

Riding the Wave of Change*

Contracting in Specialty Crops And Implications for Grower Credit and Finance



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C A T I



C E N T E R F O R
A G R I C U L T U R A L
B U S I N E S S

CALIFORNIA STATE UNIVERSITY, FRESNO

at the

A Blue-Ribbon Panel



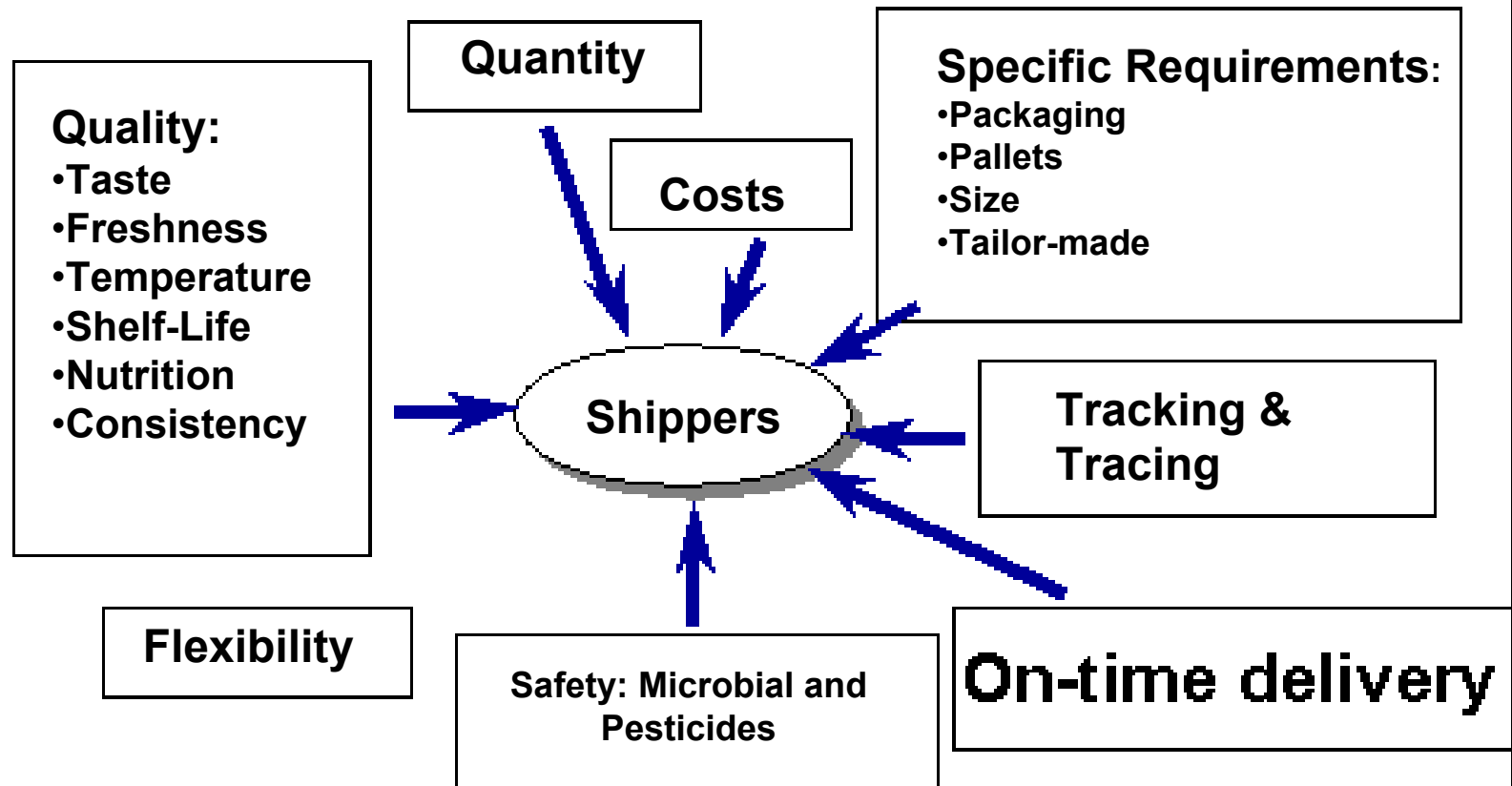
Truth or Consequences:

The Future of Contracts in Agriculture

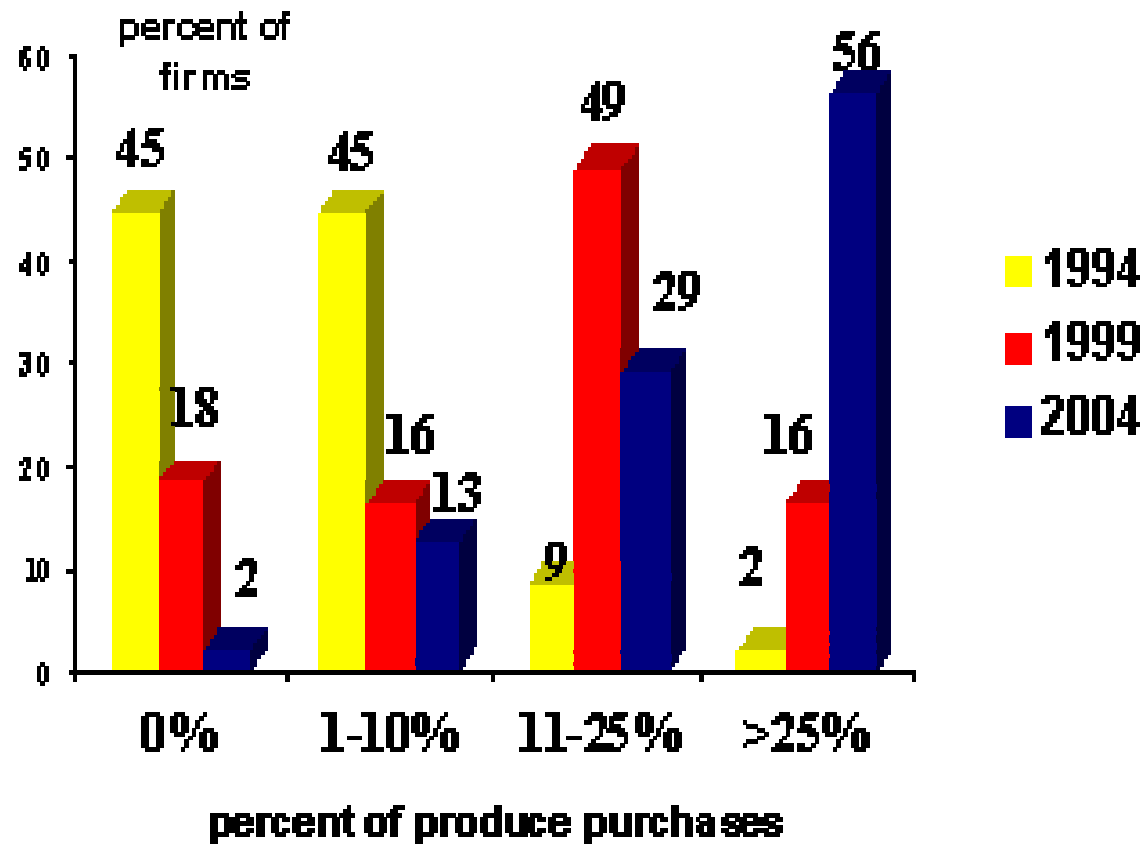
September 4-5, 2003 - Kansas City, Missouri

* Apologies to the Produce Marketing Association

Multiple Demands on Specialty Crops

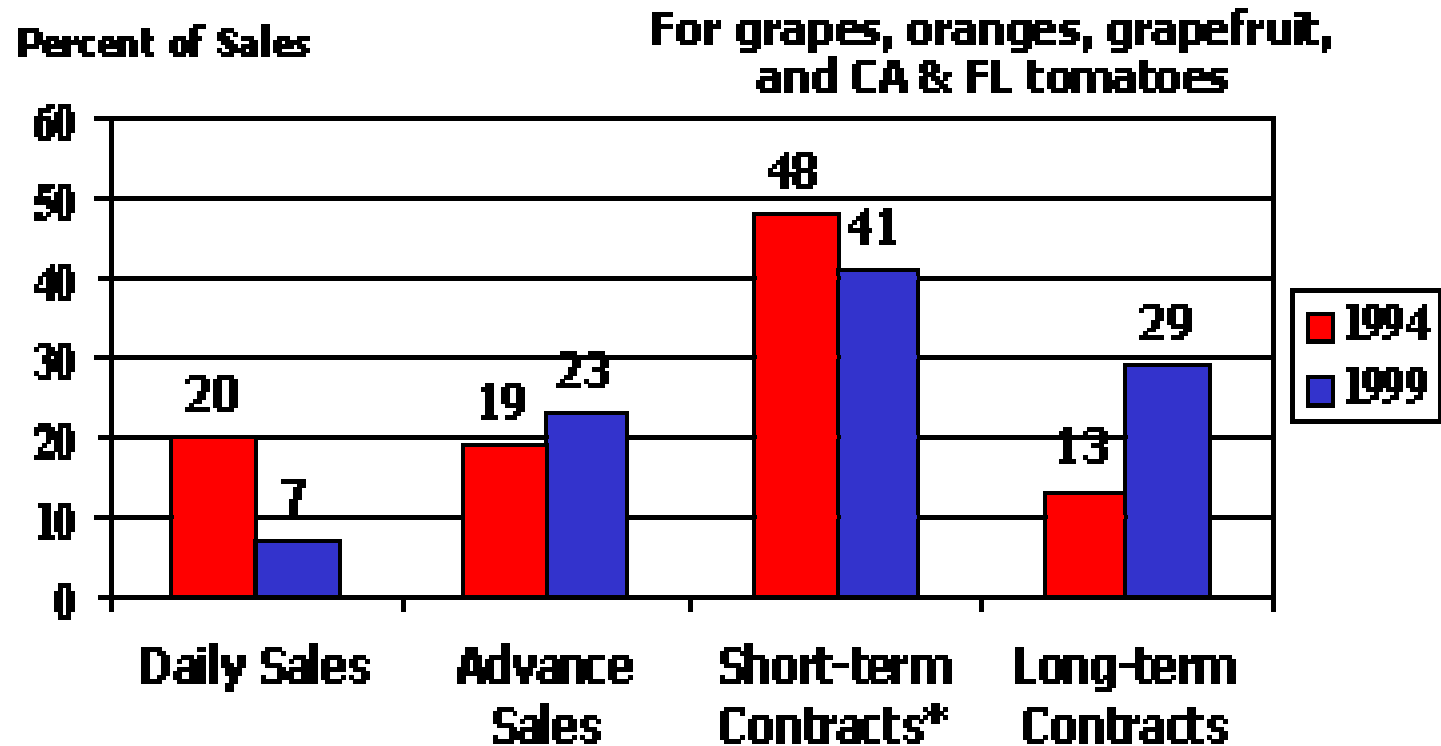


Contracts as share of purchases by Retailers



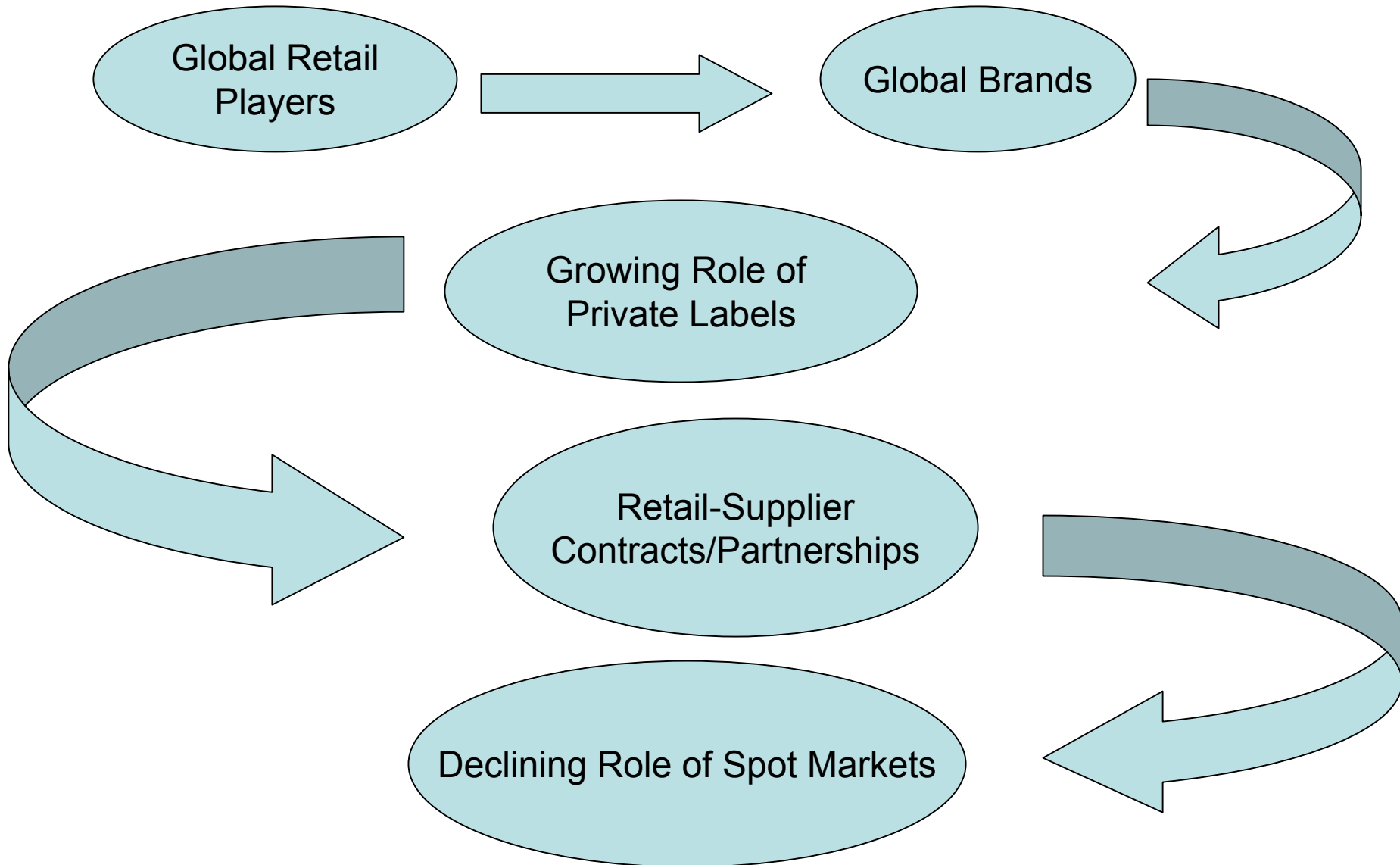
Source: FreshTrack 1999

Supply Purchase Options for Mega Stores



* One year or less

Global Market Influences



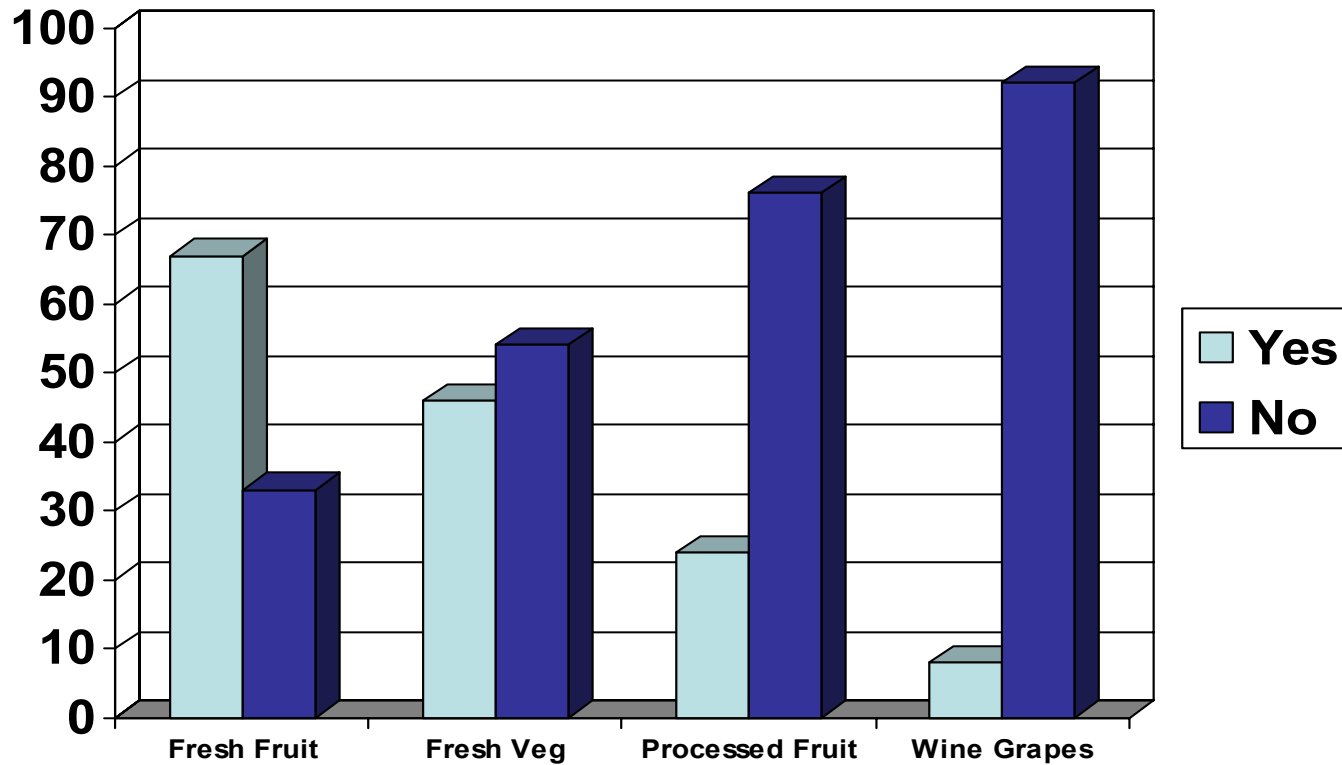
What do we know about the use Contracts in Fruits and Vegetables?

- Not well Documented

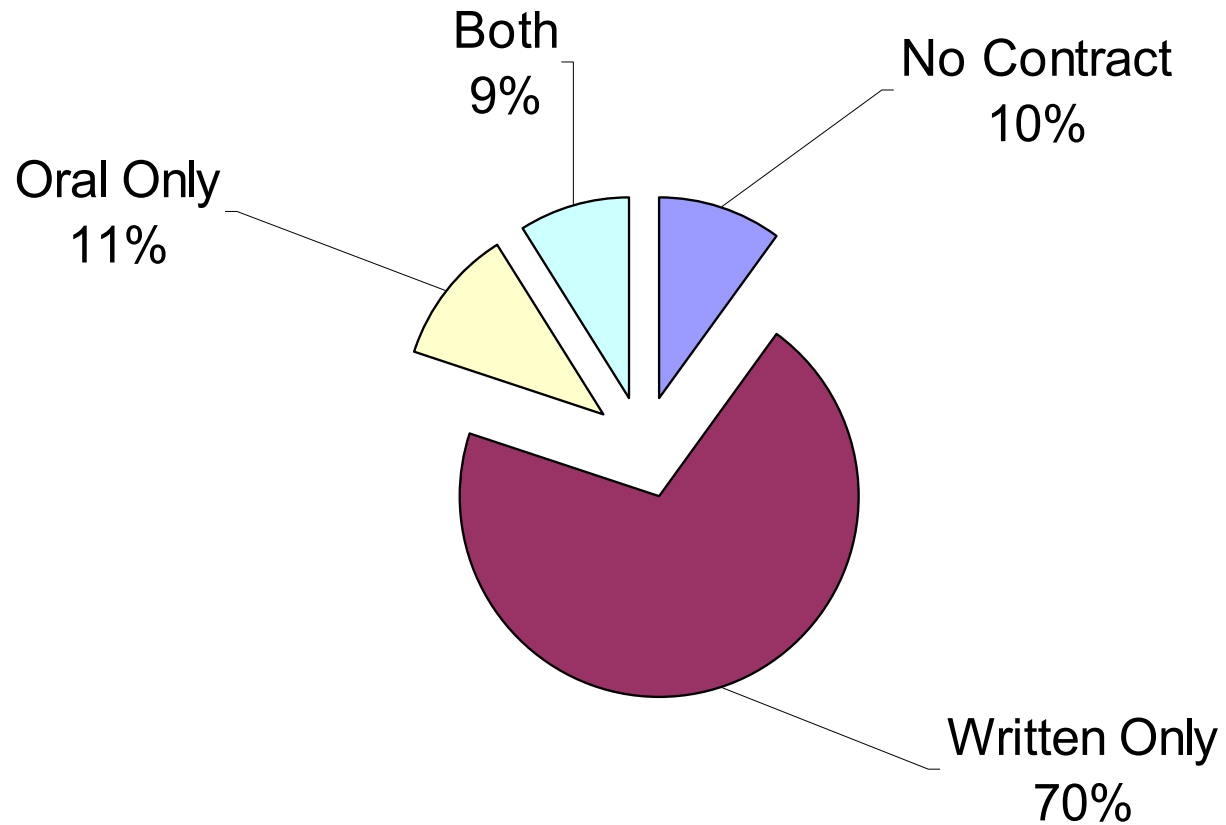
- Census Data Reported Suggest 32% of F&V with 6% in production contracts and 27% in marketing contracts (1997 reported in 2001)
- Wise people estimates: almost all processed vegetables and about $\frac{1}{2}$ the fresh vegetables. Contract use is fruits, common but not known
- We do have some information on pricing linkages **and some detail regarding existing wine grape contracts**

Price to Growers Linked to Downstream Prices

California Survey Data, 2001

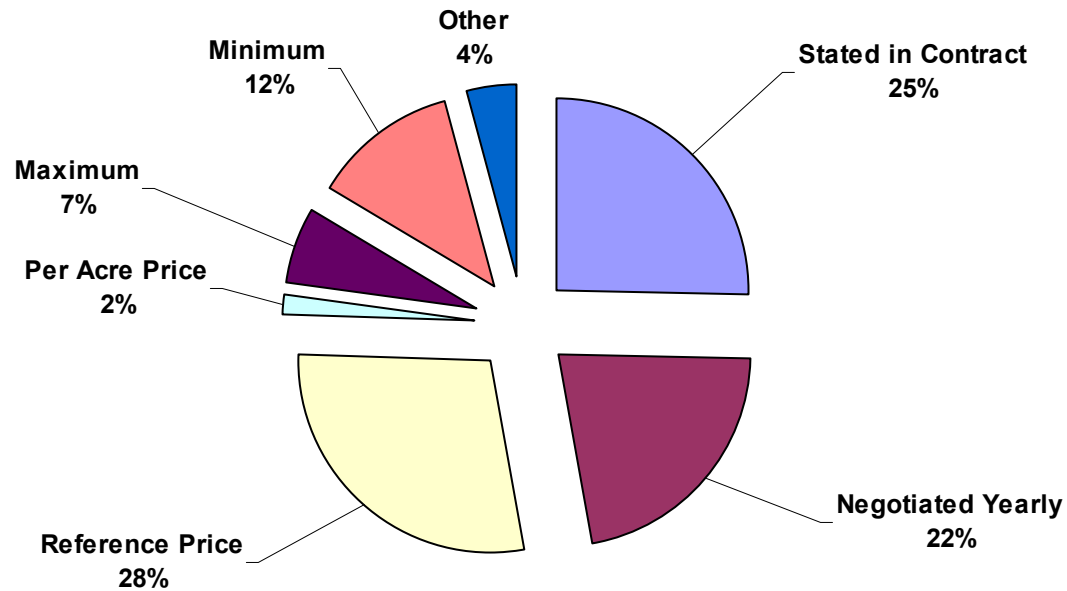


Use of Contracts in Wine Grapes



Source: UC-Davis, Ag Issues Center

Price Determination Provisions in Wine Grape Contracts



Source: UC-Davis, Ag Issues Center

Table 1. Quality assurance instruments for fresh-market commodities

Commodity	Firms	Quality Assurance Instrument			Residual Claimancy
		Input Control	Monitoring ^a	Quality Measurement	
Asparagus	3	Seed variety, fertilizer, labor, plants, pesticides, financing	20	Self-measurement, government, at market	Yes
Broccoli	2		0	Government	Yes
Carrots	1	Variety, harvest	1	Government	Yes
Grapefruit	3		2	Self-measurement, third party, government	
Grapes	5	Labor	30	Self-measurement, third party	Yes
Lettuce	3	Variety, fertilizer, plants	9	Self-measurement, third party, government	
Onions	2	Variety, harvest	1	Self-measurement, government	Yes
Oranges	2		20	Self-measurement	Yes
Potatoes	2		12	Government	Yes
Squash	1	Plants	9	Self-measurement	Yes
Peaches	3	Pruning, harvest	10	Government	Yes
Tomatoes	3	Plants, planting, harvest	100	Self-measurement, government, third party	Yes

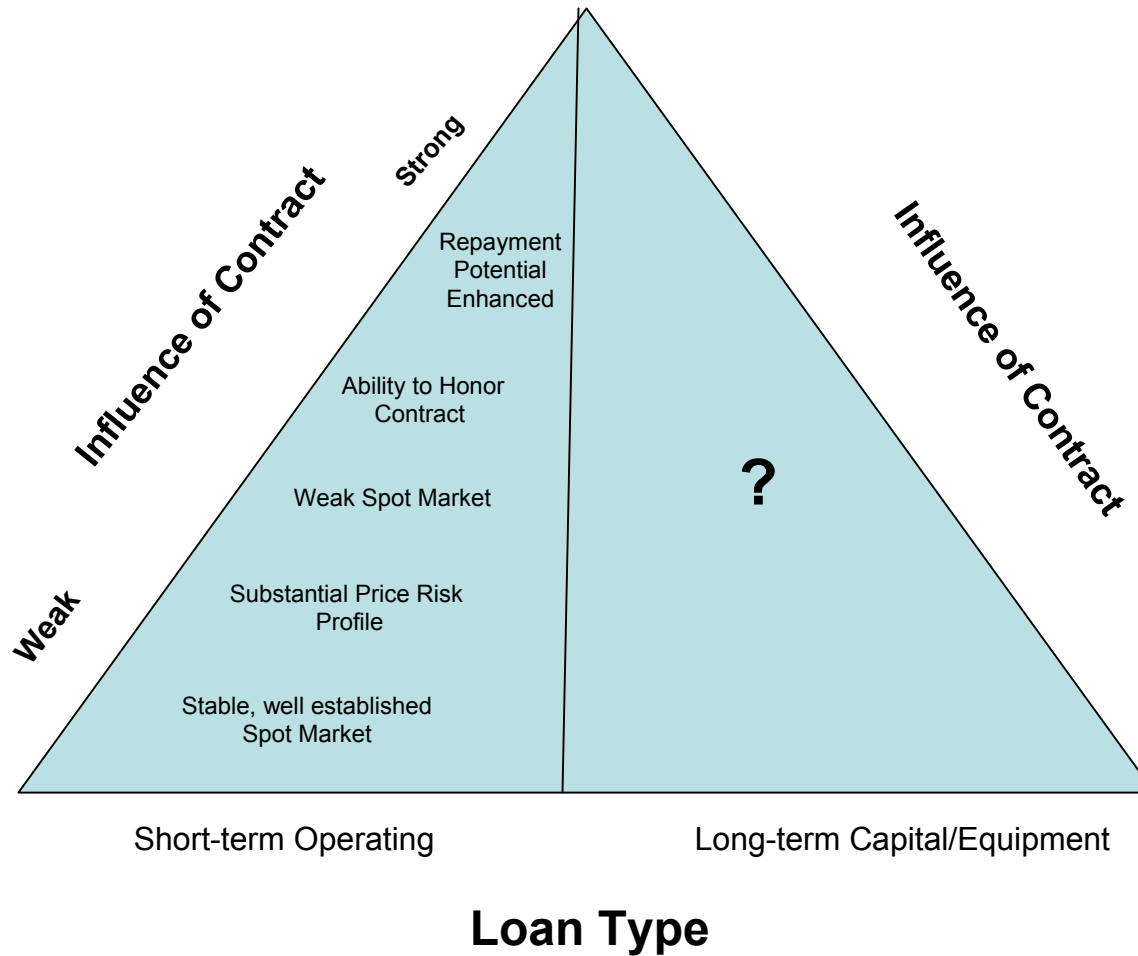
^a Monitoring is measured by the median number of reported annual visits to a typical grower's field. In the appendix, we include the exact question used to elicit this number.

Table 2. Quality assurance instruments for processed-market commodities

Commodity	Firms	Quality Assurance Instrument			Residual Claimancy
		Input Control	Monitoring ^a	Quality Management	
Almonds	1		1	Government	Grower choice
Cabbage	1	Seed, fertilizer, labor	Yes	Self-measurement, third party, government	No
Carrots	2	Variety, seeding rates, harvest, labor	9	Self-measurement	No
Celery	1	Labor	1	Self-measurement	No
Grapes	24	Labor, pesticides, pruning, harvest	15	Self-measurement, third party, government	No
Onions	2	Variety, harvest	6	Self-measurement	No
Oranges	2		6	Self-measurement	No
Potatoes	1		25	Government	No
Peaches	2		25	Government	No
Tomatoes	22	Variety	Yes	Third party	No

^a Monitoring is measured by the median number of reported annual visits to a typical grower's field. In the appendix we include the exact question used to elicit this number.

The Lender Pyramid of Concerns



Implications for Policy

- Marketing and to lesser degree production contracts are the future, if not the present, for specialty crop growers
- Contracts can provide a positive influence on lenders decisions to provide short-term operating capital loans, limited influence on long-term loans and may be especially important for producers on the margin
- The perishable nature of products, quality and food safety demands lead to robust list of concerns associated with contracts in the specialty crop industry
- One size does not fit all, specificity related to the nature of the product and/or enterprise must not be lost in any discussion related to proposed regulation schemes

