Sharemilking Agreements - Is it time for an upgrade?

Ann Thompson
Federated Farmers Dairy Policy Advisor

Dave Miller seems to think so, and his opinion is based on research into the industry which AgFirst carried out over the last season. This discovered the number of Herd Owning Sharemilking arrangements was dropping, and more Variable Order Sharemilkers were turning to Contract Milking arrangements. The reason appears to be because of milk price volatility.

This finding was discussed at the recent joint annual meeting of the Federated Farmers Sharemilkers’ Section and Sharemilker Farm Owners’ Section, where two options were presented. The first was a Contract Milking/Variable Order Sharemilking hybrid, the second a Flexi Herd Owning Sharemilking hybrid. There will be others out in the countryside too, as farmers and milkers have struggled with milk price volatility over the last few seasons.

I will not be discussing either of these options here, apart from saying they are complicated, have their merits and will suit some business arrangements. Dave’s presentation did, however, spark discussion about the current Variable Order Sharemilking Agreement (VOSM), which was last reviewed across 2009-2011, and which prompted a new Order In Council (which is what the VOSM lies under) to be written.

Federated Farmers prides itself in the contracts and agreements it develops, and those for the sharemilking and contract milking business arrangements are looked on as industry standards. It was therefore agreed at the meeting that, yes, it was time to review the VOSM. Enough has happened over the last 7 years and there is an appetite to make something that is more flexible which may help the sharemilker in low payout years and give a fairer return to the owner at higher milk prices.

The VOSM is an excellent business arrangement, where the farm owner owns the cows and the sharemilker runs the business, shares the profits with the farm owner and also the milk price highs (and lows). It is backed by law – the Sharemilking Agreements Act 1937 and its Order.

The Contract Milker on the other hand, is paid to run the farm owners’ business on a payment per Kg Milksolids produced. They are not affected by milk price fluctuations. This relationship, however, sits on a fine line between being an employee and an independent contractor, which comes down to what the intention is. Get it wrong and the farm owner could find themselves paying ACC, annual leave and such like for their ‘contract milker’, especially if they interfere too much with the running of the farm.

Our two other dairy farming contracts (the Herd Owning Agreement and Contract for Contract Milking) were updated recently and are clearer with regards to where the costs and obligations fall, giving greater certainty for both parties. These could be transferred over to the VOSM, while updating the legal requirements in regards to animal welfare and health and safety is important.

We will also be taking a hard look at what is commonly called the ‘under 300 cow rule’, where sharemilkers milking fewer than 300 cows must share at least 22% of the profit if they
aren’t getting any of a processor’s dividend – and most won’t be. Those who do, must share at least 21%. This minimum cow number was set to protect inexperienced sharemilkers as fewer cows used to mean earning too little to live on. However, genetics and smart farming may have made this uneconomic for the farm owner, driving more to use a Contract Milking arrangement.

We will also consider if we should offer flexibility to help both parties during what seems to have become the norm – milk price volatility. What this could look like is unknown, but it may include a combination of profit share and payment per Kg Milksolids produced, smoothing the bottom line. This is likely to remain an option only, with parties choosing to opt in.

Some consider this smoothing does not allow seasoned sharemilkers to trim costs and adapt procedures to become very efficient when the milk price is low, while using the highs and putting money to good use, which may lead to longer term goals of farm ownership or similar.

Don’t think for one moment this revision will be a quick fix – this process will involve going out to dairy farmers, working with both the Federated Farmers Sharemilkers’ Section and the Sharemilker Farm Owners’ Section, the Ministry for Business, Innovation and Employment and parliament. It will also need to be signed off by the Governor General.

One thing you can be sure of: both the Sharemilkers’ Section and the Sharemilker Farm Owners’ Section are keen to see more pathways for progression, from sharemilker and contract milker through to herd ownership and then on to buying that first farm. Updating the VOSM is one way, but until it is updated, the current Agreement is very much still fit for purpose and the business model a tried and true one.