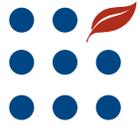




United States
Department
of Agriculture

Economic
Information
Bulletin No. 9

January 2006



Electronic Report from the Economic Research Service

www.ers.usda.gov

Agricultural Contracting Update: Contracts in 2003

James M. MacDonald
Penni Korb

Abstract

Marketing and production contracts covered 39 percent of the value of U.S. agricultural production in 2003, up from 36 percent in 2001 and a substantial increase over estimated values of 28 percent for 1991 and 11 percent in 1969. Large farms are far more likely to contract than small farms; in fact, contracts cover over half of the value of production from farms with at least \$1 million in sales. Although use of both production and marketing contracts has grown over time, growth is more rapid for production contracts, which are largely used for livestock.

Keywords: contracts, contracting, marketing contracts, production contracts, vertical integration, vertical coordination, market structure, risk analysis, price signals

Acknowledgments

Thanks go to our reviewers—Michael Sykuta, University of Missouri; Kyle Stiegert, University of Wisconsin; Alphonso Drain, USDA's National Agricultural Statistics Service; Warren Preston, USDA's Agricultural Marketing Service; Gary McBryde and Martin Johnson, USDA's Grain Inspection, Packers, and Stockyards Administration; and Mitch Morehart and Jet Yee, USDA's Economic Research Service. Our editor was John Weber, and Cynthia A. Ray prepared the document for publication.

Contents

Summary	3
What Are Agricultural Contracts?	5
Data on Contracting	7
Other USDA sources for data on agricultural contracts	7
How Contracting Has Grown	8
Contracts cover a growing volume of production	8
Contracts and commodities	11
Prices, Fees, and Terms in Agricultural Contracts	16
Marketing contracts for field crops	16
Production contracts for broilers and hogs	18
Conclusions	22
References	23
Appendix: Contract Questions in the 2003 ARMS Survey	24