is leased.

The Australian sugar industry is faced with an aging farmer population, high land prices that limit expansion and a large number of small farms. Share farming and leasing have the potential to solve these problems and secure land for future generations.

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For more information contact:

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