

# FEED CONTRACTS

## IT'S ALL ABOUT SECURITY

Don't make the mistake of thinking the term 'feed contract' means the same as 'forward contract'. Contrary to popular belief, a verbal agreement, e.g. over the phone, is a legally binding contract. Feed contracts actually make things easier, increasing certainty of feed supply and predictability of feed costs. They also help clarify the obligations for both parties if things go wrong.

### 'She'll be right' vs 'signed, sealed and delivered'

Too often dairy farmers enter into loose verbal arrangements with feed suppliers, particularly when dealing one-on-one with other farmers.

Such arrangements leave both parties exposed to misinterpretation and risk of not receiving, or delivering, the quantity, quality or price either party had expected at the outset. All because no firm, clear arrangements were written down.

#### KEY MESSAGES

Always confirm verbal agreements with feed suppliers by mail, fax or email, and keep all paperwork in a safe place

Maintain regular communication with suppliers (particularly if supply starts to look doubtful)

Price is only one of the key components in any contract; always remember quality and supply

A verbal contract (e.g. over the phone) is a legally binding contract – it does not need to be written down and signed. But, it is much better to convert it to writing in some form, so that if later clarification is required there is documentation to refer to. Sorting out contracts with a 'he said – you said' solution is not recommended!

'She'll be right'	vs	'Signed, sealed, delivered'
<p>"G'day Fred, wondering if you can supply a few loads of wheat next year, in autumn, just as we did last year?"</p> <p>"Sure Garry. Four semis? No worries. See you!"</p>		<p>"Ok Fred, just so I've got that right, you're going to supply me with a total of 100 tonnes of ASW grade wheat at \$360/tonne (plus GST) delivered to my farm. I'll take four 25 tonne loads, in the first week of March, April, May and June, and I'll pay you on 30-day terms from the end of each week of delivery".</p> <p>"I'll fax you a contract to confirm."</p>
<b>And the outcome is . . .</b>		
<p>If the crop fails neither Garry or Fred has an enforceable contract and it is likely that as the buyer Garry will have to find an alternative feed supply at short notice.</p> <p>The success of a loose verbal arrangement with few clear parameters relies on goodwill and everything going well.</p>		<p>If the crop fails and a clear and concise contract is in place, it will be Fred's responsibility as the seller to supply the grain; as the buyer, Garry is not at risk and not responsible for finding an alternative source of feed.</p> <p><b>A contract provides certainty and simplicity.</b></p>

## Make it easy – confirm in writing

When entering into an agreement with a feed supplier, there are five key points you need to cover:

- 1 Quantity
- 2 Quality
- 3 Time
- 4 Place
- 5 Price and payment terms.

To make it easy for you and your feed suppliers to remember these details, and avoid any disputes down the track, always confirm verbal agreements with your feed suppliers in writing, by mail, fax or e-mail, and keep all paperwork in a safe place.

Here is a checklist of the minimum elements you should record to confirm an agreement in writing.

### 1 Quantity

- Quantity (tonnes)
- Tolerance (tonnes)

### 2 Quality

#### If grain

- Commodity type (wheat/trit./barley/oats/other)
- Grade (e.g. ASW wheat/GP wheat/feed barley 1)
- Specifications
  - Min. bulk density (test weight) (kg/hectalitre)
  - Max. moisture (%)
  - Min. crude protein (% DM)
  - Max. screenings (%)

#### If fodder or a co-product

- Max. moisture (%)
- Min. metab. energy (MJ/kg DM)
- Min. crude protein (% DM)
- Min. digestible dry matter (%)

### 3 Time

- Delivery dates/period

### 4 Place

- Delivery point, where ownership changes (ex seller's farm, ex store or delivered at your farm)

### 5 Price and payment terms

- Price at above delivery point (\$/tonne)
- Any quality/grade discounts or premiums
- Payment terms: eg. 7 days from invoice, 30 days from end of week of delivery

## While contracts provide you with security over supply, remember that they also bring obligations.

If you want to use a more formal document to form the contract which covers all these elements and contains all the fine print, you can access a sample of a 'Contract Confirmation' by looking at the GTA Contract Number 3 produced by Grain Trade Australia (GTA). Copies of this document can be obtained from the **GTA website** ([graintrade.org.au](http://graintrade.org.au)). GTA is the grains industry agency that manages the governance issues for grain contracts.

### IS YOUR AGREEMENT OR CONTRACT SOLID? A SIMPLE TEST

In any feed agreement/contract, ensure you have checked off the following points:

- Do I have a supplier who will stand by the contract if the market price rises \$100/tonne above the contract price?
- Am I prepared to stand by the contract if the market price falls by \$100/tonne below the contract price?
- Do I have a guaranteed supply, or am I only ok if the season is ok?
- Do I have to manage a problem if one arises, or is it the supplier's problem?
- Do I have well defined quality specifications for this supply, or do I have to wait until it arrives to test what I've got?

## COMMONLY USED TERMS IN GRAIN CONTRACTS

It is useful to get to know the 'lingo' often used in grain contracts, so you know what it means in terms of rights and obligations in any transaction.

### Quality

- **Commodity:** refers to the raw material, e.g. wheat, barley, etc, and may include a grade name (e.g. GP wheat, feed barley). This simple description is far too little to ensure you get value for money as a feed for your cows. Make sure you go to the next step of specifications, see below.
- **Quality/specifications:** details items such as test weight (bulk density), moisture, protein, screenings, etc.
- **Vendor declaration:** statement required from grain sellers as to pesticide use, chemical use on the grains.
- **Weights:** determined at destination if a weighbridge exists, alternatively at load point or a public weighbridge.

### Supply

- **Delivery period:** the dates during which delivery must occur, e.g. Feb-Mar-Apr, or first half February (meaning 1-15 Feb).
- **Delivery point:** the point at which title passes and upon which the price is based, e.g. 'ex-farm' meaning grain ownership passes when the grain is loaded on to a truck at the grain farm and the buyer is responsible to pay freight; 'delivered farm' meaning ownership passes when the grain arrives and is unloaded at the destination farm and the seller is responsible to pay freight; 'ex store' meaning grain ownership passes when the grain is loaded on to a truck at the grain store/silo; etc.
- **Even spread:** refers to an even delivery schedule of grain through delivery period, e.g. '200t Feb-Mar, even spread' means 50t first half Feb, 50t second half Feb, 50t first half Mar, 50t second half Mar.
- **Force majeure:** refers to events outside the control of either party which affect the timing of product delivery (e.g. fire, flood, power blackout, strike, war, etc). It does not include loss of grain or crop failure due to drought, frost, etc. Typically, invoking a force

majeure clause entitles a party to an extension of time for delivery of the product, not a cancellation of the contract.

- **Washout:** is not a cancellation of a contract. Washout refers to the offer to buy a contract back by agreeing to a washout cost equal to the difference between the original contract price and the market price at the time of the washout, and may include additional administrative costs, e.g. original contract to sell at \$360/t. Crop fails and price moves to \$450/t. Buyer may offer to washout by charging a \$90/t fee (\$450 less \$360). Washouts are not a right; they are a negotiated settlement.

### Price

- **Bid:** the price a buyer is prepared to buy at.
- **Offer:** the price a seller is prepared to sell at.
- **Bid-offer spread:** the difference between the bid price and the offer price.
- **Flat price:** means a single price to cover a delivery period, without any storage or finance charge, e.g. \$300 flat price, Feb-Mar-Apr.
- **Price plus carry:** e.g. \$360 plus \$2/month carry – means \$360 for month 1, and an additional \$2 per month thereafter to cover storage and finance costs.
- **Payment terms:** can be negotiated between buyer and seller. Standard grain industry terms are '30 days end of week', means payment is due 30 days from the Friday of the week of delivery, e.g. if delivery occurs on Monday 3 March, payment is due 30 days from Friday 7 March, or 6 April. If credit limits do not allow delivery, terms may be prepayment or COD.
- **Levies and charges:** statutory charges such as research levies are deducted from payments to growers.

For a more comprehensive list of terms, refer to 'A guide to taking out contracts to supply grain by Grain Trade Australia. Go to [graintrade.org.au](http://graintrade.org.au).

## Making sense of grain grades and quality standards

The table below lists the quality standards for the most common grades of grain traded in Australia, as detailed in the standards provided by Grain Trade Australia (GTA). These are the standard specifications used by all grain farmers, merchants, traders and brokers.

Note: The grades are examples only. Additional grades and variations can and do occur each season. The grade standards are reviewed each season, and buyers and sellers should refer to the GTA website.

Standard	ASW 1 wheat	AGP1 wheat	Feed 1 wheat	Feed 1 barley	Triticale	Feed oats	Comments
<b>Protein (min)</b>	NA	NA	NA	NA	NA	NA	
<b>Moisture (max)</b>	12.5%	12.5%	12.5%	12.5%	12.5%	12.5%	High moisture can lead to spoilage and mould contamination, with potential mycotoxins.
<b>Bulk density (min)</b>	74kg/hl	68kg/hl	62kg/hl	62.5kg/hl	65kg/hl	48kg/hl	Not a good indicator of energy value, but ME content may be reduced in extremely low density grains.
<b>Screenings (max)</b>	5%	10%	15%	15%	5%	20%	A high proportion of screenings can reduce ME content of grains. May also lead to increased cow wastage if small grains pass through crusher unbroken.
<b>Sprouted grain (max)</b>	Nil	Nil	NA	NA	2%	Nil	High levels of visible sprouting may indicate potential moulds and risk of fungal toxins (mycotoxins). Sprouting is unlikely to decrease energy value, and ME content may well be increased in sprouted grain.
<b>Stained grain (max)</b>	5%	15%	50%	NA	15% 5 for pink stain	20% individual kernels	Could indicate mould contamination and potential risk of fungal toxins (mycotoxins).
<b>Stored grain insects (alive)</b>	Nil	Nil	Nil	Nil	Nil	Nil	Dead insects also important as could indicate grain storage chemical treatment.
<b>Odour, scour or musty smells</b>	Nil	Nil	Nil	Nil	Nil	Nil	Musty, mouldy odours indicating grain scouring, mould contamination etc.
<b>Weedseed</b>	Refer to GTA standards						Possible animal health implications, spreading of weeds and subsequent control costs.

Note: The only way to reliably assess the energy content of a particular grain supply is to submit a representative sample to a feed lab for analysis