● Contracts

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of supervision and management? Can one party act on behalf of the other? Are the two firms separate and independent? What types of skills are required to meet contract specifications?

These are some of the many questions that can, and usually should, be clarified in the contract Relationships with third parties should also be made clear

Contract clauses may range in scope from the management and marketing procedures to warranties and liabilities, and protective devices in case the contract is breached or unfulfilled

TWO EXAMPLES

To get some idea of the rights and responsibilities the provisions may represent, let's look at two typical contract farming situations

A food chain contracts with a farmer for supplies of vegetables The contract stipulates varieties to be grown It may also specify planting and harvesting dates to meet projected seasonal demands Too, it may require use of certain insecticides, some prepacking and a delivery method The contractor thus exerts considerable managerial control over on-farms production and assumes marketing uncertainties

Another example — one involving a third party — is a contract between a farmer and a feed dealer for the production of broilers A broiler processor, to whom the farmer is to sell the broilers, may be named in the contract Provisions are likely to cover not only the feed ration to be used, but also the breed and number of chickens to be fed and a specification that the broilers be sold when they reach a certain weight

TURKEY CONTRACTS

Turkey producers, particularly in the South, are turning more to risk-sharing contracts instead of straight loans from banks or financing by feed companies

Latest estimates show risk-sharing contracts usually with feed firms account for 25 percent of total production and are trending upward Farms owned or leased by companies account for 10 to 15 percent of the total output and are also projected upward However, producers still rely on conventional loans from banks and other types of financing by feed companies for the remaining 60 to 65 percent of their financing

In risk-sharing contracts, some or all of the production risk and most of the major decisions are transferred from the producer to the contracting firm The firm may agree to assume all or part of a loss on financing, or it may guarantee a fixed price per head or per pound of turkey produced

Feed firms accounted for 65 percent of total contract production in the early 1960's Such firms use risk-sharing contracts to increase efficiency, increase volume and decrease short run fluctuations in volume Producers participate in contracts to reduce their risk and to secure financing

LESS CONTRACTS IN NORTHEAST

Contracts vary by region In the Northeast, there is little contracting except for hatching eggs In the Mid-west most growers use conventional bank and feed company financing In the West and South, there is considerable risk-sharing contract production.

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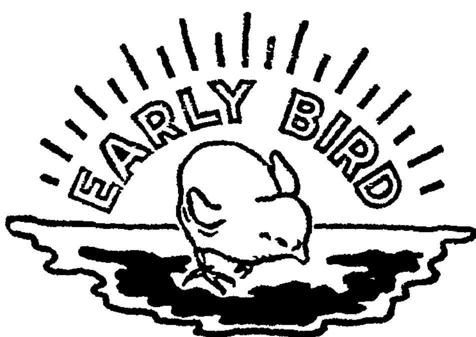

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