Production Contracts

Frayne Olson
NDSU Extension Crops
Economist/Marketing Specialist

Production contracts are common in the dry bean industry. This section provides a brief overview of key contract provisions that should be reviewed and understood before entering into a production contract.

Understand What You Are Signing

Reading and understanding contract provisions always is important because they describe the rights and responsibilities of both parties in the agreement. Contract terms can differ considerably among companies, and contract provisions often change through time. Discussing contract provisions with the buyer before signing a contract can prevent misunderstandings and help maintain a strong working relationship.

Production Requirements

Most dry bean production contracts specifically require the farmer (seller) to use accepted agronomic production practices and apply only registered crop protection products. Some contracts also include a list of acceptable seed varieties or require the seed be purchased from the company (buyer). Because beans are used as human food, food safety standards and testing likely will become more stringent in the future. Stricter food safety requirements also likely will lead to contracts including more detailed production provisions.

Act-of-God Clause

Some dry bean contracts contain an act-of-God clause, which releases the farmer (seller) from the terms of the contract due to an act of God, such as hail, drought, flood or disease. The farmer (seller) must notify the company (buyer) as soon as possible when a potential production problem occurs to ensure that this contract provision is enacted. Many contracts require the farmer to provide written notice within 10 days of an event.

Grading and Quality Standards

The U.S. Department of Agriculture's Federal Grain Inspection Service standards are the core standards used to trade dry bean. However, some domestic and international end users are beginning to request more detailed grading and quality specifications. Grading and quality specifications should be listed clearly in the contract. If they are not, be sure to ask the buyer for a copy of the grading and quality standards that will be used.

Delivery Period

Production contracts typically require delivery at harvest, during a pre-specified delivery period or on a "buyer's-call" basis. Harvest delivery refers to delivery directly from the field to the agreed-upon delivery point during the normal harvest period. This is the most common type of contract in the dry bean industry. Buyers in other crop sectors commonly offer alternative prices for pre-specified delivery windows, such as the first half of October, to better match deliveries with expected shipments. Buyer's-call refers to an open-ended delivery schedule in which the company (buyer) will determine the delivery period and schedule deliveries with the farmer (seller) when needed. Buyer's-call typically requires the farmer to store the contracted production until delivery is requested.

Pricing and Payment

Dry bean production contracts typically use a fixed base price for the contracted production. Price premiums or discounts can be used to adjust for grade and quality differences, but the specific premium or discount rates are normally not known until the time of delivery. Payment generally is made a short time after all of the contracted production has been delivered. However, delayed or deferred payment options are often available.