



USDA Coexistence Factsheets Contracts

Entering Into Contracts

Farmers often sell their crop harvest through the use of contracts. While biotech farmers may simply contract with an elevator to provide a certain number of bushels at a certain price, organic and conventional farmers may enter into much more detailed contracts with end-market users that increase their responsibilities, and therefore, liabilities.

Farmers often enter into contracts for several reasons, including income stability – reducing the risk of marketing grain via traditional marketing channels; improved efficiency – where farmers can gain technical advice, market knowledge and other information not otherwise available without a contract; and market security – guaranteeing that crops will be sold at a certain price if specifications are met.

Considerations for Contract Requirements

Using forward contracts can be advantageous for farmers. Forward contracts allow farmers to sell their crop before it is harvested, know exactly what price he or she will receive for each bushel of crop sold, and how much needs to be produced to meet that contract. Premiums can be negotiated for large-volume contracts, specialty crops, or identity preserved (IP) crops that are grown for a specific end market.

However, there are disadvantages in forward contracting, too. If prices increase throughout the growing season, or simply in the future, farmers do not have access to those higher prices. There is also no flexibility in choosing the delivery point. Most importantly, the farmer must fill the contract even if production is less than expected.

Organic and conventional farmers may also enter into contracts that require a certain level of organic or conventional material to be delivered. Contracts that state 100 percent organic or 100 percent IP crops are required are often too risky for organic and conventional farmers – a minimum tolerance of foreign material is the best way to manage that risk. Organic grains tend to have the strictest tolerance levels for herbicides, pesticides and fertilizers.

While organic and IP crops require extra management and handling practices, these farmers are often paid premium prices that make the extra work worthwhile and provide an opportunity for value-added income.

Incentives

The biggest incentives for farmers selling organic or IP crops are higher prices. For instance, corn that qualifies as organic or meets IP contract requirements can receive as much as \$1.10 per bushel more. Other incentives can include repeat contracts at premium prices, and on a more personal level, knowing exactly where the crop grown will be used.