



# LARGE AGRIBUSINESS CORPORATIONS AND CONTRACT FARMING: THEORETICAL APPROACHES

## LAS GRANDES CORPORACIONES AGROINDUSTRIALES Y LA AGRICULTURA CONTRACTUAL: APROXIMACIONES TEÓRICAS

Christian Rafael Orozco Suárez 

*Facultad de Ciencias Económicas e Instituto de Investigaciones Económicas, Universidad Central del Ecuador, Av. Universitaria, Quito-Ecuador*

\*Corresponding author: [crorozco@uce.edu.ec](mailto:crorozco@uce.edu.ec)

Received on April 30th, 2020. Accepted, after review, on January 04th, 2022.

### Abstract

Contract farming constitutes a long-term productive and commercial modality in time and space; for this reason, it is essential to approach the different interpretations of its determinants. In this sense, this article analyzes the theoretical and interpretative contributions that the main currents and schools of economic thought have raised about the factors that have decisively contributed to the development of the productive and commercial modality of the contract in agriculture, especially from the perspective of the large agro-industrial corporations. The methodology applied in this research is the literature review. The investigated currents are the French, the Anglo-Saxon, and the Latin American. In the end, it is concluded that there is a re-functionalization of the agrarian economy through contract farming; contracts are yet another business strategy for sourcing agricultural supplies; and the sources that large agro-industrial corporations must promote this productive and commercial modality are market, contractual-informal and technological.

**Keywords:** Contract farming, vertical integration, large agribusiness corporations, family farming.

### Resumen

La agricultura contractual constituye una modalidad productiva y comercial de largo recorrido en el tiempo y el espacio; por esta razón, se considera esencial aproximarse a las distintas interpretaciones de sus determinantes. En este sentido, el presente artículo analiza las aportaciones teóricas e interpretativas que desde las principales corrientes y escuelas de pensamiento económico se han planteado en torno a los factores que han contribuido decisivamente en el desarrollo de la modalidad productiva y comercial del contrato en la agricultura, especialmente desde la perspectiva de las grandes corporaciones agroindustriales. La metodología aplicada en esta investigación es la revisión de literatura. Las corrientes investigadas son la francesa, la anglosajona y la latinoamericana. Al final, se concluye

que a través de la agricultura contractual se produce una refuncionalización de la economía agraria; los contratos constituyen una estrategia empresarial para abastecerse de suministros agrícolas; y los resortes con los que cuentan las grandes corporaciones agroindustriales para fomentar esta modalidad productiva y comercial son de mercado, contractual-informales y tecnológicos.

**Palabras clave:** Agricultura contractual, integración vertical, grandes corporaciones agroindustriales, agricultura familiar.

---

Suggested citation: Orozco, C. (2022). Large agribusiness corporations and contract farming: Theoretical approaches. *La Granja: Revista de Ciencias de la Vida*. [Accepted version] <http://doi.org/10.17163/lgr.n37.2023.05>.

---

Orcid IDs:

Christian Rafael Orozco Suárez: <http://orcid.org/0000-0003-0139-7911>

## 1 Introducción

Initially, before presenting and developing the theoretical perspectives that study contract farming (CF), it is necessary to mention some concepts that will improve the analysis. In the first place, small and medium agricultural production (the contracted or integrated part) is specifically made up of peasant producers, whose production is based on the ownership and use of a relatively small or medium-sized area of arable land, and on family labor (Óman and Rama, 1986).

Secondly, a large agro-industry company (LAC) (the contracting, integrating or anchor party of the agricultural contract) is a company of national, foreign or mixed capital that holds a dominance position in the market in which it operates, generally, although not always in a context where monopsonistic or oligopsonistic forms of competition predominate, specifically in the agri-food sector, engage in one or more of the following activities: production, industrialization and commercialization of agricultural, livestock, forestry, fishery goods, among others related to biological natural resources. Also, following Barker (1972, cited in Soria, Rodríguez, and Langreo, 1988, p. 225), CF is understood as:

a system for the production and supply of agricultural commodities under futures contracts, the essence of such a system being an agreement to supply an agricultural commodity of specified characteristics at the time and in the quantity required by a known buyer. Such a system often includes a transfer of some business responsibilities and some transfer degree of commercial risk. (p. 225).

## 2 Interpretative aspects of contract farming

Thus, with these concepts in mind, the structure of this section is based on the contributions regarding the role of the LAC in the growth of CF based on the initially mentioned currents, namely: the French current, with certain Marxist influences; the Anglo-Saxon current; and the Latin American current, strongly influenced by the theorizations of the first school, i.e., the French school (Posada, 1999).

### 2.1 The French current

The analysis of large agro-industrial companies (LACs) and their business strategies is based on the so-called “agroindustrialization theory”, which, according to Fenollar (1978), can be interpreted as follows:

the one which reveals the “economic law” of agricultural development within a process of industrialization and urbanization, as well as to show the “specificity” of agriculture/industry relations and the profound insertion of the rural world into global society, leading to the consolidation of a system of production, transformation and distribution of agricultural products (S.A.I) [agro-industrial system] whose objective is to provide nutritional needs, and which is characterized by a decreasing contribution of agriculture in the formation of the final food product, by a growth of the large agro-food firms, by the development of contractual relations with the more “industrialized” branches of the agricultural sector and by the articulation of family farming in this system (...) The theory of agroindustrialization indicates that the capitalist characteristic of agriculture is accentuated not as a function of the specific development of the CMP [capitalist mode of production] within agriculture (...), but as a function of the interrelations between agriculture and the capitalist system as a whole (pp. 173-174).

Therefore, it is a theory that tries to understand the integration processes of rural economy in the development of capitalism in general, and agrarian capitalism in particular (defined as a mode of production based on the private ownership of most of the means used to produce, the mercantile character of production and the private appropriation of production and profit, where “the social relations that give origin and purpose to the economic process are those established between the owners of the enterprises and the wage earners who lack the means to produce” in the agrarian world (Palazuelos, 2017, p. 123)). In this sense CF is understood as one more instrument (within a wide variety of business strategies) to subsume and subjugate the rural sector in the development of capitalism (adopting the own characteristics of the corporate food regime since the 1980s (Porter and Phillips-Howard, 1995)).

From this perspective, and in line with the classical Marxist approach Lenin (1981) and Mandel

(1969, cited in Lebossé and Ouisse, 1979), the development of agrarian capitalism has been theorized using the same analytical frameworks coming from the study of industrial capitalism, i.e., those used to study the passage from formal subsumption to real subsumption of the labor process in the capital (Marx, 1975), giving rise to a practically absolute proletarianization process (McMichael, 2013). Then, from this point on, it is considered that the rural sector, whose central axis is small rural family production, continues to exist as such because agriculture, for a series of reasons that will gradually disappear, maintains a certain temporary delay in its industrialization process, and all that this implies (Posada, 1999).

In this sense, authors such as Malassis (1979) have considered that the development of agrarian capitalism (understood as the capitalization of agriculture) can follow two different paths. The first led by the industrial sector, which would control and invest in agrarian property, i.e., the so-called vertical integration. The second would be an indirect way of investment and control by the industrial sector over the agrarian sector through CF. Both ways of development of agrarian capitalism have in common the fact that the proactive actor in the process is the industrial sector, or, more specifically, the industrial bourgeoisie (especially international, but also local) through its companies.

Therefore, it is understood that this second way has more advantages over the first (and would explain to a large extent the growing role of CF in recent decades) insofar as it allows industrial capital to circumvent the axial problem of land control; CF is economically more lucrative than vertical integration, since peasants are generally very reluctant to sell their land, resulting in expensive investments and lower profit rates (Posada, 1999). Thus, this business strategy led by LACs can be included in the accumulation concept by dispossession (Harvey, 1984, cited in Bernstein, 2016, p. 626), an axial element of the corporate agri-food regime. Likewise, Lebossé and Ouisse (1979) argue that CF:

integrated into a food complex and controlled by the capitalist State is the one that best serves the essential interests of the capitalists... In all agricultural domains the maintenance of a transformed artisan allows, under present conditions, a greater exploitation to the benefit of the capitalist sector

i.e., a greater transfer of value than the direct exploitation of a wage labor force in a capitalist agriculture (p. 203).

Hence, capitalist enterprises prefer CF as long as the maintenance of pre-capitalist elements embedded in the dominant mode of production “within the food sphere” ensures a higher level of exploitation towards the farmer, a greater transfer of value when this farmer is a peasant (when his subsistence depends not only on the income provided by his participation in CF projects, but also on agricultural production for self-consumption and, in addition, has the labor support of his family) than when he is purely a salaried agricultural worker for the company. Thus, according to Lebossé and Ouisse (1979) it is understood that the maintenance of class agrarian structures based on small and medium agricultural producers “artisanal agriculture”, is better than the development of agrarian capitalism (a scheme based on a mass of free wage laborers on the one hand, and capitalist entrepreneurs who own the land and the means of agricultural production on the other), only when the first condition is fulfilled, i.e., when there is a greater extraction of value.

Specifically, this thesis is based on two postulates. The first, quasi-integration (in the form of CF) ensures a significant transfer of the integrated surplus (Etges, 1991; Da Costa, 2003). Thus:

It is therefore interesting for the integrated company to perform a quasi-integration, since it thus allocates a part of the agricultural surplus, without having to bear additional investments. Total integration, on the contrary, would make it possible to have *all* the agricultural surplus labor, but would imply a heavy burden of supplementary investments. *It would then be the capitalist group as a whole which would obtain lower profit rates than “normal”* (Lebossé and Ouisse, 1979, p. 210).

But how is the transfer of the surplus? it is argued from this theoretical perspective that the selling price of the final product is lower than the “capitalist cost of production”. Hence, entrepreneurs who can pay lower wages use this quasi-integration process. Lebossé and Ouisse (1979) argue that the lack of profitability of small and medium farmers integrated into the CF does not depend on their “technical incapacity”, nor on the small size of their plots, but on the fact that integrating LAC

“confiscate the productivity gains of their farms”, even though they are the ones who supply the labor force, the land, and in most of the cases the equipment. In this sense, the property rights of the integrated farmer are limited to the extent that the ultimate objective of the “contract is to make him disappear as an economic subject”, i.e., to transform him into one more technical part of the large integrating company (Fenollar (1978) says it is “a form of submission of family farming to capital”), so that on the one hand, as a formal owner of land, he must take care of it and keep it in the best possible productive conditions, and on the other hand, as an “integrated artisan farmer”, he cannot keep the surplus generated (p. 211).

In this sense, this first postulate also means the unfolding of a double movement: more “farmer dependence” (even in the case of farmers who are parts of associations) which reinforces the independence of the integrating LAC. This is observed in the fact that in most of the cases they are not obliged to guarantee the part corresponding to the depreciation of the equipment used during the production process (a cost that is therefore borne by the small and medium farmers) through the contract. In these favorable circumstances for the LAC, they have more room for maneuver in the management of their financial resources, since they can transfer their funds to other productions or other geographical areas, since the contracts previously signed are generally short term, and most of their duration is shorter than the “economic life” of the equipment used by the contracted small and medium producers.

Moreover, in a small number of cases in which the LAC is obliged to assume the “financial expense of investments”, it does not alter “in any way the transfer of surplus through prices”, insofar as the rent (withheld from the income of the small and medium contracted producers) guarantees a “normal” profitability level of the capital. Ultimately, the major change regarding the situation described above is that of less room for maneuver on the part of the contracting companies, since under these contractual conditions they cannot choose to shift their financial resources entirely to other activities before the end of the useful life of the equipment involved in agricultural production subject to the contract, since the integrating party has undertaken to sup-

port the depreciation costs of the equipment (Lebossé and Ouisse, 1979, p. 212).

On the other hand, the second postulate indicates that quasi-integration ensures the transfer of technical and economic risks from the integrating economic subject to the integrated legal subject, since it “makes it possible to control the integrated subject, to reduce its freedom of action by specializing it totally, imposing the exclusivity of supply, and often creating a debtor position vis-a-vis the integrator” (Lebossé and Ouisse, 1979, p. 214).

In the case of the former, i.e., the costs associated with the prevention of technical risks, e.g., droughts, floods, pests, diseases, etc., these are often borne by the farmer-owners of the land. They assume all the risks, except on exceptional occasions when they can prove that they were not responsible, as long as this circumstance is included in the contract. Thus, the most viable alternative that most small and medium contracted producers assume in the face of these disagreements is to pay for voluntary insurance to provide for this risk, which is always a possibility in agricultural production. As far as economic risks are concerned, Lebossé and Ouisse (1979) state that:

it should be noted that they originate from the integrator’s policy: the integrator pursues a certain freely chosen policy and the quasi-integration system allows him to reflect, in whole or in part, the consequences of the errors of his policy on the artisanal farmers he is part of (pp. 112-113).

Economic risks, in turn, may occur in the short and long term. Thus, in the short term, the following elements are present. First, “the prices assured to the integrator”, although a positive element of the CF, is only partially attributable to the integrator since this is due to “a system of price equalization between producers and different periods of time”. The intervention of the integrator LAC is weak, since “its quotations represent only a small part of the quotations of the integrated producers”. Therefore, it is understood that its main performance is limited to carrying out accounting tasks and “anticipating certain quantities”. From this perspective, even CF based on “protective” contracts or “risk-sharing” contracts, the small and medium integrated farmer “is obliged to finance half of the losses resulting from the integrator’s errors (bad

counter-cyclical policy, bad anticipations...)” (Lebossé and Ouisse, 1979, p. 213).

Secondly, “rectification of the quantities to be delivered” means that during the agricultural production period, when the contracting LAC is aware of a failure in its commercial strategy or senses a foreseeable change in market expectations that could cause difficulties in its business, it can (if included in the contract, and it generally is) impose a reduction or delay in deliveries by the integrated agricultural producers. Moreover, this type of contractual clause is combined with others, such as the exclusivity clause, whereby the contracted farmers can only sell their production to the contracting companies; all this undoubtedly translated into an arbitrary reduction in the income of the integrated farmers (even, it should be stressed, in those few cases where certain indemnities are provided for small and medium-sized farmers (Lebossé and Ouisse, 1979, p. 213)).

On the other hand, long-term economic risks are associated with the fall in the prices of agricultural products; this reduction is borne by the small and medium contracted producers, “since most of the contracts provide for remuneration based on the average value of sales over a given period”. In this context, it can be inferred that these remunerations will tend to evolve “with the market”, in such a way that they will not provide any guarantee on the effective prices in long-term periods (four or five years). And to the extent that it is necessary to amortize the equipment and installations, the contracted producer will be tied, “whatever the evolution of prices during this period”. Thus, the contracting LAC can, at a given moment, modify its activity at its discretion because most of its means of production are adaptable (for example: transport, storage, conservation, marketing network, etc.) and, moreover, place on the shoulders of the contracted party the costs of this modification or “of its reduction of activity on the integrated farmer”, who maintains “his relatively unsuitable equipment which, however, he has to amortize” (Lebossé and Ouisse, 1979, p. 214).

Thus, considering the above, it is logical to maintain that the social-agrarian structure that arises from this modality of integration generates “a strong sustenance”, to the extent that the LACs

are the ones that create and foster them (among other drivers), and, therefore, “their temporal perspectives are long-lasting” (Posada, 1999, p. 108).

In summary, from this theoretical current, LACs constitute the main determinant of CF growth, where this productive and commercial modality assumes an instrumental role, i.e., this is posed as a tool of capitalists to “refunctionalize” in their favor “the social-agrarian structure hegemonized by small-scale farms” (and, in fact, they achieve this to such an extent that during the corporate agri-food regime the dominant form of capital is the one linked to financialized corporate agribusiness (Bernstein, 2016, p. 632)), a characteristic land ownership structure in most European countries, different from the high concentration levels of fertile land in contexts such as Latin America in general, and Ecuador in particular. Therefore, analyzing the land ownership structure and how it evolves over time becomes necessary to understand the CF phenomenon within the framework of the business strategies developed by LACs in all their complexity, particularly in peripheral-dependent economies with high levels of agricultural land concentration.

## 2.2 The Anglo-Saxon current

From the Anglo-Saxon perspective, in contrast to the French and Latin American perspective, CF is just one modality in which the commercial relations of the LACs are observed. The main axis from which practically all the studies of this current related to the role played by LACs in promoting CF are based is the so-called “industrial organization theory”, which studies how producers organize themselves in markets (Runsten and Nigel, 1996; Posada, 1999; García, Oreja, and González, 2002; Kirsten and Sartorius, 2002). In this sense, the study of the agrofood industry based on the theory of industrial organization has led to the formulation of an analytical framework focused on the following premise:

The open market presents deficiencies in the transmission of information between the successive stages of the product marketing chain, with respect to quantity, quality, and delivery, as well as with respect to future consumer demand (Posada, 1999, p. 109).

From this school of thought, the entire agrifood

chain is “the basic unit of analysis”, starting from the primary stage and continuing through the intermediate stages to the final consumer. In relation to the origins and sources of this school, it is worth highlighting the article of Davis and Goldberg (1957, cited in Posada, 1999), in which both authors study the agro-industrial subsector, delving into a systemic analysis of the chain, emphasizing the vertical information flows that materialize between the different stages of the chain, in continuous adaptive processes in the face of structural transformations in the sector, especially those linked to technological developments, and their effects or results on the general functioning of markets.

Specifically, outstanding theoretical formulations have emerged around the theory of industrial organization. In this line, Bain (1968) synthesized the different contributions of numerous authors, establishing the bases of the paradigm known as structure-behavior-results (S-B-R) (Morales, 2000) as a basic and central theoretical tool for examining and evaluating the behavior of markets and for studying the relationships established between industrial structure and the results obtained by the corresponding subsector. Thus, it is understood that “the market structure influences but does not absolutely control the behavior of the firms, with both factors intervening in the results obtained” (Posada, 1999, p. 109).

According to the S-B-R paradigm, the variables to be analyzed to study the market structure are the following. First, structure (S), which is made up of a set of variables (the concentration degree of supply, the concentration degree of demand, product differentiation, the nature of the product, the technology available, and the input barriers) that remain relatively stable over time and influence the behavior of both suppliers and demanders. Second, behavior (B) which refers to the way in which suppliers and demanders behave between and within both agents. Among the variables studied are business strategies, the degree of investment in R+D+i, levels of marketing and advertising, collusion, etc. Finally, results (R) which are measured by comparing the company’s results with those of the rest of the industry in terms of effectiveness and efficiency, using different ratios to assess the different degrees of profitability. In this case, the variables to

be considered are price, quantity, product quality, distribution of resources, distribution of surplus between consumers and producers, efficiency degree in the production, introduction rate of new products, among others (Iglesias, 2000).

The S-B-R paradigm (associated with industrial organization theory) to the agrifood system and the CF-based business strategies have been widely applied. However, this theory has several significant limitations. First, it is a “static perspective”, which is explained by the fact that the relationship that stands out is one of “cause-effect between the structure of the sector and its results”, excluding behavior, and that “the role of the manager is one of passive adaptation to the environment” (Cuervo, 1996, cited in García, Oreja, and González, 2002; Machado, 2019). Thus, this paradigm must be adjusted and adapted to a context of active companies with a strategic vision that is constantly analyzing its potential consumers, substitute products and the bargaining power of suppliers and customers, elements that make up the structure of the sector and define its potential profitability, “while the real competition within the sector represents behavior” (Mili, 1980; Porter and Phillips-Howard, 1995, cited in García, Oreja, and González, 2002).

The second weakness of this paradigm is that it focuses on companies that compete with each other by offering products to the same demanders, i.e. it has been applied from the point of view of competition between companies that produce substitute products (analyzing, above all, the problems that arise from horizontal competition) paying little attention to the difficulties present in vertical competition, i.e. between companies that are part of the different stages of the system (Mili, 1996; Iglesias, 2000). Finally, the third limitation facing the S-B-R paradigm is the problem of defining “market”. The market must include all companies and products that influence the price of the good. Thus, the market definition has a product and a geographic component. The product dimension involves determining those products that are demand substitutes. On the other hand, the geographic dimension implies determining the location of the companies that produce the same product (substitution on the supply). However, concentration measures are often taken from statistics that do not follow the economic and geographic market definition (for exam-

ple, reference is usually made to the national market (Machado, 2019)).

In the face of these problems and limitations presented by the theory of industrial organization, it has been suggested that a correct analysis of the functioning of CF requires understanding that it should be studied from a "broader theoretical context", i.e., beyond the economic dynamics of the agricultural sector, understanding that the sub-contracting of specific production processes covers a wide range of industries and sectors (primary, secondary or tertiary), and also encompassing aspects such as "decisions regarding manufacturing or purchasing, transaction costs, market failures and all the risk considerations normally taken into account by economic agents" (Runsten and Nigel, 1996, p. 2). In this sense, within the new institutional economics or neoinstitutionalism, the following theories have been collected: "transaction costs" (Coase (1937), Coase (1960), and Bartra (1994) and Williamson (1979), Williamson (1985), and Williamson (1988) being its main representatives; "agency theory" Jensen and Meckling (1976) are its most prominent exponents; and the theory of "property rights" (Alchian and Demsetz, 1972; Iglesias, 2000).

Thus, the combination of these theories has reformulated and reinterpreted Coase (1937) original perspective, moving from "a transactional approach to a contractual approach" (Williams, 1985), since the transaction is supported by a contract. These theories, usually defined as "contractualist theories" involve the introduction of a series of analytical contributions to the study of agribusiness markets in general and to the business strategies of LAC in CF, which are worth commenting on at this point.

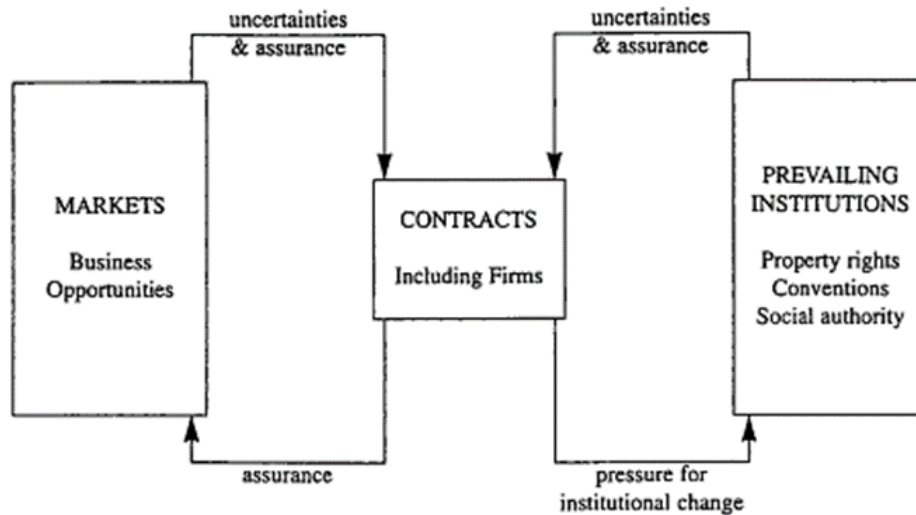
In the first place, transaction costs, the main objective of this theory, study the best possible alternative for organizing exchanges in such a way that this choice is adapted to the characteristics of each transaction, i.e., it minimizes the risks, and, above all, the costs involved (Shelanski and Klein, 1995, cited in Iglesias, 2000). Thus, under certain conditions, a company develops the activities inherent to the production process; in other circumstances it

outsources them to the market; and in others it may opt for intermediate positions such as entering contracts, and these in turn may be agreed with atomized agents or integrated into associations (Kirsten and Sartorius, 2002) (Figure 1). In short, companies and the economic system tend to organize themselves in such a way as to minimize transaction costs (Williamson, 1996).

Second, "asymmetric information" is important in CF and in the strategies adopted by LAC (Kirsten and Sartorius, 2002), since it describes the divergence in information between bidders. Likewise, from the neoinstitutionalism (linked to the branch of Development Economics), Bardhan (1989) argues that "the formation of institutions" is a logical reaction, in spaces of "generalized risks" and uncertainty for economic agents or "incomplete markets", and where information is generated and circulates in a markedly asymmetric way, as Morales (2000) and Bijman (2008) point out, by opportunistic conduct or behavior and limited rationality. Along these lines, this theoretical perspective has attempted to demonstrate that aspects such as the formation of agricultural associations, labor relations, land ownership and tenure, and existing agrarian institutions can be explained as the result of "rational economic behavior in a context of non-existent or imperfect markets". Therefore, the main contribution of this current to the understanding of CF and contracting LAC is the following: "there are important costs not only in production, but also (due to the existence of imperfect markets) in transactions" (Runsten and Nigel, 1996, p. 3).

In general terms, it can be stated that contractual theories conceptualize vertical integration as an essential practical support that makes possible the circulation of information flows related to "the quality, timing and future price of products within the agri-food system". Thus, CF constitutes, from this perspective, "an intermediate coordinating position". In other words, a situation in which the central problem of vertical agroindustrial integration disappears "such as that of complementing very different production scales". The more efficient the mechanism, the greater the reduction of "the effectiveness of a given subsector of the open market" (Posada, 1999, p. 109).





**Figure 1.** Contracts as intermediaries between markets and dominant institutions. **Source:** Hubbard (1997, p. 244).

### 2.3 The Latin American current

Finally, from Latin America it is postulated that the determining elements of the development of the productive and commercial modality of the “contract” in the agricultural sector are intimately linked to the development of agrarian capitalism (López, 1976); the fundamental axes of analysis are “the extension of capitalism on a universal scale” and, the verification of the existence of a hierarchy within the capitalist economic system on a world scale. From this perspective, strongly influenced by other contemporary theoretical postulations such as that of unequal exchange (Arghiri, 1972), the phenomenon would be related to the fact that the labor force in peripheral economies has lower remuneration levels than those found in central economies. From this point, this current was nourished by new contributions, such as, for example, the question of the distribution of profits from international trade, which would give greater theoretical substance to this perspective (Posada, 1999).

Thus, based on this analytical framework, various studies have been conducted on the formation and development of the agrifood system in peripheral economies in general, and particularly on the role of the LAC in promoting CF. These include the following works: Glover (1983), Glover (1984), and Glover (1987), Glover and Kusterer (1990), Feder (1984), Goldsmith (1985), Williams (1985), Giarracca (1983) and Giarracca (1985), Kesteren and Gutman

(1981), Rama (1984), Rama and Vigorito (1979), Bartra (2006).

From this point of view, it is considered that LAC (in this case, transnationals) when they reach a certain level of development, policies of geographic and economic diversification represent a central axis of advantage over the competition. However, this expansionism occurs especially in peripheral economies, where they almost always manage to control and organize production and agrifood chains, since doing so within the central economies involves greater difficulties for them, such as higher wage and tax levels, relatively high levels of union organization, less bargaining power with the State, etc.

Thus, in this context, a profound debate began on the limitations and potentialities associated with the fact that Latin America was one of the territories most susceptible to receiving this type of investment. In this regards Feder (1984) states:

Foreign capitalists in search of remunerative agricultural investments outside their own countries find in the Third World a set of elements which, alone or combined, enable them to earn substantially higher profits than similar investments in the industrial nations. Foreign investors occupy a dominant, if not monopolistic, position in the local economy.

They benefit from the low value or low rents of land, cheap water, low construction costs, low wages of farm or factory workers, and low costs of services such as transportation and utilities. Additionally, there are two crucial elements: the abundance of resources not employed, or not fully employed, especially land, water and labor; and the possibility of going elsewhere as long as it is profitable (p. 371).

Taking up Malassis (1981) research, it is argued that large transnational corporations, within the framework of the corporate food regime, control "the agrarian phase directly or indirectly". Thus, the direct form would materialize through the ownership of land and the means of agricultural production. An example of this form of agriculture is plantations of various types. On the other hand, the indirect form consists of the participation of various agricultural holdings within agro-industrial complexes. The production of these agricultural units is controlled and focused on achieving the objectives set by the LAC. In this case, the links between the economic agents participating in this type of agriculture can be objectified in different ways, but CF is the most important and widespread.

Consequently, the most relevant characteristic of these contractual relations is the high level of business responsibilities to the medium or small farm "from the primary stage", and "has proved to be an effective means of assuring processors [LAC] an adequate supply that meets quality standards without the need to higher investment risks in agricultural production" (Goldberg, 1974, p. 52), from which it is understandable that LAC have increasingly promoted the CF modality in this type of scenario. Feder (1984) argues that:

The problem of *developing country suppliers* across national borders is more complex. At first, international companies chose coordination through vertical integration, which was familiar but increasingly less accepted and more irritating. As developing countries formed a countervailing political and economic force, they precipitated the more widespread use of contractual methods of coordination, such as licensing, management contracts, franchising and production contracts (p. 364).

To summarize, it can be said that, for these authors, LAC promote the development of CF through

a series of aspects in different spheres. In the first place, from the *market point of view* to the extent that contract production constitutes a highly secure source of supply, since the small and medium-sized producer does not have the control of his production except to deliver it to the contracting agro-industrial company, trying not to breach the clauses of his contract (a highly improbable event for various reasons, such as climate). Moreover, this dependence of the producers (López, 1976) (especially of small producers) increases considerably due to the oligopolistic and monopolistic role of the LAC in the territories in which they operate, in such a way that the latter have the necessary resources to "oppose and eliminate the production and commercialization of the products they do not manage, so that a producer has no outlet for his production if he is not contracted by the companies" (Feder, 1984, p. 365). However, the counterpart of this fact is the relative economic stability that the contracted producers generally obtain based on the considerable remunerative levels resulting from the CF.

Secondly, from the *contractual-informal* point of view, Feder (1984) states that, based on "observation in the field", it is argued that the contracted producers do not retain their autonomy and independence at all, a fact that is largely due to the "vague and partial" nature of the contracts between the companies and the producers. Vague to the extent that the most important conditions under which the small and medium contracted producers must transfer their agricultural production are not specified in detail, but depend on the decisions of the contracting LAC. This is largely explained by the fact that the producers are almost never organized and therefore have no bargaining power, and, in addition, the contracting companies promote conflicts among them to prevent them from organizing (with the connivance of the national and regional authorities on many occasions). Moreover, as Óman and Rama (1986) argue:

the contract system allows firms to benefit from low wages without having to deal with the labor conflicts and social problems that would afflict them if they operated under the traditional way (...) Local farmers are often better able than plantation owners to restrict wage demands and unionization tendencies, mainly because smallholder farmers almost always work alongside their wage earners and labor relations are more personal.

Moreover, the labor force is much more decentralized in the contract regime. On the other hand, while plantations employ mainly adult male workers, contract farmers often employ women and even children (p. 890).

And *partial* since the obligations of the contract are all referred to the contracted party but none for the contracting LACs, in this sense we speak of “leone contracts”. Specifically, Feder (1984) argues that:

This implies that the acceptance or rejection of production is not determined by the contract but by the economic conditions (demand and supply) of the country or the world, so that the risks of *any fluctuations in prices and markets can be placed directly on the producers*. The conditions under which they are actually accepted or rejected are being decided by these companies with devious, disguised and often cruel methods, regardless of whether they are large or small producers, although the latter, are the first to suffer from the arbitrary and anti-peasant attitude of the international companies (...) In reality, what these [small and medium producers] do is almost to become mere farmers these companies (p. 367).

Thirdly, from the *technological* point of view, in general terms, the role of LAC as technology transferors is very limited, both in terms of content and scope but not in terms of duration. The contracting LAC maintain “*their role as innovators as a permanent function*”, since renouncing their role as innovators would mean weakening their essential levers of control over the agro-industrial production-marketing systems (above all, this is a predominant factor of the LAC originating in the central economies), while the LAC of the periphery are mostly responsible for the distribution at the national level. Fundamentally, this advantage is “permanent” through at least three practices. First, limiting technological transfers (technical knowledge) to certain regions, excluding others. Second, transforming technology transfers into “a continuous source of profits” (genetically altered seeds are a good example of this, since each new planting requires the purchase of a new package of seeds, fertilizers, and specific pesticides). Third, discriminating with respect to the quality of the technology that these companies decide to transfer. Consequently, if it is interpreted that one of the main objectives of

the LAC is to seek the least costly possible combination of inputs (seeds, fertilizers, pesticides, ripening agents, etc.), it is logical that technology transfers to small and medium contracted producers should be such as to raise costs unduly, “without investing in more technology than it is strictly necessary and transferring only enough for production and processing to continue without raising costs unduly” (Feder, 1984).

Thus, based on the conclusions obtained by Voll (1980), Freeman and Karen (1982), Goldsmith (1985) and Vigorito (1994), it can be inferred that there is “an integrating pole” or “core” in CF, formed by the large agribusiness companies, which establishes practically all the production conditions of the contracted farmers or “satellites”. This asymmetrical position of power allows the contracting party to obtain a higher profitability than it would obtain in a vertical integration modality (one in which the LAC is the de facto owner of the land and the other means of production used in the production process). From this perspective, it is considered that the LAC conduct an “appropriation of the surpluses” generated by the peasants and “a transfer of long-term risks”. Consequently, it is to be expected that large agroindustrial companies will tend to replace plantation agriculture with CF (Óman and Rama, 1986, cited in Posada, 1999).

Finally, from this school of economic thought, it is worth highlighting the contributions of economist Bartra (2006), who points out that, based on the characteristics of the current food regime in order to understand the role of the LAC in promoting CF, it is necessary to abandon any mechanical and simplistic vision that proposes a logical correspondence between the development of capitalism in agriculture and a “depeasantization” process of agriculture, i.e., it cannot be stated categorically that the penetration of capitalism in the rural area leads ineluctably and in a generalized way to the proletarianization of the labor force. “There are numerous examples of the development of agrarian capitalism which does not express itself in a linear process of proletarianization but as a dialectic of expropriation/reincarceration” (p. 357).

Thus, despite the relative increase in wage labor resulting from a modernization of agricultural production “when it develops in a pre-capitalist envi-

ronment" this should not obfuscate the specificities of agrarian production and the demand for labor force it generates. In this sense, Bartra (2006) argues that in the capitalist system a significant part of agrarian labor and means of production can remain "subordinated to capital" through "mediations and with modalities considered *atypical*" such as, (for example: self-employed work, non-entrepreneurial mercantile production, subsistence economy, part-time wage labor, CF, among others), all of them fully functional to the system and fully embedded to the logic of capitalist accumulation (characterized as a "flexible accumulation" by Goodman and Watts (1994)); and where "capital hardly creates additional wealth; it simply takes advantage of locally produced wealth to concentrate and reuse it according to its own logic", a characteristic that is accentuated during the corporate agribusiness regime from the 1980s to the present (McMichael, 2013, p. 674).

For this reason, Bartra (2006, pp. 103-104) argues the following in relation to CF:

small and medium peasant production, inserted in the cycle of capital and subjected to exploitation [...] constitutes at least one of the alternatives of the capitalist mode of production to the onerous extension of its own relations of production in the agrarian sector. The formally direct appropriation of the land by the peasants, subsumed in a real way to the cycle of capital, is presented as the alternative to the appropriation of the land of capitalist-landlord character. If the full extension of capitalist production to the agricultural sector entails a rent that cuts the general rate of profit of capital, the refunctionalized conservation (or reproduction) of peasant units, represents the possibility of a "rent in reverse"

[...] a transfer of surplus-product metamorphosed into value that raises the general rate of profit. If the law of the maximum valorization of global capital is to impose itself there is no doubt as to what the choice will be.

In short, the Latin American current understands the growth of the productive and commercial modality of CF in the same expansionist and colonizing logic (in economic and geographic terms) of the capitalist system (despite being a

modality that does not automatically lead, as seen in Bartra's contributions, to the integral and generalized conformation of a mass of salaried workers). In addition, CF is a mechanism of effective control of the LAC over small and medium contracted producers through multiple levers, specifically market, contractual-informal and technological.

### 3 Discussion and Conclusions

Throughout these sections we have analyzed the main studies and contributions from different schools that have been interpreted as relevant to the factors that have made a decisive contribution to the development of the productive and commercial modality of the contract in agriculture, especially from the perspective of the LAC. Thus, the contributions of three different currents have been presented: i) the French current; ii) the Anglo-Saxon current; and, iii) the Latin American current. Similarities and contrasts are presented below (Table 1):

In the first place, both the French and Latin American currents understand that the agrarian economy in general, and the business strategies deployed by the LAC, cannot be studied independently of the logics imposed by the capitalist system (among them, its constant expansion on a global scale). In this sense, the LAC through CF, within the framework of the corporate agrifood regime, "refunctionalize" the agrarian economy, in such a way that instead of transforming small and medium peasants into complete proletarians (i.e., without means of production and dependent for survival on a salary resulting from the sale of their labor power) they assume a role of "owner-proletarians" or, as Watts (1994) states CF "proletarianizes without dispossessing" farmers (cited in Dubb, 2018), i.e., their remuneration comes from two different sources: the first from the sale of their labor power, and the second from the ownership of the agrarian means of production (farm implements, land, water, etc.). The Anglo-Saxon-American trend, for its part, naturally assumes that the agrarian economy is capitalist per se, without going into the historical and structural aspects that explain this very specific characterization of agriculture.

**Table 1.** Economic currents analyzing contract farming.

	French current	Latin American current	Anglo-Saxon current
Theories	Agroindustrialization theory.	Agroindustrialization theory.	Industrial organization theory/Contractualist theories.
Logic of operation of the agricultural economy	The agrarian economy is embedded in the logic of the capitalist system.	The agrarian economy is subordinated to the expansion of capitalism on a global scale.	
Business expansion strategies	Vertical integration and indirect integration or quasi-integration.	Direct and indirect forms of control.	Agri-food chains.
Benefits for LAC of CF	Increased transfer of integrated surplus/ transfer of technical and economic risks.	Market, contractual-informal and technological springs.	Overcome the deficiencies in the transmission of chain information inherent to the open market.
Effects on agrarian social structure	Refunctionalization of agriculture.	CF is an "atypical" integration modality but fully functional to the process of capitalist accumulation.	

Secondly, it is worth mentioning that the three currents agree in affirming that the expansion strategies developed by LAC are, in general terms, threefold. First, vertical or direct integration, i.e., the company incorporates new stages of the agri-food chain into its ownership, such as plantations. Second, outsourcing, i.e., the company goes to the open market to acquire the necessary inputs for its production process. Third, indirect integration or quasi-integration, in which the business strategy consists of entering into agreements or pacts (especially in the form of contracts) with medium and small agricultural producers for the supply of agricultural products. Why does the last business strategy have several advantages over the previous ones and why has it expanded so much in recent years? The last point contains the answers offered by the different schools of thought.

Thirdly, regarding the elements available for LAC to increase CF levels in the territories, practically all three currents agree in pointing to the same elements (although each school address more effort to a particular advantage. Thus, these elements can be summarized as follows. First, more appropriation of the surplus extracted in the productive process (surplus as a synonym of surplus value in the case of the French and Latin American

currents; surplus as a synonym of entrepreneurial profit for the Anglo-Saxon current). Second, transfer of risk to small and medium producers (according to the two Marxist-inspired currents), minimization of risk and uncertainty from the neo-institutionalist school. Third, from the Latin American school, two additional elements are raised, one contractual-informal (highlighting the loss of formal and real autonomy of the contracted farmers, and the laxity of the contracts for the contracting party, i.e., for the LAC); and the other technological (related to the scarce and limited transmission of technology from the *core* to the *satellites*).

## References

- Alchian, A. and H. Demsetz (1972). "Production, information costs, and economic organization". In: *The American economic review* 62.5, 777-795. Online: <https://bit.ly/3A4Gjzk>.
- Arghiri, E. (1972). *El intercambio desigual. Ensayo sobre los antagonismos en las relaciones económicas internacionales*. Siglo XXI.
- Bain, J. (1968). *Industrial organization*. J. Wiley and Sons.
- Bardhan, P. (1989). *The Economic theory of agrarian institutions*. Oxford University Press.

- Barker, J. (1972). *Contract Farming. Report of the Committee of Inquiry on Contract Farming*. ICEFAI Books.
- Bartra, A. (1994). *La empresa, el mercado y la ley*. Alianza.
- (2006). *El capital en su laberinto: de la renta de la tierra a la renta de la vida*. ICEFAI Books.
- Bernstein, H. (2016). "Agrarian political economy and modern world capitalism: the contributions of food regime analysis". In: *The Journal of Peasant Studies* 43.3, 611–647. Online: <https://bit.ly/3AczvzT>.
- Bijman, J. (2008). *Contract farming in developing countries: An overview*. Tech. rep. 6706 KN Wageningen, Netherlands: Wageningen University, Department of Business Administration.
- Coase, R. (1937). "The Nature of the firm". In: *Economica* 4, 386–405. Online: <https://bit.ly/3JkHCLL>.
- (1960). "The problem of social cost". In: *The Journal of Law y Economics* 3, 1–44. Online: <https://bit.ly/3BZsEet>.
- Cuervo, Á. (1996). *Introducción a la administración de empresas*. Cívitas.
- Da Costa, J. (2003). "Os colonos do fumo: Tobacco pay my bills. Estudo antropológico sobre política, etnia e identidade no universo da agricultura familiar fumageira em Santa Cruz do Sul, Vale do Rio Pardo-RS". MA thesis. Universidade Federal de Rio Grande do Sul.
- Davis, J. and R. Goldberg (1957). *A concept of agribusiness*. Harvard University.
- Dubb, A. (2018). "The value components of contract farming in contemporary capitalism". In: *Journal of Agrarian Change* 18.4, 722–748. Online: <https://bit.ly/3QCiqet>.
- Etges, V. (1991). "Sujeição e resistência: os camponeses gaúchos e a indústria do fumo". PhD thesis. Universidade de São Paulo.
- Feder, E. (1984). *Violencia y despojo del campesino. Latifundismo y explotación capitalista en América Latina*. Siglo XXI.
- Fenollar, R. J. (1978). "La teoría de la agroindustrialización y la estabilidad del campesinado". In: *Agricultura y Sociedad* 9, 165–186. Online: <https://bit.ly/3QCFWBH>.
- Freeman, O. and R. Karen (1982). "The farmer and the money economy: The role of the private sector in the agricultural development of LDCs". In: *Technological Forecasting and Social Change* 22.2, 183–200. Online: <https://bit.ly/3QtPjDu>.
- García, A., J. Oreja, and E. González (2002). "Las relaciones verticales y el poder de negociación de los agricultores integrados en forma de cooperativa frente a los individuales". In: *CIRIEC-España, revista de economía pública, social y cooperativa* 41, 111–137. Online: <https://bit.ly/3zKi8VA>.
- Giarracca, N. (1983). "La subordinación del campesinado a los complejos agroindustriales. El tabaco en México". MA thesis. Facultad de Ciencias Políticas y Sociales, UNAM.
- (1985). "Complejos agroindustriales y la subordinación del campesinado. Algunas reflexiones y el caso de los tabacaleros mexicanos". In: *Estudios Rurales Latinoamericanos* 8.1, 21–39. Online: <https://bit.ly/3p6jzsn>.
- Glover, D. (1983). *Contract farming and the transnationals*. University of Toronto.
- (1984). "Contract farming and smallholder out-grower schemes in less-developed countries". In: *World development* 12.11-12, 1143–1157. Online: <https://bit.ly/3zORgUx>.
- (1987). "Increasing the benefits to smallholders from contract farming: Problems for farmers' organizations and policy makers". In: *World Development* 15.4, 441–448. Online: <https://bit.ly/3SzN0AR>.
- Glover, D. and K. Kusterer (1990). *Small farmers, big business. Contract farming and rural development*. Saint Martin Press.
- Goldberg, R. (1974). *Agribusiness management for developing countries-Latin America*. National Agricultural.
- Goldsmith, A. (1985). "The private sector and rural development: Can agribusiness help the small farmer?" In: *World development* 13.10-11, 1125–1138. Online: <https://bit.ly/3vUXUqV>.
- Goodman, D. and M. Watts (1994). "Reconfiguring the rural or fording the divide?: Capitalist restructuring and the global agro-food system". In: *The Journal of Peasant Studies* 22.1, 1–49. Online: <https://bit.ly/3Qcktzu>.
- Harvey, D. (1984). *The new imperialism*. Siglo XXI.
- Hubbard, M. (1997). "The new institutional economics in agricultural development: insights and challenges". In: *Journal of Agricultural Economics* 48.2, 239–249. Online: <https://bit.ly/3zDyH5i>.
- Iglesias, D. (2000). "Competitividad de las pequeñas y medianas empresas agroalimentarias pampeanas productoras de commodities en Argentina". PhD thesis. Universidad de Córdoba.

- Jensen, M. and W. Meckling (1976). "Theory of the firm: Managerial behavior, agency costs and ownership structure". In: *Journal of financial economics* 3.4, 305–360. Online: <https://bit.ly/3bDyYO1>.
- Kesteren, A. van and G. Gutman (1981). *La estructura agroindustrial en Venezuela*. Documentos de Trabajo para el Desarrollo Agroindustrial.
- Kirsten, J. and K. Sartorius (2002). "Linking agribusiness and small-scale farmers in developing countries: is there a new role for contract farming?" In: *Development Southern Africa* 19.4, 503–529. Online: <https://bit.ly/3BUld84>.
- Lebossé, C. J. and M. Ouisse (1979). "La evolución del campesinado. La agricultura en el desarrollo capitalista". In: ed. by M. Etxezarreta. Servicio de Publicaciones Agrarias. Chap. Las políticas de integración de la agricultura artesanal en el modo de producción capitalista, pp. 199–245.
- Lenin, V. (1981). *Obras completas*. Tomo 27. Editorial Progreso.
- López, A. (1976). "Agricultura familiar y dependencia en la producción bajo contrato". In: *Agricultura y sociedad* 1, 74–93. Online: <https://bit.ly/3PhxIxI>.
- Machado, M. (2019). "Economía Industrial. Introducción". In: *Clase de Economía Industrial*. Universidad Carlos III de Madrid. Universidad Carlos III de Madrid. Online: <https://www.eco.uc3m.es/~mmachado/>.
- Malassis, L. (1979). *Économie agro-alimentaire I. Économie de la consommation et de la production agro-alimentaire*. Cujas.
- (1981). "Économie agro-alimentaire. T. I. Économie de la consommation et de la production agro-alimentaire". In: *Revue économique* 32.3, 597–598. Online: <https://bit.ly/3QiUO8l>.
- Mandel, E. (1969). *Traité d'économie marxiste*. Tome III. Union générale d'éditions.
- Marx, K. (1975). *El capital (Crítica de la economía política)*, Libro I (El proceso de producción del capital). Siglo XXI.
- McMichael, P. (2013). "Value-chain agriculture and debt relations: Contradictory outcomes". In: *Third World Quarterly* 34.4, 671–690. Online: <https://bit.ly/3BXA95h>.
- Mili, S. (1980). *Competitive strategy: techniques for analyzing industries and competitors*. Free Press.
- (1996). *Organización de mercados y estrategias empresariales en el subsector del aceite de oliva*. Ministerio de Agricultura, Pesca y Alimentación, Centro de Publicaciones.
- Morales, A. (2000). "Los principales enfoques teóricos y metodológicos formulados para analizar el sistema agroalimentario". In: *Revista Agroalimentaria* 6.10, 75–88. Online: <https://bit.ly/3DLm0ZG>.
- Óman, C. and R. Rama (1986). "Las nuevas formas de inversión internacional en la agroindustria latinoamericana". In: *Comercio Exterior* 36.10, 878–894. Online: <https://bit.ly/3QCeEva>.
- Palazuelos, E. (2017). "La economía mundial: enfoques críticos". In: *FUHEM ecosocial y Catarata*. Chap. El Análisis de la Economía Mundial desde la Perspectiva de la Economía Política, pp. 120–142.
- Porter, G. and K. Phillips-Howard (1995). "Farmers, labourers and the company: Exploring relationships on a Transkei contract farming scheme". In: *The Journal of Development Studies* 32.1, 55–73. Online: <https://bit.ly/3AcPy0h>.
- Posada, M. (1999). "La agricultura bajo contrato. Algunas reflexiones generales y una propuesta analítica". In: *Ciclos: En La Historia, La Economía Y La Sociedad* 9.17, 103–132. Online: <https://bit.ly/3JMTjN9>.
- Rama, R. (1984). "El papel de las transnacionales en la agricultura mexicana". In: *Comercio Exterior* 34.11, 1083–1095. Online: <https://bit.ly/3Qilq8u>.
- Rama, R. and R. Vigorito (1979). *El complejo de frutas y legumbres en México*. Nueva Imagen.
- Runsten, D. and K. Nigel (1996). *Agricultura por contrato en los países de desarrollo. Aspectos teóricos y análisis de algunos ejemplos mexicanos*. CEPAL.
- Shelanski, H. and P. Klein (1995). "Empirical research in transaction cost economics: a review and assessment". In: *Journal of Law, Economics, and Organization* 2.11, 335–361. Online: <https://bit.ly/3BXVUSB>.
- Soria, R., M. Rodríguez, and A. Langreo (1988). "La agricultura contractual: el sector lácteo asturiano". In: *Revista de Estudios Agrosociales* 144, 221–2054. Online: <https://bit.ly/3bJKreH>.
- Vigorito, R. (1994). *La transnacionalización agrícola en América Latina*. Estudios agroindustriales.
- Voll, S. (1980). *A plough in field arable: western agribusiness in Third World agriculture*. University Presses of New England.
- Watts, M. (1994). "Living under contract: Contract farming and agrarian transformation in sub-

- Saharan Africa". In: University of Wisconsin Press. Chap. Life under contract: Contract farming, agrarian restructuring and flexible accumulation, pp. 120–142.
- Williams, S. (1985). "Agribusiness and the Small-Scale Farmer A Dynamic Partnership for Development". In: Press Boulder. Chap. Interaction Between Agribusiness and the Small-Scale Farmer: An Inventory of Experience in Less-Developed Countries, pp. 120–142.
- Williamson, O. (1979). "Transaction-cost economics: the governance of contractual relations". In: *The journal of Law and Economics* 22.2, 233–261. Online: <https://bit.ly/3JN9Ocn>.
- (1985). *The economics institutions of capitalism*. Free Press.
- (1988). "The logic of economic organization". In: *Journal of Economics and Organizations* 1.4, 65–93. Online: <https://bit.ly/3QjATpK>.
- (1996). *The mechanisms of governance*. Oxford University Press.