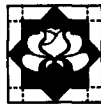


Agriculture Insights

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Contract Farming

There is possibly no more controversial issue facing production agriculture today than the debate over contract animal production. The purpose of this article is to attempt to provide some facts associated with contract farming and modern agriculture.

Contract farming began in the 1950s in the broiler industry and was implemented in the hog industry in the 1970s. A farmer is the contract grower in the part of a system called vertical integration. Vertical integration, in its most simple definition, combines production, processing, and distribution of a commodity into one entity. Most companies in Pennsylvania, integrators for lack of a better word, are not fully integrated.

Separate companies rely on their relationships with other segments of the industry to provide all the pieces to the "farm to fork" puzzle. For example, in most situations the farmer is only asked to provide the land, buildings, equipment, and labor to fulfill his obligations in the contract. The integrator then supplies the animals, feed, medications and technical support to the operation. By working together both owners are able to gain advantages and reduce their exposure.

Some advantages to contract growers include:

- 1) Reduced capital investment (does not have to buy animals, feed, or medication)
- 2) Protection from price volatility

- 3) Guaranteed income
 - 4) Technical assistance provided
 - 5) Ability to diversify operation on limited number of acres
- Some advantages to the integrator include:
- 1) Reduced capital investment (does not need to buy land or buildings)
 - 2) Efficiency usually improved
 - 3) A known quantity can be produced on a schedule
 - 4) Reduction in labor requirements

There are some down sides to the contracts as well. For the farmer it means they may not be able to take advantage of unusually high market prices and do not actually own the animals. For integrators, the main disadvantage is

that they must absorb the losses in a low market price period.

One of the primary criticisms of contract farming and intensive livestock production in general, relates to the environment. A contract's ability to provide a stable and predictable income to a farmer is often overshadowed by a perception of increased environmental risk. The fact is a contract can increase environmental consciousness in an operation that prior to any construction must meet strict natural resource criteria. Most loans won't even be considered for approval without a Nutrient Management Plan, whether it is required or not. Granted, anything stored in one location can concentrate a potential hazard but it also

allows for increased protections and cautionary measures to be properly installed and implemented. It's easier to catch fish in a pond than in Lake Erie.

Many people assert that farmers who construct buildings for the purpose of becoming a contract grower have forfeited their status as a "family farm." Well, the truth of the matter is the contract a farmer signs, which guarantees a steady source of income, may be the one thing that helps keep their family on the farm. Sustainability today means farming tomorrow.

Feel free to send your comments and ideas to Jim Shirk at The Lancaster Chamber of Commerce & Industry, PO Box 1558, Lancaster, PA 17608-1558, by email at jshirk@lcci.com or call him at (717) 397-3531.

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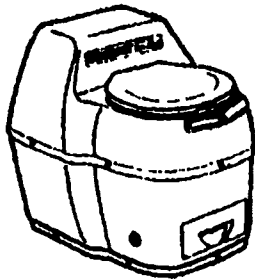
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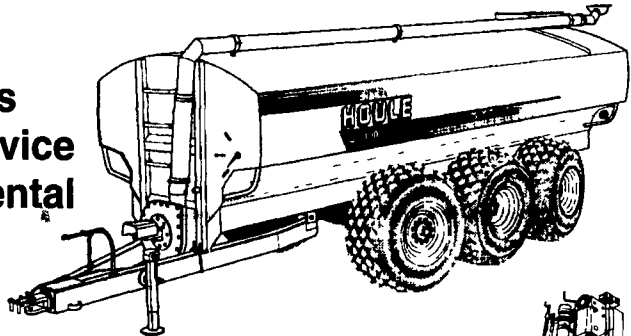
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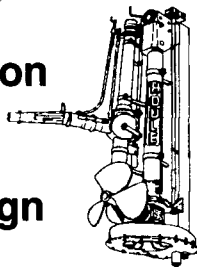


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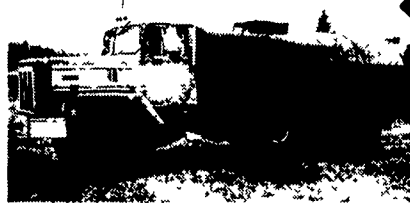
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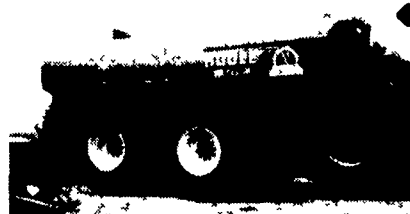
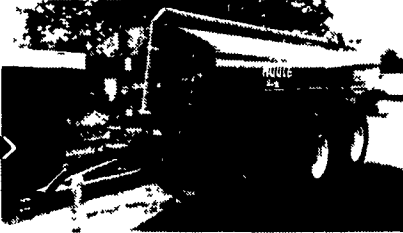
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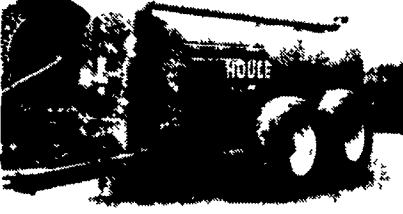
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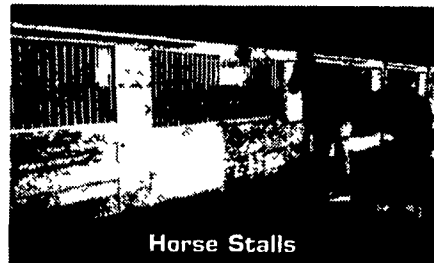
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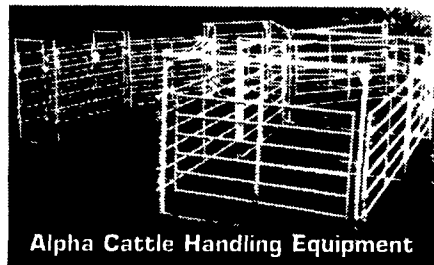
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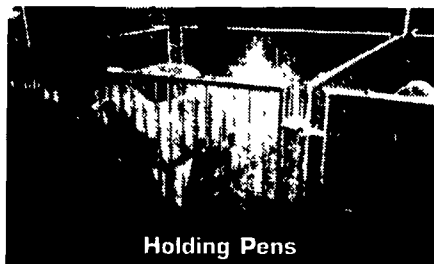
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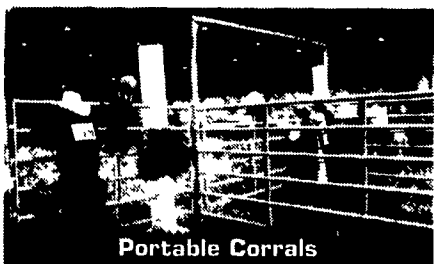
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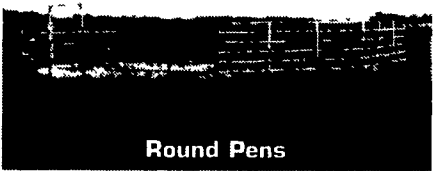
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