## Conclusions

Contracting in U.S. agriculture continues to grow. By 2005, agricultural contracts covered 41 percent of U.S. agricultural production, up from 39 percent in 2003 and 36 percent in 2001. The increase continues the steady growth trend extending back to 1969. The largest farms use contracting far more extensively than other farms. As more U.S. farm production moves to larger farms, an increase in contract production will likely follow.

More heterogeneity in contracting exists among specific commodities than is apparent in the aggregate data. Contract coverage varies widely across commodities, from less than 10 percent of wheat production to more than 90 percent of sugarbeets. Some commodities show sharp jumps in contract coverage in just a few years. Such jumps are often associated with institutional changes in the industries, such as major changes in government programs, marketing channels, or commodity varieties.

Contracts are often used when producers perceive that they have very limited options for marketing their products—that is, when commodity buyers have market power. However, that does not necessarily mean that contracts are instruments of market power. Instead, contracts may serve to insulate farmers from the exercise of market power and induce farmers to invest in the equipment and structures that will reduce costs for producing the contracted commodity.

Large operations, which often use contracts extensively, tend to earn significantly higher returns than smaller farm operations. As a result, we expect production to continue to shift to larger operations and contracting's coverage of production to expand. However, contract adoption can also vary with the performance of spot markets. Contract coverage grew sharply in two markets, tobacco and peanuts, when the cessation of government programs increased income risks in the markets and when alternative means of managing risks were not widely available. Contract coverage declined in another commodity, fed cattle, after expanding market reporting provided improved information to guide spot market price determination. Measurement and information technologies, as well as government policies, can affect the performance of spot markets and therefore the incentives to adopt contracts.

Contracts are evolving to cover new and often unforeseen developments. Standard poultry production contracts are designed so that the integrator provides feed and chicks, while the farm operator provides the onfarm equipment, structures, labor, and utilities. Today more contracts are specifying animal welfare and health standards; some provide for joint financing of utility expenses; and a few allow for contractor ownership of structures. Cattle feedlots typically charged clients a fee for providing custom feeding and marketing services for the client's cattle, but some feedlots now offer contracts that share equity ownership (of the cattle) between the feedlot and the client. Simple crop marketing contracts only set terms for selling a commodity, but others today may tie crop sales, seed purchases, and chemical purchases into a single agreement. Contracts that tie payment to product quality, in crop and livestock commodities, are frequently being redesigned

to take account of changes in consumer preferences or in technologies for measuring quality. We can expect further ongoing changes in contract design to facilitate greater traceability of products and to allow new forms of risk-sharing, input provision, and equity participation in farms and farm products. Designing future surveys to track such shifts would enable policy-makers and stakeholders to better understand the determinants and effects of agricultural contracts.