

Received: 10-04-2023
Revised: 07-07-2023
Accepted: 25-07-2023

Contract Farming for The Chicken Farming Business in Thailand

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Abstract

The objectives of this study were to 1) study the situation and role of contract farming in Thailand. 2) analyze SWOT of the chicken farming business in Thailand. Methodologies are both descriptive research using secondary data and field surveys by in-depth interviews with the relevant parties including farmers, private companies and academics through specific sampling.

The results of this study showed that 1) the contract farming situation in Thailand tends to expand continuously and plays an important role in the production of agricultural products for export and employment. In addition, the development of contract farming is largely driven by big corporation investments such as Charoen Pokphand Foods, and Betagro Group. Most of the contract farming value is concentrated in a few large private companies. In the past, contract farming has often been in conflict between contract parties and small farmers were often at a disadvantage because of their low bargaining power. However, when the government issued the Contract Farming Promotion and Development Act (2017), it resulted in more fair protection for contract parties as well as being more transparent and being overseen by the government, thus allowing the problems to decline. 2) SWOT analysis revealed that its strength is the parties have a long experience in raising chickens. In addition, private companies have modern technology and transfer it to farmers. Therefore, the production in the contract system is efficient and meets acceptable standards. The weaknesses, there are still some unfair contracts. Especially small chicken farmers who do not have much choice. For the opportunity, it is found that the export market for chicken and its products continued to expand. It has a positive impact on chicken farming business while the main obstacle is the rising cost of chicken feed due to inflationary pressure.

Keywords: Contract Farming, Chicken Farming Business

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Introduction

Thailand is one of the world's top food producers and exporters. According to the government policy and strategy to be the Kitchen of the World, food production should be promoted and become one of the strengths in recent years. Focusing on the food and beverage industry, it is growing steadily. Thailand is the 11th food exporter in the world and the second in Asia in 2020. In 2021, the exports of chicken and its products have the value of around 3.2 billion US dollars (Department of Trade Negotiations, 2022). Thus, the production in large scales to meet the needs of both domestic and export consumption must rely on a large number of input, huge investments, good management skills and standard output to be accepted in the world market. In addition, it is difficult for private companies to invest and take care of all their production in order to obtain large amounts of produce for export. Consequently, contract farming is adopted in various agricultural commodities, including chicken farming. It is the joint contract between a private company and a farmer to produce agricultural products such as chicken, pork, cow, corn and pineapple, etc. The contract is related to production, marketing, quantity, price and quality, as well as the delivery period. The private company supports the production factors for farmers such as chicks, food, vaccines, and knowledge of farm management, etc. For farmers, they invest in buildings and equipment according to the standards set. Furthermore, they also perform as the chicken raiser in order to produce the product as specified. For Thailand, the development of contract farming is largely driven by big corporation investments such as Charoen Pokphand Foods, and Betagro Group. Most of the contract farming value is concentrated in a few large private companies.

In principle, contract farming benefits all involved parties, including private companies, farmers and the public sector. It reduces risks from price fluctuations, production and farmers' incomes. At the same time, it enhances management skills, productivity, and modern technology for farmers as well. For the product purchaser company, it can control the amount of produce, quality and standard requirement as well as being able to predict production, marketing and export planning. As a result, these support the expansion of private investment in agriculture in Thailand. For the government, it can reduce the burden of the budget on agricultural product and price insurance to help farmers. Contract farming began to enter Thailand and it has expanded since 1987, partly due to government support for large-scale and turnkey production in the agricultural sector. It can produce large batches and achieve economies of scale, reducing production costs and increasing production efficiency in order to increase competitiveness in the world market. In chicken production, about 90 percent of the exports come from the contract farming systems. In addition, it is found that contracts in agricultural businesses have grown in various products such as chicken, pork, fish, baby corn and sweet corn, etc.

In practice, farmers participating in contract farming are quite varied, both large and small. While private companies are both large and local companies as well. Some groups of farmers have had great success from having a fixed income, exact market and standardized production technology. They can build solidarity with income stability. Most of them are large farmers who are ready in terms of capital and land. While most small farmers are not as successful as they should be. In the past 3-4 decades, the overview of Thailand's contract farming has been a clear shift in farming technology from an open system to a closed system, known as an

evaporative cooling system. It protects the house from the external environment including controlling the temperature at an appropriate level for the animals to grow well. However, despite the many advantages mentioned above, but it requires a very high investment. This part is a house where farmers have to bear most of the burden. So, it makes small farmers with low capital inaccessible to such technology. In other words, it is not possible to build a house that meets the standards set by the company. These farmers will not be selected to join the contract. This is a major obstacle that prevents small farmers from having access to standardized technology.

In the past, contract farming often had conflicts between contract parties, such as unfair contracts. For example, there is no transparency in some cases, no receive contract documents, etc. Small farmers are often disadvantaged by their low bargaining power and lack of options. Later, when the government issued the Contract Farming Promotion and Development Act (2017), it causes the situation to change to protect the contracting parties receiving more fairness as well as being more transparent and overseen by the government. Therefore, various problems have been resolved. In this study, it is necessary to revisit the situation and the role of contract farming and SWOT analysis of the chicken farming business in Thailand.

Objectives

1. To study the situation and role of contract farming in Thailand.
2. To analyze SWOT of the chicken farming business in Thailand.

Terminology

Contract Farming is a contract between private companies or buyers and farmers in agricultural production systems. Both parties have agreed to make in advance regarding the quantity, and quality of the produce. The companies will provide price guarantees for farmers' crops and support plant breeding, capital, and modern technology.

Chicken Farming Business refer to the chicken farmer who participated in contract farming with private companies to produce chickens and deliver them according to the contract at a pre-agreed price and quantity. In general, farmers have a large and small variety.

Contract Farming Promotion and Development Act (2017) is the act established the Contract Farming Promotion and Development Commission in order to develop plans and measures for contract farming development in Thailand. In addition, it gives counsel on the resolution of problems and obstacles arising from contract farming agreements as well.

Expected Benefits

1. The results of this study can identify the advantages and disadvantages of contract farming. Moreover, it indicates the problems and obstacles of operations in various fields between the private company and farmers in the contract farming system that leads to increasing production efficiency and stabilizing sustainability of farmers' incomes.

2. This study revisited contract farming situation after the enforcement of the Contract Farming Promotion and Development Act (2017). The conflict situation of contract farming in the past should be resolved through the promotion and development of fairness. All parties will benefit from transparent and fair business cooperation through the use of legal measures. It is an experience that the government will use as a guideline to promote the contract farming system to be more successful including production, consumption, exports and employment.

Literature Review

There have been various studies and different views about contract farming in Thailand such as economics, social and legal perspectives. This literature review contains both the concepts of contract farming, Contract Farming Promotion and Development Act (2017) and related researches as follows:

Concept of Contract Farming

Contract farming is a concept that aims to increase production efficiency and competitiveness. It is managed jointly between entrepreneurs or companies (sponsors) that purchase products from producers or farmers. It is related to agricultural business such as growing crops or livestock animals with a contract for buying and selling products in advance. It is a contract between the farmer and a private company that promises to buy their produce at an agreed price, i.e. the "guarantor" and the purchase price is called the "insurance price". The price can change only after the contract expires. Directed contract farming is popular in many developing countries for high-value crops including Thailand. Companies commit to provide material and management inputs to farmers. However, contract farming has some important types, namely: market insurance, price insurance, and income insurance.

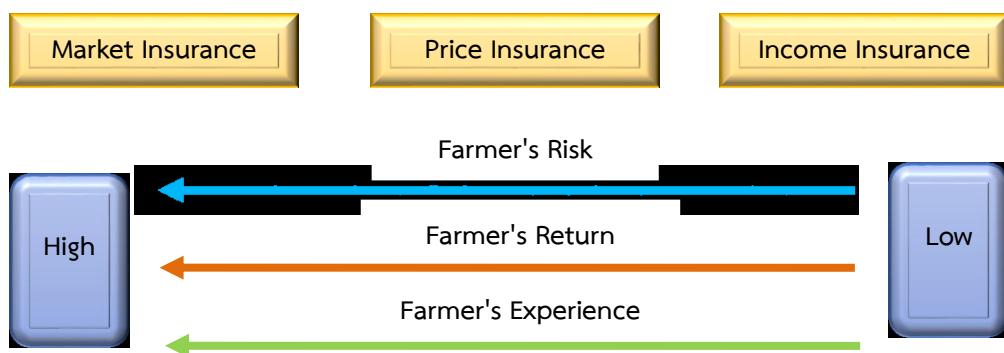


Figure 1 Contract Farming Types

1.1 Market Insurance: it is a system in which farmers sell their products to the processors under the specified quality and time. They have the power to make their own production decisions with the exact support market. However, they are exposed to price fluctuations and other production risks such as disease outbreaks,

non-standard products, etc. Therefore, the market insurance system is suitable for farmers who have high experience and sufficient funds. With this type of contract farming, they receive higher returns than any others.

1.2 Price Insurance: It is a system that private companies control some of input and farmers supply themselves the rest. The farmers made a contract to sell their produce to the company at a price, quantity, and quality as scheduled. In this system, farmers do not have price and market risks. Because they have made a contract in advance to sell at what price. When the product is sold, private companies will pay the difference to farmers. It is the purchase price deducted from some costs that private companies provide inputs such as animal breeds, animal feed, vaccines and fertilizers, etc. For the production risks, farmers are responsible for themselves.

1.3 Income Insurance: It is a system which a private company controls production, input and services. The private company invests by themselves and farmers will receive income as initial agreement. In other words, farmers are employed in production. This system is suitable for farmers with less experience. The private companies will take care of giving advice in various areas. Therefore, the farmer has low risk and low return in this case.

In practice, contract farming was applied in Thailand with both advantages and disadvantages. It can be summarized as follows. The benefits are that farmers can access technology, credit and reliable markets. These have been provided with production factors and services from the private company including technology transfer, guarantee price and management skill. At the same time, companies benefit from receiving the sale of production factors and standardized output. Production is more reliable than open-market purchases and consistent quality with overcoming land constraints and resources limitation. For disadvantage, Farmers may face domination by monopolies together with unfair contracts in some cases. In addition, case of quotas are manipulated so that not all contracted production is purchased. Thus farmers may become indebted because of production problems. While private companies may face poor management of farmers and corruption.

Table 1 Advantages and Disadvantages of Contract Farming

Advantages	Disadvantages
Farmers <ul style="list-style-type: none"> ○ Access to appropriate technology, credit and reliable markets ○ Provision of inputs and production services ○ Management skills and technology transfer ○ Guaranteed and fixed pricing structure Private companies (Sponsors) <ul style="list-style-type: none"> ○ Production is more reliable than open-market purchases and consistent quality. ○ Overcoming land constraints and resources limitation ○ Promotion of farm inputs 	Farmers <ul style="list-style-type: none"> ○ Domination by monopolies ○ If quotas are manipulated so that not all contracted production is purchased ○ Farmers may become indebted because of production problems. ○ Unfair contracts in some case Private companies (Sponsors) <ul style="list-style-type: none"> ○ Poor management of farmers ○ Corruption ○ Farmer discontent such as late payments, unreliable transportation

Source: Wanaset and Ouyyanont (2018)

Contract Farming Promotion and Development Act (2017)

In the past, one of the most common problems in contract farming is disputes between contract parties. This comes from many factors such as unfair contracts, asymmetry information, and a lack of mediators. In order to solve these problems, the government has issued Contract Farming Promotion and Development Act (2017). It aimed to promote and develop a contract farming system to be used in the production process of agricultural products fairly and in accordance with the international standards for sustainability. The benefit of the Contract Farming Promotion and Development Act (2017) can be summarized as follows:

Table 2 The benefit of Contract Farming Promotion and Development Act (2017)

Benefit of Contract Farming Promotion and Development Act (2017)	
Promote and develop fairness	<ul style="list-style-type: none"> ○ There is a law to support and protect the contract. ○ Cooperation creation and potential development. ○ To develop and strengthen the contract farming system.
Protect the parties	<ul style="list-style-type: none"> ○ Prevent and solve the problem of misleading advertising. ○ There are measures to help the contracting parties get important information. ○ Receive protection in case of discriminatory contracts.
Conflict reduction	<ul style="list-style-type: none"> ○ Dispute resolution is fast and flexible with a reduction of the burden of expenses. ○ There are many measures to protect the contracting parties during the mediation process.

Source: Contract Farming Promotion and Development Commission (2017)

Empirical Study

The studies on contract farming are numerous and varied from economic, social and legal perspectives. In addition, they came to a different conclusion. The study of Sriboonchitta and Wiboonpoongse (2008) showed results of various case studies which are influenced by specific environments. It indicated that both private companies and farmers should have a clear understanding of the concept and roles they play in the contract. At the same time, government policies have provided a favorable environment for domestic and foreign investment as well. Price stabilization from contract farming system can promote and alleviate income risk but quasi-monopolistic of firms could impede productivity. While another group presents in the form of problems that farmers faced, such as Ariyasoothorn (2012) revealed that various contracts have unfair relationships between the parties. The private companies have power over farmers through control of production factors and marketing. Although farmers are structurally disadvantageous to lack of bargaining power but the farmers did not succumb to the problems. They tried to adjust their way of life, way of production and social relations to survive under contractual production.

In the days before the Contract Farming Promotion and Development Act (2017), the negative impacts of contract farming were presented. In particular, several farmers faced various problems having to bear the burden of debt and more risks. There have been several studies and articles on the impact of contract farming about production risks, unfairness in various fields and non-standard inputs. Tasanakunphan (2012) concluded that most contract farmers were in a state of despair. They have a lot of debt, therefore it is difficult to stop production. Because there has been a large investment in fixed assets including poultry houses and equipment. In addition, farmers do not have bargaining power and have to bear the burden of risk unilaterally.

After 2017, Contract Farming Promotion and Development Act (2017) helped to resolve the conflict between the parties. In the past, some agricultural entrepreneurs tend to pass on the risk burden to farmers. Government agencies cannot use the mediation mechanism because it has no retroactive effect. So far, there does not seem to be an issue of the unfairness of contracts in the contract farming system to the courts. Because if the contract terms are unfair, farmers and agricultural business operators will negotiate or return to a new contract agreement. In addition, the Act (2017) has an additional mechanism in the part of mediation which is a dispute resolution method. It takes no more than 30 days to process, which is faster. At the same time, it helps protect the farmers better than a civil process that has many steps and requires hiring a lawyer to defend the case.

Research Methodology

This study employed both descriptive research and field survey as follows:

1. Descriptive research was adopted by collecting information to explain, analyze, and synthesize from the use of secondary data both domestically and internationally from books, articles, documents, acts, laws, various websites, and related research.

2. Field surveys were also used by in-depth interviews with relevant parties in the central region of the country. The samples were taken from 2 provinces by random, namely Lop Buri and Chainat. They consisted of 60 farmers: 30 in each province, 10 private companies and 10 academics. In the process, a specific sample applied to the sample group who has knowledge and experience in this business.

SWOT Analysis

In this study, SWOT Analysis is adopted as a tool to analyze the internal and external environment of contract farming for the chicken farming business in Thailand. SWOT consists of four components: Strengths, Weaknesses, Opportunities and Threats. Both Strengths and Weakness are used to analyze factors within the organization that can be controlled such as operations, people, resources and location. The Opportunities and Threats focus on outside the organization. It can be used as an opportunity to create a competitive advantage or prevent various obstacles that will occur such as competitors, raw material prices, market trends, etc.

SWOT ANALYSIS



Figure 2 SWOT analysis

Source: https://en.wikipedia.org/wiki/SWOT_analysis#/media/File:SWOT_en.svg

Results

The situation and role of contract farming in Thailand, it has expanded rapidly over the past three decades. Contract farming has entered into community business in the form of various types of agricultural businesses both livestock farming and crop. For livestock farming, there are various types such as raising chickens, raising pigs and cattle, etc., which is the main protein food of the world's population. The large private companies in livestock production have adopted a fully integrated production system including the production of inputs, products and marketing both at home and abroad. This creates stability in the production system and reduce production costs. The contract farming system in Thailand has been applied as a part of the supply chain in which private companies enter into contracts with farmers to produce products as needed in the agreed quantity and quality which sometimes may be income insurance or price insurance or market insurance. The planting crops in contract farming also have expansion such as baby corn, rice, sugar cane, coffee, pineapple, cassava, and bananas. Dole Thailand Company Limited, Prachuap Khiri Khan Province is a large canned fruit producer that enter contract farming. Currently, there are 2 factories with the demand to buy input from farmers of 200,000 tons per year, covering the planting areas in 3 provinces: Prachuap Khiri Khan, Phetchaburi, and Rayong. In addition, Ratchasima Green Energy Co., Ltd. is one of Thailand's leading tapioca starch manufacturers with a factory located in Huai Bong Subdistrict, Nakhon Ratchasima Province. It is one of the operators that also enter contract farming. At present, the production capacity of fresh cassava roots is 1,200 tons per day, producing 350 tons of raw starch. The company will transfer modern production technology to increase productivity and reduce costs to farmers.

However, this study would like to focus on chicken farming business in Thailand. It has continued to expand according to the demand for products of both domestic and export. Chicken is widely popular as a quality and affordable protein food. In addition, the chicken is one of the economic animals that gives a quick return from a shorter time to raise than any other types of economic animals, taking about 45 days per cycle. It

also has a high rate of meat conversion rate and good disease resistance. Thus, the production and consumption of chicken is higher than other livestock farming.

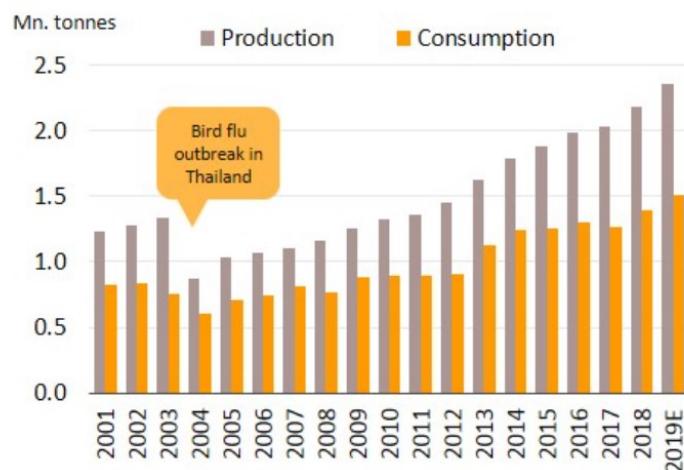


Figure 3 Thai chicken production and consumption

Source: Office of Agricultural Economics, Krungsri Research (2019)

As can be seen from Figure 3, Thai chicken production and consumption tend to continue to expand after the 2004, bird flu outbreak in Thailand. As it caused a shift from contract farming for chicken raising to the closed system. The effects of this outbreak have raised concerns about food safety. Thus, processed chicken has become the industry's main export product until now. It has a market share of around 86 percent of total Thai chicken exports and accounts for 28 percent of the world processed chicken market.

The market structure of entrepreneurs in the contract farming system, they are concentrated in large entrepreneurs in the value industry of more than 70 percent, which is an investment in the upstream to downstream industry fully integrated including feed broiler, slaughterhouses and processing plants. Therefore, they have the advantage of efficient and systematic cost management. These companies also benefit from economies of scale due to their large scale. Most of the farmers who participated in contract farming were small farmers. Therefore, the bargaining power mainly belongs to private companies. In the past, contracts were concluded between parties and no intermediaries or rules were applied to ensure fairness. Thus, there were often conflicts between contract parties such as unfair contracts, low quality inputs, and late payments. Sometimes these issues were serious and led to lawsuits in the judicial process.

The most common problems in contract farming are risk inequality, benefit-sharing inequality, law enforcement inequality and lacking production potential of farmers. However, the government has issued the contract farming promotion and development act (2017) to solve various problems at that time. It resulted in more fair protection for contract parties as well as being more transparent and overseen by the government, thus allowing the problems to decline.

SWOT analysis of the chicken farming business is revealed that its strengths are the parties both sponsors and farmers have a long experience in raising chickens. In addition, private companies have modern technology and transfer it to farmers. So, the production in the contract system is efficient and meets acceptable world

standards. Production is more reliable than open-market purchases and consistent quality with overcoming land constraints and resources limitation. The weaknesses, there are still some unfair contracts. Especially small chicken farmers who do not have much choice. Farmers may become indebted because of production problems. For the opportunity, it is found that the export market for chicken and its products continued to expand. It has a positive impact on the chicken farming business. Thailand is famous for chicken production for export, which is accepted in the world market. As a result, it provides opportunities to expand into new markets. In addition, the Contract Farming Promotion and Development Act (2017) enhances transparency and a fair contract between parties. While the main obstacle is the rising cost of chicken feed due to inflationary pressure. In summary, the main strategies in contract farming are to maintain product quality to meet international standards and reduce production costs to increase competitiveness and sustainability.

Conclusions

The study of contract farming for the chicken farming business in Thailand has objectives to study the situation and role of contract farming in Thailand and analyze the SWOT of the chicken farming business in Thailand. It adopted both descriptive research using secondary data and field surveys by in-depth interviews with the relevant parties including farmers, private companies and academics through specific sampling. The situation of contract farming has changed from the past, thus requiring a revisit in this regard.

The research results showed that contract farming has expanded rapidly over the past three decades. There are various types of agricultural businesses both livestock farming and crop such as raising chickens, raising pigs, baby corn, rice, sugar cane, coffee, pineapple, and cassava. Private companies enter into contracts with farmers to produce products as needed in the agreed quantity and quality. This study focus on chicken farming business in Thailand. It has continued to expand in line with the expansion of the contract farming system. The market structure is concentrated in large entrepreneurs in the value industry of more than 70 percent. Most of the farmers who participated in contract farming were small farmers. Thus, the bargaining power mainly belongs to private companies. In addition, this study found that the most common problems in contract farming are risk inequality, benefit-sharing inequality, law enforcement inequality and lacking production potential of farmers. However, the use of the Contract Farming Promotion and Development Act (2017) made the problems alleviated.

For SWOT analysis of the chicken farming business, this study found that its strengths come from both sponsors and farmers having a long experience in raising chickens with modern technology transfer to farmers. So the production in the contract system is efficient and meets acceptable world standards. The weaknesses, there are still some unfair contracts, especially in small chicken farmers having not much choice. Opportunities come from the export market for chicken and its products continued to expand. This has a positive impact on the chicken farming business. At the same time, the main obstacle is the rising cost of chicken feed due to inflationary pressure.

Discussion

There are various studies about contract farming in Thailand. This study focused on economic perspectives and the turning point of the situation when the Contract Farming Promotion and Development Act (2017) has been enforced. Before 2017, it was found that most of the problems with contract farming were related to unfair contracts and lack of transparency. In addition, some small farmers often face the risk of substandard production, loss and debt burden. Consistent with the study of Tasanakunphan (2012) that most contract farmers were in a state of despair. They have a lot of debt, therefore it is difficult to stop production because there has been a large investment in fixed assets including poultry houses and equipment. In addition, small farmers do not have bargaining power and no choice as well. While Ariyasoothorn (2012) revealed that various contracts have an unfair relationship between the parties. The private companies have power over farmers through control of production factors and marketing. In general, it is often found that small entrepreneurs and small farmers face more problems than large ones in Thailand. Some studies are concerned that private companies may exclude small-scale farmers and prefer to work with a smaller number of larger farmers. It leads to income inequality. However, a few studies in Asia and Africa have found private companies that prefer to work with larger farmers, but most find no difference in farm size (Minot and Ronchi, 2014).

However, after 2017, Contract Farming Promotion and Development Act (2017) helped to resolve the conflict between the parties. The Act stipulates that agricultural business operators are obligated to prepare documents for inviting and drafting contracts to farmers in advance to inform them of their decision to enter into contracts. In this regard, the solicitation documents must contain details as required by the Act (2017) under section 20, including provisions governing the contract to ensure that it is fair to both parties. Farmers know the conditions clearly and make their own decisions under acceptable conditions. Thus, disputes between farmers and private companies are likely to decrease due to the enforcement of the law.

Suggestion

According to the results of this study, contract farming system can benefit stakeholders including farmers, private companies and the government from various advantages. It has been in Thai society for a long time as a tool for large-scale production with the quantity and quality requirement by cooperation between private companies and farmers. It has a positive effect on the production, export and employment of Thailand. Although in practice there are some problems in the contract farming system. However, the problems were resolved later after adopting the Contract Farming Promotion and Development Act (2017). The government should promote production in contract farming system with the private sector as the driver. At the same time, the role of government should facilitate, create a database system and enforce the law as necessary. In addition, farmers should insure their produce in case of damage such as disasters and epidemics.

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