

CREATING A FAVOURABLE LEGAL ENVIRONMENT FOR **CONTRACT FARMING**

The
UNIDROIT/FAO/IFAD
Legal Guide on Contract Farming

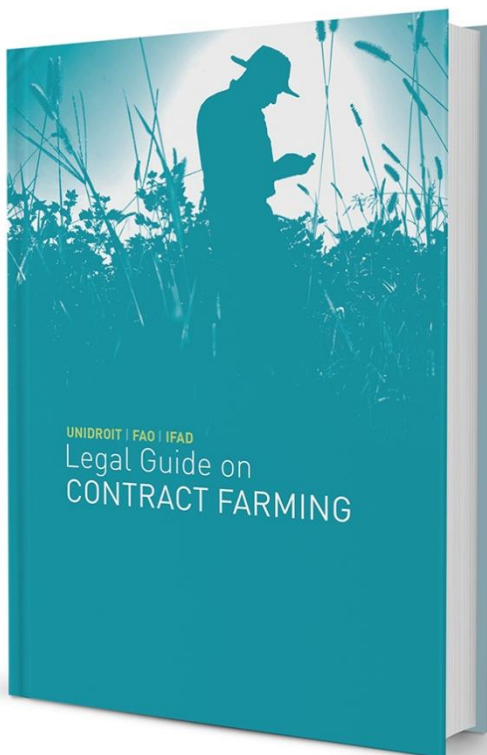


Food and Agriculture
Organization of the
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Investing in rural people



What is Contract Farming

The practice of producing under a contract is used for a broad array of agricultural commodities in many countries of the world and is growing significantly in developing countries. As demand for agricultural products increases dramatically, contract farming is expanding as a tool to organise and link production capacities and market needs to increase and diversify the availability of products on local and global markets, and to improve value chain efficiency.

Under production contracts entered into with agricultural producers, food processors and distributors secure the supply of a specified produce (vegetables, tree crops, grain, husbandry and dairy products, poultry, fish etc.) in the required quantity and quality, at a future designated time and at a predetermined price. Depending on the type of agreement, very often the contractor provides inputs (seeds, fertilisers or young animals) and typically manages the production process by requiring the producer to apply designated technology and growing or raising methods. For producers, agricultural contracts offer the opportunity to secure an income generating activity, guaranteed access to markets and also better access to credit and to technology.

The Importance of the Legal Framework

Contract farming arrangements reflect multiple commercial practices and their success depends on many elements. One key element is the capacity of the parties to build stable, commercially sound and fair relationships, based on clear commitments and mutual compliance.

In this respect, the legal framework is essential to give legal effect to parties' stipulations and to supplement them as the case may be. This is all the more important in view of the imbalance of economic power between the parties that generally characterises agricultural contracts. Depending on each legal system, legal provisions may apply mandatorily to certain aspects of the contractual relationship, excluding the parties' ability to derogate from such legal provisions. Understanding the interplay between the terms and practical implementation of the contract and the applicable legal provisions, including the default rules, increases the security of the parties by making them aware of possible critical issues regarding their rights and remedies throughout the life of the contract.

The UNIDROIT/FAO/IFAD *Legal Guide on Contract Farming*

The Guide intends to serve as a "good practice" reference by providing guidance for parties engaged in contract farming operations throughout the whole life of the contract, from negotiation until termination, thus helping to build trust between the parties and support mutually beneficial relationships. The Guide may also serve as a reference in the context of the formulation of public governance instruments to sustain agricultural development, and provide an additional tool available to international organisations and bilateral cooperation agencies as well as nongovernmental organisations engaged in strategies and programs in support of contract farming in developing countries.

The UNIDROIT/FAO/IFAD Legal Guide on Contract Farming is aligned with the Principles for Responsible Investments in Agriculture and Food Systems (RAI Principles) approved in October 2014 by the Committee on World Food Security. The Guide also shares with the RAI Principles the goal of providing a framework that stakeholders can use when developing domestic policies, regulatory frameworks, corporate social responsibility programmes, individual agreements and contracts, all of which in responsible and inclusive ways.

The Guide walks through the conceptual stages of the contract farming relationship. It offers a thorough analysis of substantive legal issues involved in agricultural production contracts. It identifies problem areas and possible solutions in light of trade usages and legislation.

After presenting the basics of contract farming in the Introduction, the Guide discusses in Chapter 1 the legal framework for agricultural production contracts. Chapter 2 presents the parties and discusses how contracts are negotiated and formed, as well as the key elements of the contract. The various obligations bearing upon the producer and the contractor are discussed in detail in Chapter 3. Determining the consequences of a failure by the producer or contractor to abide by the terms of the contract is the next question that arises. Accordingly, Chapter 4 explores excuses for non-performance (such as *force majeure*) and Chapter 5 examines remedies for breach of contract. Chapter 6 then covers issues related to the contract's duration, termination and renewal. Lastly, Chapter 7 discusses mechanisms for dispute resolution in the context of agricultural production contracts.

PROJECT HISTORY

The Guide is the product of a Working Group set up by UNIDROIT, which brought together internationally-recognised legal scholars, partner multilateral organisations and representatives from the farming community and agribusiness. Stakeholder representatives, international civil servants, practising lawyers and academics from different backgrounds and legal cultures contributed to the process of development of the Guide, and valuable input was received during consultations held during 2014 with stakeholders in Buenos Aires (Argentina), Addis Ababa (Ethiopia), Rome (Italy) and Bangkok (Thailand), as well as through online consultations. At the end of a two-year process of development, the UNIDROIT Governing Council considered and adopted the Guide at its 94th session, held in May 2015.

The UNIDROIT/FAO/IFAD Legal Guide on Contract Farming was released in paper and electronic form on 28 July 2015 and is accessible on line on the websites of UNIDROIT, FAO and IFAD. The Guide will serve as a basis for the preparation of knowledge and implementation tools to be used in training and development programmes.

More information about the Guide and its preparation may be found on the UNIDROIT website at www.unidroit.org/work-in-progress-studies/current-studies/contract-farming

More information about contract farming (in general) may be found on the website of the FAO Contract Farming Resource Centre at www.fao.org/ag/ags/contract-farming.

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