

# Grazing Agreements

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Leasing pasture and/or crop land for grazing is a common arrangement in Saskatchewan and can provide opportunities for both the landlord and tenant. However, there are many items and conditions that need to be considered and included as terms of an agreement. For an agreement to be successful, the terms and conditions must be well-defined, understood and agreed upon by both parties.

A lease agreement is a legal document that sets out the responsibilities and obligations of each party. A formally written lease provides protection to the parties in the event of the death of one of the parties, and it assists in the settling of differences and/or misunderstandings by clearly addressing all the issues in an easily understood fashion.

In most grazing lease agreements, the landlord supplies the land and the tenant supplies the livestock. The most common agreement is cash rental, where the tenant pays the landlord a fixed sum and the tenant receives all the income produced off of the land. The major contributions to this arrangement are the land and the cattle, but there are usually other costs such as fencing and taxes, and there may be other revenues such as government payments. A proper lease will establish in advance how all costs and income are to be treated.

Productivity varies greatly, depending upon range condition, type of vegetation, soil type and climatic conditions. These variables also need to be considered and a carrying capacity of the land should be determined prior to finalizing the agreement. Other important issues include, but are not limited to, herd distribution, water, fencing, salt and minerals.

To calculate a fair agreement, tenants and landlords must determine the property's carrying capacity, establish the costs of both parties and select a type of rental agreement. Rent can be based on one of the following:

1. per acre of land
2. per head of livestock
3. per AUM
4. income-sharing
5. market approach

A per acre agreement is based on landlord costs. It takes into consideration the landlord's investment and costs. With this type of lease, the landlord will want to ensure that the pasture is not over-grazed while still receiving the maximum amount for rent. The tenant will want to get the maximum use from the available grass. These trade-offs are complicated by the fact that stocking rate and the length of the season vary greatly from year to year. It is suggested that leases of this type stipulate the maximum number of head of livestock and the dates when the stock are to be put in and removed from the pasture. In this situation, a longer term lease provides greater incentive for both the landlord and the tenant to practice responsible range

management. The downside of this type of lease is that if drought affects production, the rent remains the same.

A per head lease has the advantage of compensating the pasture owner, based on the number of livestock kept on the pasture. The lease should stipulate the dates on which the livestock will enter and be removed from the pasture. The advantage of this type of lease over the per-acre-based agreement is that, if drought reduces forage production, the rent will be adjusted because fewer animals grazed the land. This type of lease allows more flexibility from year to year and provides a direct incentive to manage the resource properly.

A per AUM lease calculates rent based on the amount of grazing that is available annually. This type of agreement is very similar to a per head lease agreement. The advantage is that the AUM is a common measuring tool in stocking rates, and easily converts from bulls, to cows, to cows with calves. The number of AUMs is stipulated by the lease and the date of stocking and removal can be set by the landlord each year. This can have the advantage to the owner of protecting the pasture condition by controlling the length of the season. The rent can be based on the actual season and the actual AUM utilized, or can be pre-determined for a fixed length of time. This allows for the rent to vary from year to year or to be fixed.

An income-sharing agreement based on contributions uses the income that is generated (value of pounds of gain or share of animal) from the rented land to determine the rental amount. This type of lease is more complex to calculate, but is often viewed as a fairer approach. It is an arrangement in which the landlord accepts some of the production risk and is common in custom grazing agreements. The amount of rent can be based on pounds of gain and/or projected price.

The market approach is an agreement based on the current 'going rate' for renting in the local area or the local market. Both parties need to work through their costs to determine if the local rental rate is acceptable.

There are a few key steps that should be completed in order to have a successful agreement. First, the landlord and tenant must always calculate what they think is an equitable grazing agreement, based on the contributions of each party. Working through this process assists the landlord and tenant to come to agreement on what is a fair arrangement. The two parties should then jointly draft a prospective agreement including all details that apply to their situation. Each party should then consult with their lawyer, accountant and/or farm management advisor to determine the final agreement meets the needs of both parties.

In order to avoid any potential disagreements or misunderstandings a written agreement must be completed prior to entering into any grazing arrangements. Both parties should fully understand their costs in order to arrive at a mutually beneficial agreement. A good agreement should be tailored to the individual circumstances, should provide protection to both parties and should address any potential issues that may arise. Grazing agreements can be beneficial to both the land and cattle owner, and allow both to capitalize on potential opportunities.