The functional defects of the "company + farmers" model and food safety

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Abstract:

Food safety issues generally have two sources: (1) companies that manufacture food products use toxic raw materials and additives during the manufacturing process even though the government has strictly forbidden their use, and hygiene conditions during the production process do not adhere to established standards. Nevertheless, some large retail companies continue to sell these products either because they are unaware of the risk or simply because they choose to sell the products anyway; (2) food products, which are the raw materials for processed food products, are often unsafe because of the excessive use of chemical fertilizers and all kinds of toxic pesticides, or because of the pollution in the environment. This article mainly addresses the mechanisms inherent in the management of the food industrialisation process that compromise food safety. It is widely believed that the management of an industrialised food production process increases the restrictions placed on companies and farmers, but analysis in this article shows that this is not always the case.

The "company + farmers" model used throughout industrialised agriculture mainly consists of establishing certain regular, contractual economic relationships between the farmers and the food processing and retail companies in order to develop integrated farming. There are three types of contractual relations that differ based on their type and the closeness of the bond between the two parties: the "perfect market contract", the "partial market contract" (semi-competitive) and the "integrated farming contract". Currently, the "partial market contract" is the most widely used. This article is mainly interested in the analysis of these mechanisms and how they actually work.

In the partial market contract, the company and the farmer determine their respective rights and obligations concerning production, sales, services provided, profit distribution, and risk sharing. Its purpose is to contractually establish the profit distribution mechanism between the company and the farmer in order to regulate commercial relations between the two parties. In reality, these contractual relations are the result of tough negotiations where might tends to make right. The farmer, the company, the consumer and the government watchdog all have something at stake. One leading industrialised company now takes the place of several different companies that once provided seeds and pesticides, centralised purchasing and processed food. Now the leading industrialised company handles every transaction from the farmer to the consumer.

In this four-player chess game, the role and the actions of each player are the following: (1) The company: operator and main beneficiary of the "game", the company is in a dominant position during the negotiations and the execution of the contract, and can place blame on the farmers when a food safety problem occurs; (2) the farmer: producer and main loser of this "game", he is at a disadvantage during negotiations and implicitly takes on market risks that are technically not his responsibility. During the production process, he often cheats on the quality of the work and the products in order to maximize his share of the profit, and thus provides agricultural products that do not adhere to established standards. The farmer is therefore not only the "victim" of an imperfect contract, but also the initiator of poor food safety practices; (3) the consumer: often victim to the tricks of other "players", consumers do not have the means to ensure the safety of their food products because of asymmetrical information. When a food safety incident occurs, the blame is placed on the farmer and the consumer simply cannot take the farmer to court. The consumer's rights are therefore left unprotected and he cannot do much about the situation, so he tolerates it and allows the company and the farmers to continue putting poor quality food products on the market;

(4) the government watchdog: inappropriate control methods and laxity. It is impossible to survey and control the companies and the farmers' activities because they are spread out over a large territory and it would cost far too much. Some local authorities or administrations in charge of controlling companies and farmers go as far as to become their accomplices to further their own interests, and turn a blind eye to their offences.

The flaws inherent in the partial market contract of the "company + farmer" model as they have been described above have the following negative outcome: (1) they produce new, external negative effects: when the contract is applied, both parties are unable to fully accomplish their tasks because they argue over whose responsibility it really is and avoid fulfilling their own obligations. In order to reduce costs, companies are less vigilant as far as surveillance and quality control are concerned, which reduces the quality of raw materials. Since the farmer no longer has direct contact with the consumer, the farmer loses his motivation to seek out new markets using the quality of his products as a selling point, and thus becomes a primary source of food safety problems; (2) asymmetrical information generates opportunistic behaviour. Both parties hide the reality from each other and send false signals to the market. The market cannot reject unsafe food products by using the mechanisms of supply and demand; (3) the imperfection of the contract leads to the asymmetry of risks and profits and the failure of regulation mechanisms. Many factors reinforce the tendency of both contracting parties not to follow through on their obligations.

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