Contractee/producer—These terms are used interchangeably throughout this survey in referring to the farm operator that is the party of the contract responsible for producing or raising on his place one of the eight commodities surveyed.

Contractor—The contractor is the party offering the agreement to the producer and who will, at a point in time, gain ownership of the commodity in question.

Additional definitions used in the 1974 Census of Agriculture are published in Volume II, Part 1, **General Information: Procedures for Collection, Processing and Classification.**

Summary of Findings

Production Versus Marketing Contracts

A frequently employed categorization of contract arrangements is that of production versus marketing contracts. In general, production contracts are agreements whereby the contractor supplies some or most of the inputs for production and generally the terms of this contract are very specific in nature. Conversely, the contractee is limited in the degree of control over the amount produced and the production practices of the commodity under contract and generally provides such production inputs as labor, utilities, housing, machinery and/or equipment. A major advantage of production contracts is that the contractee bears a minimum of risk in undertaking the contract with the price to be received generally agreed upon prior to or during the production period. The price received by the contractee generally does not reflect the full market value of the commodity (see table 7). Additionally, the individual utilizing a production contract, in many cases, would not grow or produce the commodity unless the contractual arrangement existed.

The terms of marketing contracts, however, are generally dominated by the contractee with the primary responsibility of the contractor being to provide the market for the commodity. The contractee or producer is free to employ a high degree of entrepreneurship in the production of the commodity and is thereby compensated by a payment more reflective of the market value of the product.

Although classification of contracts into production or marketing is not exact, based on data for seven commodities shown in this report, it is possible to classify the contracts of certain of the commodities as being production or marketing oriented. In the case of broilers, for example, the key terms of the contract appear to be determined by the contractors, a major share of the production items are furnished by the contractors, and the determination of the payment to be made is dominated by them. The contractee exercises a minimum degree of control over broiler production with the major inputs supplied by the farm operator being labor and housing. The average unit price the producer receives is also low compared to a broiler's market value. Hence, broiler contracts tend to be production contracts rather than marketing contracts.

In contrast, the terms and production inputs furnished as tabulated for feeder and/or stocker cattle contracts are dominated by producer decisions. Also, the price received by the producer closely approximates the market price of the cattle. These contracts tend to be classified as marketing contracts.

Tabulations of the slaughter hog contracts give no clear indication of production or marketing contracts being dominant. As true with many commodities, both types of arrangements are possible and actually occur in slaughter hog contracting. Identifying slaughter hog production contracts as those in which the contractor furnishes both the feeder pigs and feed, and defining marketing contracts as those in which the producer furnishes both the feeder pigs and feed resulted in the tabulation of 32 production contracts and 18 marketing contracts. The remaining slaughter hog contracts reported the contractor supplying either the feeder pigs or the feed, but not both, while the producer furnished the other input. Hence, these contracts are not easily classified as being one or the other. A comparison of the contract characteristics of timing, terms, and production items furnished for production and marketing contracts can be seen in tables 2, 3, and 4.

A comparison of the timing characteristics of the two types of contracts indicate that agreement is reached prior to production on contract specifics, price determination, and contractor ownership of the product for the production contracts while marketing contracts indicate that agreement on these issues generally occurs sometime after production begins. The terms of production and marketing contracts emphasize the respective domination by contractor and producer of each type of contract. The producer, however, is more dominant in dictating the terms of marketing contracts than the contractor is in dominating the terms of production contracts.

Excepting slaughter hogs, the timing, terms, and production items furnished for the remaining commodities surveyed are predominantly marketing or production oriented, but not split between the two types of arrangements.

Table 2. **Timing of Marketing and Production Contracts for Slaughter Hogs**

	Farms with marketing contracts						Farms with production contracts					
	Total	Before production period	During production period	At delivery or within one week	After product was marketed	Not applicable	Total	Before production period	During production period	At delivery or within one week	After product was marketed	Not applicable
Contract agreed upon	16	6	9	1	(NA)	(NA)	31	30	1	-	(NA)	(NA)
Price or payment agreed upon	18	3	6	7	2	(NA)	32	20	1	4	7	(NA)
Part cash payment received	17	2	1	8	4	2	32	-	1	3	21	7
Final cash payment received	18	-	-	8	10	(NA)	30	-	-	2	28	(NA)
Contractor assumed ownership	17	1	-	11	5	(NA)	29	23	1	4	1	(NA)