

# FARM BUSINESS FACT SHEET

## CONTRACT HARVEST AGREEMENTS

# Documenting a contract harvest agreement – what you need to know

### Key points

- A well-constructed contract harvest agreement that covers the critical aspects of the contract harvesting operation will minimise the potential areas of contention once harvest begins and when the invoice arrives after completion
- The agreement needs to clearly state what is required by both parties to make sure the harvesting operation is carried out efficiently and with minimal loss of grain and that the required resources from both parties are in place prior to the operation starting
- The agreement can help to reduce the potential losses from harvest being delayed, slowed, rushed, or stopped altogether through poor communication
- Working in with the contractor and making their job easier will pay dividends in the long run

PHOTO: FARMANGO

Check whether additional charges such as the use of chaser bins are included in the contract harvest agreement.



### BACKGROUND

The effective use of a contract harvester is a critical part of the business operations and the manager of the farm business needs to make sure the operation is conducted efficiently and cost-effectively. A contract that clearly stipulates the requirements of the grower from the contract harvester will help in the management of the operation. A reliance on the contractor to 'do a good job' with little or no oversight can result in a poor outcome particularly where the grower does not have a longstanding arrangement with the contractor. This

fact sheet provides a guide to the considerations required as part of a contract harvest agreement

### SUMMARY

When growers employ a contract harvester they are putting one of the most critical operations of their farm in the hands of a third party. The worst possible outcome in this arrangement is where the relationship between the contractor and the grower fails and the crop is not harvested. Trying to find another contractor during harvest is not a good experience. For the relationship

to work well the grower needs to be clear on what they are engaging the contractor to do, when they will start, how long it will take, how much they will be paid and when. Having these details agreed in writing will reduce the chances of a misunderstanding between the parties.

A clear agreement detailing what is required by both parties allows effective planning to take place before the operation starts, and allows a quicker response by both parties when unforeseen events take place. The agreement is not about the grower getting the cheapest

rate, it is about getting the best job done in the most efficient way while paying the contractor a rate that allows them to do the best job at a reasonable profit margin. Both the grower and the contractor need to have viable businesses, so it is best to look for win/win situations.

The process of reaching a mutual agreement should be a positive experience for both parties, which will be a good foundation to a lengthy relationship. It is an advantage to use the same contractor for several years, as it allows you to bed down a system of operation that suits both parties, and the contractor becomes familiar with your farm layout and farming system.

### GETTING THE ‘RIGHT’ CONTRACT HARVESTER

The first part of having an effective contract harvesting agreement is getting

the ‘right’ contract harvester. The invoice paid to a contract harvester is often seen as the most critical part of that equation; however, it is worth noting that any loss or downgrading of grain from weather events can have a bigger impact on the bottom line.

It is important to keep in mind the priorities when engaging a contractor harvester. Will they arrive when you need them? Do they have reliable machines that will not suffer major breakdowns, and will they maximise your income by protecting the grain quality and getting as much of the grain as possible from the paddock to the silo.

### INFORMATION THAT NEEDS TO BE INCLUDED IN A CONTRACT HARVEST AGREEMENT

1. The parties to the agreement including their ABN (or drivers licence

- if sole trader).
2. Estimated start date and estimated time to complete the job.
3. What the contractor will charge and the basis for the calculations, including any associated costs.
4. Payment terms.
5. The machinery and equipment that will be supplied by the contractor including model, comb width, and age of the harvester to be used and yield-mapping capabilities.
6. Any machinery and equipment for harvest operations that will be supplied by the grower.
7. Who will supply the fuel and what equipment will be used to transfer the fuel to the machines, including tank size and pumps.
8. How will the fuel use be measured? A simple method is for the machines to arrive full and leave full. If machines are not full on arrival they should be filled before commencing harvest and the litres supplied recorded. This fuel cost (at an agreed cost per litre) should be included as a credit on the final account.
9. Insurance cover (e.g. public liability) that is held by the contractor including a Certificate of Currency.
10. If the grower is supplying labour to assist with the harvest operation. What tasks will be considered the contractor's cost and what hourly rate will be charged by the grower. The rate needs to be enough to cover superannuation, holiday pay and workers compensation.
11. Any farming systems requirements (e.g. to match controlled-traffic tramlines if needed, and how AB Lines will be provided).
12. Details on weed seed collection requirements, trash handling (spread or windrowed).
13. Details of stubble management including harvest height and residue handling (e.g. straw spreading, chaff lines and chaff decks).
14. Maps should be attached showing hard stand areas for field bins and truck access roads.
15. Property access – what is available and what is not (such as accommodation, shed space, power, water, toilet facilities and use of any other facilities).
16. Dispute resolution.
17. Any other specific restrictions or requirements.

**TABLE 1 Common methods used to calculate amounts charged by contract harvesters.**

Method	Calculation	Considerations
Flat rate per hectare	Total hectares harvested x \$/ha	Easy to calculate, tends to overcharge for low-yielding crops and undercharge for high-yielding crops. Encourages the contractor to push the harvester to capacity, which often results in higher grain losses either at the front or out the back of the harvester.
Flat rate per hour	Rotor hours x \$/hr	Easy to calculate. Allows the grower to tell the contractor to slow down if grain loss is too high. Does not encourage efficiency of operation by the contractor.
Flat rate per tonne	Tonnes harvested x \$/t	Encourages efficiency of operation but does provide potential encouragement for the contractor to push the harvester to capacity, which often results in higher grain harvest losses.
Flat rate per hectare for a base yield plus extra charges for higher yields	Work out the average yield and the rate based on the amount the yield is above the base yield	More difficult to determine appropriate rates and calculate contract fees. Still has the same issue of the contractor being encouraged to push the harvester to capacity and potentially result in higher grain harvest losses.

**TABLE 2 The effect of work rate on the total cost of the harvesting operation.**

Speed	Work rate		Effective charge rate		Predicted grain loss	Cost of grain loss	Total cost	
	km/h	ha/h	t/h	\$/ha			\$/t	\$/ha
2	2.4	7.3	\$246	\$82	9%	\$68	\$314	\$105
4	4.9	14.6	\$123	\$41	6%	\$45	\$168	\$56
6	7.3	22.0	\$82	\$27	3%	\$23	\$105	\$35
7	8.5	25.6	\$70	\$23	0%	\$0	\$70	\$23
8	9.8	29.3	\$62	\$21	3%	\$23	\$84	\$28
10	12.2	36.6	\$49	\$16	6%	\$45	\$94	\$31
12	14.6	43.9	\$41	\$14	9%	\$68	\$109	\$36
14	17.1	51.2	\$35	\$12	12%	\$90	\$125	\$42
16	19.5	58.5	\$31	\$10	16%	\$120	\$151	\$50

### CHARGE RATES: CALCULATIONS AND CONSIDERATIONS

There are many methods that are used to calculate the amount to be charged by the contract harvester. Table 1 shows the more common methods.

### WHICH CALCULATION METHOD SHOULD YOU CHOOSE

Tables 1 and 3 show the likely true cost of contracting where a contract harvester needs to generate \$600 per rotor hour (excluding GST) to cover all costs (both ownership and operating) and make a reasonable profit.

Engaging the harvest contractor with the lowest rate may not be the best outcome in terms of the net returns after harvest costs. Research by the Kondinin Group in 2007 showed that when harvesters are pushed above 65 per cent of their rated capacity the grain losses increase rapidly. The research also showed that where the harvester was not getting enough grain through that it was also losing grain but to a lesser extent. The sweet spot was around 60 to 70 per cent of capacity for most brands of harvesters.

Table 2 shows how work rates influence the total cost of the harvesting operation. In this example if the grower negotiates a flat rate of \$60/ha the contractor will need to run their machine at a speed slightly over 8 kilometres per hour to achieve their required return

of \$600/rotor hour. This speed would result in a throughput of 30t/hr, which in the research conducted by Kondinin Group would result in a grain loss of at least \$25/ha giving an overall cost of contracting plus grain loss of at least \$85/ha. The grower would be better off paying the contractor \$600/rotor (machine running) hour and getting them to slow down to 7km/hr. The model shows that you need to be prepared to spend at least \$23/t to allow the harvester to go slow enough to minimise grain losses, and that trying to save costs by using a lower per hectare price and forcing the contractor to go faster is false economy.

### CHARGES THAT TYPICALLY ARE IN ADDITION TO THE HARVESTING CONTRACT RATE

Table 4 lists the most common additional charges to the contract harvesting costs. These costs should be included in the contract harvesting agreement. Where the harvest contractor is also supplying trucks for delivering the harvested grain to a bulk handler or grain end user (Table 5).

### What will determine the rates that should be charged?

Any factor that reduces the efficiency or speed of operation will increase the cost of harvesting. The contractor will try to assess the average hectares per hour to arrive at a per hectare rate. If the contractor is unsure they will build in a

safety margin, which means it may be cheaper to accept a per hour rate.

#### Factors to consider:

- Crop condition – free standing or lodged, weed affected or low-yield areas, boggy conditions.
- Paddock terrain – ground condition including formal notification of obstacles and potential for damage.
- Stubble management requirements – stubble cut height, stubble processing (chopping/mulching) and spreading.
- Harvest weed seed control facilities.
- The quality and capacity of the in-field grain-handling facilities being provided by the grower, e.g. suitable chaser bins and mother bins.

#### Special requirements:

- Tramlining restrictions on wheel base and comb width.
- The addition of weed seed collection or destruction equipment.
- Travel distance to farm – if remote from required services and/or accommodation.
- Terms of account payment – if not settled at completion of harvest.
- Provision and payment for related equipment supplied by the contractor, e.g. augers, trucks, field bins.
- Sample purity – if outside normal receival standards.

**TABLE 3 Contract cost model assumption – fuel supplied by grower.**

Required contractor charge	\$600/hr Class 8 Harvester
Crop yield	3.00 t/ha
Comb width	12.20 metres / 40 feet
Farm gate value	\$250/t

PHOTO: FARMANCO



Details including model, comb width and the age of the harvester need to be included in a contract harvest agreement.

**TABLE 4 The most common additional charges to the contract harvesting costs. These costs should be included in the contract harvesting agreement**

Item	Charge method	Considerations
Chaser bin	\$/ha \$5 to \$10/ha depending on yields	Often included in contract harvesting cost but may be a separate cost.
Field bins/ tractors/ augers	\$/day Negotiated at the time Normally based on estimated costs plus 30 to 40%	Often included in contract harvesting cost but maybe a separate cost
Silo bags loading	\$4 to \$6/t Loading only \$10 to \$12/t Including cost of bags	May or may not include the cost of the bags, normally grower pays for the bags.

**TABLE 5 Where the harvest contractor is also supplying trucks for delivering the harvested grain to a bulk handler or grain end user.**

Method	Calculation	Considerations
Flat rate \$/t	Total tonnes delivered x \$/t	Easy to calculate; however, tends to overcharge for short distances and undercharge for long distances. Encourages the contractor to deliver all grain to the nearest site, which may not maximise returns from the grain (balancing grain price and freight costs).
Flat base rate \$/t plus cents/t/km to delivery site	Base rate: \$7/t plus \$0.10/t/km from farm to delivery site	Still relatively simple to calculate if you require the truck driver to provide a copy of delivery dockets and distance travelled for each trip. Allows the grower to have greater control over where the grain is delivered and is equitable for contractor.
Flat rate for each delivery site \$/t	Assumes an average distance travelled from farm to each delivery site	Easy to calculate; just need total tonnes delivered to each site. Allows grower to direct the contractor where to deliver the grain, and provides the grower with a known cost to each site when determining where grain should be delivered to maximise the return per tonne. May result in truck travelling greater distance than the average in some circumstances where the farm is spread over a large area.

## Useful resources

**Australian Custom Harvesters Inc** is an organisation that represents the interests of Professional Contract Harvesters across Australia. They list suggested contract rates and any members looking for work, and have a detailed harvester cost calculator on their website: <https://www.customharvesters.org.au>

**GRDC 'Engaging harvest contractors with equipment suitable for stubble retention' Fact Sheet** <http://www.farmlink.com.au/project/maintaining-profitable-farming-systems-with-retained-stubble>

## Project code

**ORM00017**

## FREQUENTLY ASKED QUESTIONS

### What can I do if I think the contract harvester is not doing a satisfactory job?

The important thing with contract harvesting is to monitor the operation and to communicate with the contractor as soon as you believe there is an issue. Most contractors will try to remedy the situation if they are made aware of the problem. If the issue cannot be rectified through good communication you can fall back to the dispute resolution procedure detailed in the contract.

### What are my options if there is not enough time to draw up a formal contract harvesting agreement?

If you have talked on the phone and have discussed the issues, make sure you follow up with an email that confirms the important details of the harvesting operations and fees, and this will become an informal agreement but still achieves many of the objectives of a formal agreement.

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