

**BROKERS AND FARMERS IN THE INTERNATIONAL MARKET  
A CASE STUDY IN MEXICO**

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## **BROKERS AND FARMERS IN THE INTERNATIONAL MARKET. A CASE STUDY IN MEXICO**

For consumers to enjoy fresh fruit and vegetables in their homes, an immense effort is required from many actors that interact and negotiate everyday in very diverse arenas, in a chain of activities that go from the fields in the rural areas to the supermarkets. Fruits and vegetables require co-ordination and articulation of different actors that are situated in different countries, these actors are in charge of producing, packing, shipping, selling and buying fresh produce. In this chain of activities brokers have been the least studied and yet the more criticized, as they are usually seen from the perspective of farmers.

In this paper I explore the life worlds of small brokers<sup>1</sup> that work with farmers and direct their commodities to the international market. I research their relations in the fields with farmers and with firms and stall owners in wholesale markets in Mexico and the US. I want to show how brokers specialized in the international market are closely related to migration. Most brokers have in one time or the other worked in the US or have family members living in the US or in the border region. This has enable them to create and maintain transnational social networks. I focus on small brokers, that are struggling between farmers and markets to develop a business and accumulate capital. I present the strategies and negotiations that brokers implement in different arenas and how free trade has affected their businesses. This study attempts to understand the nuances of produce brokerage at a small scale and the problems and conflicts these social actors face in their daily lives. Produce brokers play an important role in the international market, they open the roads between Mexico and the US, they link farmers, packers, buyers, sellers and consumers in the US and Mexico.

I do not intend to answer questions concerning the global tendencies and their impact on the national and international economy, for this, a different kind of research is needed. I only intend to introduce the reader to the reality of brokers' work.

The analysis is based on ethnographic research based on case studies. The research was done through participant observation and open ended interviews. Research on the rural areas was not difficult, interviews in the small communities with farmers and brokers was easy. Research at the other end, in the markets, was very hard. People did not want to be interviewed and did not want to talk to anthropologist about their lives and much less about their businesses. It was only through occasional charitable persons that I was able to gather the data that I am about to present to you. These people made me understand how the market is filled with secret codes and how information is a commodity which no-one wants to give freely to others. Who you buy your produce from, who you sell it to, how much you paid, where your financial resources come from, are heavily guarded secrets of the trade, to reveal your sources might increase the competition from others in the market.

In this paper I present who the brokers are, where they come from, how they developed their businesses and their networks in the fields and in the markets and, how they were able to reach the international market and stay competitive. The first part deals

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<sup>1</sup> They handle capital that ranges from 50,000 to half a million dollars in a season.

with brokers in the fields and the kind of production contracts<sup>2</sup> they negotiate with small and medium-sized farmers, the second part deals with brokers in the markets. For the first part I use case studies of brokers in Morelos and Jalisco and for the second part I follow the brokers to the wholesale markets of Tijuana, Baja California and Los Angeles, California in the US.

As mentioned before, the presence of small brokers in the international market is closely related to migration into the US, and changes in migration patterns and the capacity of people of Mexican origin to create a family business and become self-employed. Relatives can become marketing networks through which Mexican produce can be sold. Through family relations farmers are increasing their space for maneuver on the other side of the border and are coping with the national situation.

Most brokers that work in the Californias' region are people who have either migrated to the US, settled there and worked in the fruit and vegetable business, they are Mexican-Americans, Mexican immigrants, or are Mexicans who have lived in the US at sometime of their lives but have not settled in the US. Brokers use their social networks and knowledge of the US to find buyers for their imports. They have deals with different seed and input distributors from which they buy and then sell to Mexican farmers. They have partnerships and contracts with truckers in Mexico and the US who transport the produce from one site to the other. They use their knowledge of Mexico, and their extended family in Mexico to contact farmers in irrigation regions, negotiate production contracts and in many cases manage packing plants around the country. These brokers are the bearers of two cultures and they are using their knowledge and networks in both countries to develop their business.

They prefer to work with small and medium-sized farmers, because the capital they have is not large enough to enable them to finance large farmers under production contracts, and probably the brokers would not be able to pay the prices large landowners demand. Further, they are not well-known, and large landowners prefer to work with well-established firms with 'good reputations'<sup>3</sup>. Small and medium farmers, because of the difficulties in obtaining credit, technical assistance, information on markets and prices, and so on, sometimes have to accept any kind of firm or broker, or face losing a whole harvest. Brokers take advantage of this situation. They have also taken advantage of the subsidies given to the *ejido* sector and of unpaid family labor in the fields and packing plants.

These firms are usually small (compared to firms such as Nestle, Chiquita, Griffin & Bran and so on) and they are also vulnerable: market fluctuations can ruin them in a single season. They can go broke in one season and appear again in the next, somewhere else. This can also be a strategy to avoid paying farmers for their produce.

I found four main kinds of small international brokers:

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<sup>2</sup> Several interesting studies have been done on production contracts and transnationals (see Feder 1977, Gonzalez et al. 1980, Oswald 1979, Rama & Vigorito 1979, Minot 1986), the state (Paré 1977) and production contracts in agro-industrial production and agribusiness (Glover 1984, Glover & Kusterer 1990, Morett 1987). However, insufficient research has been done on small foreign companies and brokers who invest in the *ejido* sector and the relationship between small firms and the *ejidos* (see Barros 1998)

<sup>3</sup> There is a 'blue book' where all firms that are considered reliable in the US are listed. Most of these brokers are not listed.

1. Those that have a transnational family network in the fruit and vegetable business, have their own capital and have their own firm. These brokers tend to rent spaces in warehouses in Mexico and the US, and have production contracts with farmers in Mexico. Some have import-export firms, where they also distribute in Mexico US produce. Their firms can either be registered in the US (foreign firms) or in Mexico, depending their legal status in the US and where it would be more profitable to register the firm.
2. Those that work for a big firm and who usually already have buyers for the produce they sell, they work on consignment or commission and the firm owns a warehouses in Mexico and the US.
3. Independent brokers, that have their own capital, are not constituted as a firm, who have contacts with firms, warehouse owners in Tijuana and Los Angeles at the border, as well as in other cities such as San Francisco, or Guadalajara. They sell in different markets and not always have buyers for their produce.

Brokers work on both sides of the produce chain, they are flexible in the ways they use their capital and contacts, for example some rent land for a couple of seasons, or even buy land, at the other side of the chain they might rent a space in the markets and become wholesalers or retailers. There is an evident flexibility in their business that can go either way of the production and marketing chain depending on weather the conditions and circumstances are profitable.

### **Brokers in the Fields: production contracts, a negotiation between farmers and brokers**

Production contracts represent a form of social organization which introduces farmers to new production processes, technology, and social relations of production, and links small farmers to agro-industrial complexes and to the international market. Watts discerns three patterns of contract farming (1990: 153):

1. Large, centralized and frequently state-owned nucleus-estate schemes with thousands of peasant out-growers and a central processing unit;
2. Contracts primarily with large capitalist growers, whose associations negotiated with state and labor.
3. Small peasant contracting usually with local, and sometimes foreign, merchants or exporters. The brokers I talk about belong to the last pattern.

I examine the characteristics of these companies and brokers, and their relationship with small farmers. Who are they, how do they work, what is their view on working with small and medium farmers, and what kinds of production contracts do they negotiate with farmers. I want to introduce the reader to these actors, who have been overlooked up to now, and to explore whether they are indeed becoming an important market and financial alternative for small and medium farmers, or if they are as some authors claim, yet another means by which farmers are subordinated to the needs of capital, (see Watts 1990: 157)

I present three types of firms. The first, El Manto, has direct negotiations with farmers and has invested not only in agriculture but also in a partnership with *ejidatarios* for the construction of a packing plant. The second, Melmex, is an example of a high-risk firm that moves around the country, making it difficult to force the firm to adhere to contract

stipulations. The third is a broker that has his own packing plants in different regions of the country.

### *El Manto, true partnership?*

This is the case of a group of ejidatarios from an ejido called La Loma in Jalisco, where melons were grown in the eighties and beginning of the nineties. Farmers<sup>4</sup> formed a society (with 28 members which varied through the years) and negotiated two kinds of arrangements with El Manto<sup>5</sup>. The members of the society had negotiated a partnership agreement that was supposed to last as long as melons were produced in the region. The partnership was for the construction and management of a packing plant. The firm would own half of the packing plant and the society the other half, although the initial investment was made entirely by the firm. Farmers members of the society were charged one dollar for every box packed by the firm, as a payment for their share of the packing plant. After 10,000 boxes had been packed, two dollars were charged for the next 20,000 boxes. This money was reinvested in infrastructure. The firm provided the necessary initial capital to purchase the land for the construction of the packing plant, the necessary machinery, and the utilities such as electricity and water. Farmers did not have to make any initial outlays. This partnership kept growing: first a selection-band for melons was bought, then a second selection-band and then a selection-band for cherry tomatoes. El Manto also built a storage room and offices.

In addition, production contracts were negotiated every season between El Manto and the society. According to informants three kinds of contracts were negotiated in various years. The firm, of course, has an important advantage over farmers, since it has access to information and is able to anticipate market trends and negotiate production contracts accordingly.

### *Production contract on commission*

The firm provides the seeds to be sowed. In the case of export products, it is vital to get the right kind of seed with the desired quality. When a firm is working on commission, usually it already has a buyer or two with special requests. Therefore, it is crucial to provide the right seed, fertilizer, insecticide and pesticide. The firm also provides financial resources which are negotiated annually. I found that the average amount of money advanced was about US\$ 200 per farmer. El Manto worked with a low budget, ranging from US\$ 50,000 to 150,000 working capital per season. Brokers wanted to spread this budget, to make deals with as many communities as possible. The working capital lent to farmers for inputs and labor costs was never enough. The firm was counting on farmers obtaining additional funding, either from Banrural, FIRA or money-lenders. After the harvest and packing, the firm took the produce to the US.<sup>6</sup> The amount paid to farmers for their products depended on market prices in the US. The firm deducted the following from what the farmers were paid: commission on the wholesale (between 10 and 15 per cent of the market price),

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<sup>4</sup> These farmers owned in average from 8 to 12 hectares of which each used from 2 to 3 hectares for melon production.

<sup>5</sup> El Manto is a firm owned by a broker.

<sup>6</sup> I found cases where the foreign firm brought its own workers to pick the harvest and selected only the best products. The rest was left for the farmer to sell in regional markets

transportation costs, advances, and expenses such as the costs incurred for permits and taxes, and the costs of boxes lost, or fruit damaged on the way to the border, or road accidents (they do not have insurance) and so on. Such deals allow indiscriminate abuse on farmers, since there is no way for them to verify that the price set by the broker corresponds to the price at the time the melons were sold. If the broker argued that the prices had dropped, leaving no profits for the farmers, there was nothing farmers could do to check the information.

*Production contract on field price*

The firm offers a price in advance for the harvest, disregarding what the price might be at the border when the crop is sold. The firm pays half at the beginning of the season and the rest after the product is sold. Farmers obtain less money this way, and of course if any calamity occurs, such as pests, then the deal is off.

*Production contract at gate price*

This was a contract established in La Loma with farmers who were not members of the society. In Morelos, I often found this kind of deal between packing plant owners and farmers. The product was paid for, when it was delivered to the packing plant. The firm took care of transportation and export, deducting costs from the price paid to the farmers. Prices from previous years and the prices paid by other packing plants in the region determined the price. Farmers obtained financial resources from the broker to initiate production.

This is the most common type of contract. There were in fact many other kinds that were experimented with. Most contracts were verbal. Thus, production contracts are very diverse, depending on the kind of farmers, the product and the brokers. In most production contracts, the broker advanced money. In all contracts, foreign firms are in a position to manipulate quality standards and the supply of credit and inputs. Foreign firms and brokers can claim that the fruit does not meet the required standard and phytosanitary specifications without farmers being able to do much about it.

El Manto provided technical assistance, which only meant that the crop and the production process were monitored. El Manto had a representative in the neighboring city of Autlán and another who came occasionally from Guadalajara. Fruit and vegetables for export have to comply with strict US sanitary and phytosanitary regulations. Usually farmers bought the necessary inputs from the firm or followed the firm's advice on what to buy and where. Thus, firms transferred technology to small farmers. Brokers usually have deals with input suppliers: they buy at a certain price and sell at another, thus gaining from the transaction. Because they lack information and contacts, farmers cannot check prices or find alternative products.

Concerning the packing plant, since the firm had invested in it, it was also involved in its management. The firm hired an accountant to take care of the financial management of the packing plant, advancing money on sales and for the payment of debts. The costs were shared by the firm and farmers. The firm interacted and negotiated with the ejidatarios and particularly with the members of the society's executive committee. The executive committee was supposed to intervene in the management and financial running of the packing plant, but, according to farmers, the committee was never allowed to

examine the accounts. A lump sum was advanced to the executive committee, which in turn distributed it. The firm automatically deducted payments for the credit when the fruit was sold at the border. If some farmers failed to sell their fruit to the firm, having found a better buyer elsewhere, then the rest would end up having to pay with their own fruit. The firm was not interested in whose fruit it was, only that it had enough. This was to be dealt with within the organization. Often at the end of the season, the executive committee did not have enough money to pay all farmers who had sold their fruit to the broker. Not surprisingly, this generated conflict within the organization.

This partnership lasted five years. Farmers' revenues increased considerably: they were able to buy trucks and farm implements, to improve their homes, to give their children education and so on. However, the production of melons and cherry tomatoes was not sustainable, and conflict between the broker and farmers emerged. The following are the main reasons:

#### *Crop disease*

Pests, crop disease and land erosion commonly result from production contracts between foreign firms and brokers with small farmers. As other authors have mentioned, exporting firms are mainly interested in fast short-term profits. Authors such as Reynolds comment that this 'promotes intensive production practices that generate pests and pesticide problems since they [the firms] do not bear the long term costs of these actions' (1994: 229). In La Loma, the presence of pests was one of the main problems that led farmers to abandon melons and produce more resistant crops such as sugar-cane. However, the causes were somewhat different. It was the combination of intensive production practices, with the lack of sufficient resources to produce melons with the required inputs and labor needed, that led to land erosion, pests and crop disease.

According to brokers, farmers were to blame for the pests and crop disease. They claimed that some farmers sold the seeds provided by the firm to other farmers and use the seed from the best melons of the previous season. Thus they reduced the quality of the melon crop and rendered it prone to disease. When the firm gave money to farmers to buy inputs, few farmers followed their instructions, and some farmers diluted the substances with water or did not buy the required brand. Soil deterioration and disease were the result.

It is true that small farmers often do not understand fully or cannot easily meet international import standards. However, as we have seen, farmers could not rely on having enough capital to do exactly what brokers required of them. The money lent never covered the actual expenses. Inflation was never taken into account, which reduced the buying power of the money lent. Farmers had to adjust to the amount advanced, reducing inputs and labor. Melons require high inputs of labor, but farmers did not have enough money to hire it. As a result, weeds grew rapidly before herbicides could be applied or labor hired to weed the plots. This affected yields.

#### *Prices:*

The price paid by El Manto was usually lower than that offered by other companies. There was a very small peak when prices were high, but soon El Manto claimed a price drop in the US. There was no way to check this. Many farmers stopped selling their fruit to the firm,

to pressure El Manto to pay higher prices. Unfortunately this was never done collectively, which meant that some had to pay for those who did not sell their fruit to the firm.

This also meant losses for the firm, because it also had commitments in the US, and needed the farmers' melons. There are many small brokers and intermediaries in search of small quantities of produce, who have small orders to meet and are therefore willing to pay higher prices for melons.

#### *Accounts and debts*

Accounts were never clear. Concerning the 50 per cent ownership of the packing plant, many farmers think they paid El Manto for their half as well as El Manto's half. Information was never given on the state of the debt and the sales record was never clear. Companies and brokers take advantage of farmers' lack of information and tools to keep their own accounts, maintaining control over them. Finally, the partnership with El Manto ended when the firm took the melons without ever paying for them.

#### *Production contract with Melmex<sup>7</sup>*

Melmex dealt with farmers differently. It is a firm from Texas, US. It has investments in the states of Guerrero, Michoacán, Tampico, Nayarit, Oaxaca and Jalisco. Every year, Melmex invests approximately US\$ 800,000 in the fruit and vegetable business. The firm invests in melons (white and cantaloupe), pineapple, watermelon, orange, lemon, chili, coriander, papaya and oregano. The firm has a storage room in McAllen (Texas), from where these produce are sold as fresh fruit, through five different market chains. This firm has been working in Mexico since the late 1960s, though it has changed name several times. In the 1970s, it had two packing plants in the state of Jalisco which are no longer operational. Melmex is now registered in Mexico as a Mexican firm under another name, which is a way to evade certain taxes in the US.

Melmex proposed a production contract with a 50-50 deal to farmers from a small community in Jalisco in mid nineties. That meant that profits would be divided in half: 50 per cent for farmers, 50 per cent for the firm. The firm agreed to buy the fruit in Mexico, which meant that the price would be established in Mexico and not at the border. This arrangement is one of the worst deals possible for farmers. Someone who cultivates only two hectares receives only the benefits of one hectare, and thus in reality is working one hectare for the firm.

The executive committee of the society formed by the farmers met several times with the representatives of the firm in Mexico and even went to Texas to negotiate the terms of the contract. The firm not only insisted on the 50-50 deal, but also refused to advance any money. Farmers needed to start sowing during the last two weeks of December in order to be able to deliver the fruit to the firm before the first of May. After that date, the US government charged a 35 per cent tax on any imports, to protect the fruit and vegetables produced in the US (this dates have changed as tariffs are being desagravated. In mid-December nothing had been arranged yet. The farmers did not even have the necessary seeds. When the executive committee left for Texas, it had the general assembly's

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<sup>7</sup> Melmex is a firm owned by a broker and hires brokers.



permission to sign a contract on behalf of the organization and to buy the necessary seeds in the US. The 50-50 deal with the firm remained.

Employees from the SARH discovered that the firm was a ghost firm and that it was being prosecuted in several states for fraud. It had changed its name several times in the US. This gave rise to many conflicts among farmers. Some argued that a commitment had already been made and that therefore the farmers were obliged to sell to Melmex, while the SARH recommended that they find alternative markets. Finally, three days after the harvest had begun, farmers decided not to sell to Melmex. A committee went to Michoacán and Colima in search of possible buyers. They found a broker from Michoacán. This broker rented the packing plant for two weeks and bought the export melons, though most of the harvest was sold in the domestic market.

### *Juan, a Broker*

Now I want to introduce the reader a broker who worked for one of the firms that negotiated with the ejido from our first case. His life history teaches us more about brokers and their role in the fruit and vegetable agribusiness.

Juan was born in Tijuana, Baja California Norte, Mexico, in 1952. When he was 16, he started working for the International Bank as a field inspector, and that is how he came to Jalisco. He worked with the bank for 15 years and he learned the fruit and vegetable business. While working with the bank, he also rented land to sow himself, and he got to know all the foreign firms that worked in the region. In the 1980s, he left the bank and started working as a broker for a foreign firm he knew from California. He concentrates mainly on this region. He works with several *ejidos* and rents land himself, since he has no land of his own.

In the 1970s and early 1980s, Juan worked in the region of Autlán, El Grullo and La Loma. First he worked for a Japanese man, Zuki, who was interested in investing in melon production in the region. Then, when the land in this region became infested with crop disease, Juan turned to new land. This is how he came to work with few farmers in Tonaya and Tuxcacuesco in Jalisco.

In 1984, Juan was approached by a Texan man who offered to buy everything he was producing. The man advanced money without a written contract, which Juan thought was enough of an insurance. Juan gave him 90 tons of export watermelons and four thousand boxes of cucumbers. The Texan transported them to the US but never appeared again. He was sought in Texas but was never located. This shows us that even brokers find it hard to keep track of foreign firms and brokers with whom they have deals. They too face considerable risks in running their business.

In 1987, Juan became a partner of the firm owned by Zuki. He obtained a contract with the firm whereby the firm invested 60 per cent of the necessary capital and Juan invested 40 per cent. At the end of the season, profits would be divided accordingly, and Juan would get 10 per cent extra for his work. His job was to either rent land or find farmers who would want to work with him, advancing them part of the working capital needed to start production. So from what the firm gives him, Juan either rents land and produces himself or he advances money directly to farmers. According to Juan, only about 10 per cent of the capital the firm invests in Mexico reaches farmers directly. He had been working with Zuki for two years. The first year he worked with La Loma.

Juan first contacted the leader of the society, named Manuel. All transactions he agreed to with the society went through Manuel. Juan's idea was to form a small group of farmers whom he would finance and monitor. His experience in La Loma was not good. Everything went fine until the harvest, then many farmers whom he had financed did not sell their fruit to him, but to other brokers who offered them a better price. He explained the situation as follows:

It is easier for other intermediaries to offer a better price because they have not invested any money. I just could not get it into the heads of the farmers that the price was lower because I was deducting the loan that I had given them. Five farmers sold me no fruit at all and I was not able even to recover what I had invested in them. I had to pay this money back to Zuki, because for the firm I was the representative of farmers in La Loma. Fortunately, I was able to pay them and we could work together again this year. To work with societies and associations is very risky. They hide behind each other and never honored contracts. The firm has three employees supervising all the areas where they have invested money. I have one who supervises on my behalf.

Juan also started a joint venture with Manuel, although the rest of the farmers did not know about it. They rented a melon selection-band in the town of Tonaya. They repaired the machinery and built a small shelter to store it. They also rented land to grow melons.

Juan had advised Manuel to negotiate a contract directly with the firm and then individual contracts with each of the members of the society. This agreement gave rise to suspicions on Manuel by his colleagues when he was not able to pay them what they expected. Juan has the following opinion on the leaders of the society:

You can find all kinds of presidents of executive committees. Some really care about their societies and try hard to get the best deal. Others sell out to the firm. They accept bribes and they end up working for the firm and not for their organizations. Many of them end up working in the US, helping to swindle the members of their organization. They are difficult people, easily corrupted. You never know for whom they are really working.

Brokers like Juan can be found all over the country. They may work for more than one firm at a time. Since they travel all around the country and have few local ties, it is difficult to keep track of them. On the other hand, they are useful agents in many *ejidos* which have just started and in which no one else would venture to invest. They transfer new technology to the *ejido* sector and introduce farmers to the international market. Juan decided to build his networks in the region and work with foreign firms. He had some capital to invest, but did not have strong networks to take his produce across the border himself. Even though he was born in Tijuana, he had never been interested in migrating to the US or setting a business in the border.

### **Brokers at the border**

In the next section I will talk about brokers in the border and how they develop their businesses, the contacts and negotiations they make, and the problems they face. I give some general characteristics of the business. I take my examples from several cases, one located in Texas and the others in the region of Tijuana, Baja California and Los Angeles, California. This last regions has been the most studied. I have not been

personally in Texas (the data comes from interviews), but I have done extensive research in markets in Tijuana and Los Angeles.

*Paco Sanchez. A Mexican-american broker in Texas*

Paco is yet another type of foreign investor. He has created a family enterprise and has concentrated on the onion agribusiness. Paco Sanchez was born in Los Angeles, California, in 1950. His father was born in 1915 in the state of San Luis Potosi, Mexico. Paco's grandfather was a landless peasant who fought in the Revolution. In the 1930s, his father joined the *bracero* (laborer) program and migrated to the US in search of work. He first worked in the fields. After a decade he became a tractor driver and soon was in charge of a ranch. He married a Mexican girl whom he brought from his home town and with whom he had three sons and a daughter, the second son being Paco. Paco attended high school and in the weekends and holidays he worked with his father. He learned Spanish at home and English at school. He visited his relatives in Mexico frequently and traveled to Mexico City.

When he finished school, Paco worked in agriculture as a tractor driver. There he met a man who had a small import-export firm. The firm owner was interested in buying vegetables from Mexico and gave him a job as a broker in Mexico. Paco knew the northern part of Mexico and he spoke the language. He took the job and worked for the man for eight years, until 1981. While working for the *gringo* he was also able to make deals of his own and accumulate some capital. He got to know the fruit and vegetable business well.

After considering the alternatives, he decided to open a family firm in which his two brothers and sister, as well as his father, could participate. Previously he had worked in Tamaulipas, where he had many connections with commercially oriented farmers. In 1982, he opened a packing plant in Tamaulipas. He worked with several *ejidos* and had 10 intermediaries working for him who either established production contracts with farmers, sharecropped or rented land.

He opened his US office in McAllen, Texas, where his father and sister took care of the office and any administrative work that needed to be done. They also took care of the legal work of the firm. One of his brothers took care of the network in the US, finding American buyers for the onions and maintaining contacts with supermarket chains, retailers, small shops and bigger firms. He was also in charge of financial matters in the US, that is, obtaining credit and finding investors, or collect payments of produce given on credit.

Soon, with the profits he had earned, Paco ventured into Morelos, opening a packing plant in the south of the state in 1984. Here he worked according to the same pattern. He made deals directly with farmers, but mainly employed intermediaries in the region. The packing plants complemented each other, since Tamaulipas would open first in the year and then Morelos. Hence he had onions for more than four months. He built a well-organized family enterprise. He hired two of his Mexican cousins to supervise the packing plants in Morelos and Tamaulipas permanently, while he was travelling around the country in search of new land and new *ejidos* which wanted to produce onions. Paco also diversified his enterprise to include tomatoes and chilies.

In 1986, he worked with the co-operative of Tlaca<sup>8</sup> for one season. He financed 33 farmers cultivating 59 hectares. He paid the money to the co-operative which in turn distributed the credit to the farmers. The production contract included the following basic terms:

The contracting firm was to:

- pay 50 per cent of the onion market value the moment the product crossed the border;
- report every day on prices;
- pay 50 dollar cents for every sack in advance for harvest costs;
- pay the rest of the money 45 days after each shipment was delivered;

The farmers were to:

- respect this contract for the duration of the harvest;
- use all the hectares for production as stated in the contract;
- pay commission costs and any other costs involved in the marketing of the products (transportation, permits).

Halfway through the season, prices went up and many farmers found better prices elsewhere, not honoring the contract and often not repaying the initial loan given by Paco. Although he did not lose money, his profits were reduced and so he decided not to work with this co-operative again.

Paco had built an extensive network in the US and in Mexico. He had used his knowledge and networks in both countries to develop his family firm and network. Paco knew the customs and language of each country and he had traveled extensively in both. He had given jobs to family members in the US and in Mexico because he considered them reliable. He gave no key job to a non-family member. This shows the importance of trust and the high costs involved in contract compliance, a problem which is solved or reduced by working with relatives.

### *Brokers in the Californias*

All brokers have their contacts at the border. Some of them have contacts in the wholesale markets in cities such as Tijuana, others take the produce directly to markets in cities such as Los Angeles. Brokers sell their produce to the stand owners in the markets, but they do not get cash, but are obliged to give credit. The owner of the stall will pay for the produce when he is returned paid by those to whom he/she sells the product. Then a line of credits is established, where brokers are forced to trust their contacts. This is a risky business for all for if someone in the line does not honor their contract – which are usually verbal – then the rest of the actors involved are also affected. Lets take a look at some cases.

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<sup>8</sup> Tlaca is a small community in Morelos, central Mexico. It has an ejido, where each ejidatario has between 8 to 10 hectares. As in most communities farmers only use from two to three hectares for the production of onions, some even produce only in half of an hectare. They are organized in a cooperative with ten members, but other farmers have participated in different seasons in the production contracts.

*Jose, a broker in Tijuana*

Jose was born in Sonora, a northern state of Mexico. His father is a small farmer, he has a piece of land in private property. When Jose was young he worked with his father the land but he did not like it. He did not like to study either and through the years life took him towards trade. When he was 18, in 1981, he started selling fruit and vegetables from Sonora in Tijuana. After a couple of years he decided to live in Tijuana, and soon he realized the great possibilities the Los Angeles market had. First he started exporting winter fruit and vegetables into the US through the Los Angeles wholesale market, soon he was able to export horticultural produce all year long. Some years ago, after NAFTA, he started importing produce from the US too, which he sells in Guadalajara. His point of contact for his import-export business has been the Los Angeles wholesale markets and recently the San Francisco markets, where he has made connections with different warehouse owners and shippers.

He is a small broker and one of his main problems is to compete with the large firms. There a couple of firms owned by Mexican-Americans that control most of the produce import-export marketing in Tijuana and have a strong influence in Los Angeles wholesale marketing. To remain independent from them has been one of his greatest challenges. He even in occasions has worked for these firms and sometimes buys their produce. His main strategy is to pay cash, the big firms work on commissions and credits, and he pays cash to farmers and packers. This allows him to sell his commodities at a slightly lower price than the big ones and it is many times the only way he can get farmers and shippers to sell to him and not to the big firms in California.

Another strategy is to go around the country finding small farmers with whom he could work and obtain produce at a lower price. For instance he buys onions from Morelos, he works with ejidatarios through production contracts, he gives them seeds and money to start the season.

Many brokers, including Jose, have dealings with stall owners in the 7<sup>th</sup> Street Market in Los Angeles. 80% of stall owners are of Mexican origin. They have small and medium-sized firms where they sell fruits and vegetables. They have small capitals. It is very competitive and many do not last more than a couple of years in the market if not seasons. Many tend to disappear without paying for the produce they took on consignment or on credit. For brokers it is also hard to keep track of these small firms and it is also difficult to get their money back once they have declared bankruptcy (a common practice).

Competition in Los Angeles market has grown and firms are becoming unreliable as they are smaller and have less capital. As a strategy he takes some of his produce to San Francisco where the market for Mexican and Latin population is growing. For Jose it is very important to have reliable stall owners that can market their produce in the US and Mexico, and reliable transportation that can take the produce from one region to the other, from one country to the other. It is a business of teams, one cannot work alone. Usually the produce is brought in Mexican trailers and has to be changed to trucks that are allowed to work in the border region of the two countries. The loading and unloading of trucks can be done anywhere in the city or in the wholesale markets where they have to pay a fee for parking there.

Jose has had many problems with owners from warehouses in Los Angeles wholesale markets, he has had many dealings with small firms that go bankrupt and don't

pay back their loans. All firms in markets take the produce on consignment and the broker gets to be paid several weeks later. Jose has lost capital in these transactions where the agreements are not honored.

### *Chucho, a broker with tradition*

Chucho's father came from Sinaloa and was involved in trading since very young. He came to Baja California when young and tried to work in the fields but did not like it. One day, one of his uncles bought a box of bananas and started to sell it in the streets, he earned more money than working for wages in the fields. His uncle and father started selling bananas and soon other produce. The first thing they invested in was a truck, as transportation allowed them to pick up the produce in different towns and then take it around the cities. They got together with a friend and rented a piece of land where they started parking their trucks and selling their produce. Soon people in the neighborhood started coming as they knew fruit and vegetables were sold there, this is how one of the first markets in Ensenada, Baja California was founded in the sixties. Chucho was born, so to speak, in the market and since young helped his father. He started developing his own network and when he turned 28 he began to work for a large landowner in Baja California, selling his produce, mainly tomato and cucumbers in the national and international market. He decided to put his own business in Tijuana and rented a space in the wholesale market, from there he directs his business. His brother and sister work with him. He also goes around the country finding farmers with whom to work. He has had production contracts in several ejidos, but prefers not to, as there is no guarantee you will get your money back.

In the last years he started importing from the US and selling in the national market. With the opening of the borders, small brokers are increasingly entering the import business of all sorts of produce from the US to sell in Mexico. US produce has been sold in Mexico for a long time but before NAFTA it was illegal or had very high taxes. Brokers had to pay all sorts of fines and bribes, not only on the border, but also going south in order to get their produce through. This discouraged many brokers from entering the business. No a days, it is all legal and one only has to fill the necessary forms and pay one time when necessary. His sister helps him find markets in Mexico for US produce.

Since 1992 he began to export horticultural products and sell them in Los Angeles. At first he started taking two trucks a week with onions and chilies and sold them to whom ever wanted them. Slowly he made contacts and started having steady buyers at the wholesale market in Los Angeles. After two years he decided to rent a space in the market in Los Angeles. He sent his brother to manage it. They tried for a year to make contacts in Los Angeles with restaurant owners, supermarkets, retail shops, but competition was very hard and after several frustrated businesses with clients that did not pay, they left Los Angeles wholesale market. His strategy is to make friends first and then business so that you know first with whom you are dealing. He has lost over two million pesos in bad dealings in the last three years. Now they prefer to take their produce to San Francisco and try their luck there.

### **Concluding remarks**

Marketing perishable products is a hard business for small brokers as they do not count with the capital and technology large firms have. It is a lot of work for brokers to be able to

move produce from all sorts of places in two countries in order to bring fresh fruits and vegetables to the tables of consumers.

Brokers that work in the international market have special characteristics, where migration to the US has played an important role. An interesting Mexican-American network has developed in the fruit and vegetable business. Brokers that work in the international market have in one time or the other lived in the US or at the border, which has enabled them to build their networks and get the necessary knowledge to compete in the US. We have seen how brokers or members of their families have lived or lives in the US. Small brokers such as the ones described above rely on contacts and networks, many based on kinship, for the development of their business.

One of the effects that NAFTA has had on their businesses, is that brokers are entering the import business too. Those that before only exported are now also importing from the US.

The main problems brokers face are the following:

1. Lack of reliable and good transportation for their produce
2. Most of their business is based on credit, they usually do not have written agreements with buyers and sellers and the bridge of a verbal contract is common in the business. For the buying of their produce they depend mostly on small and medium-sized firms in the markets that can go bankrupt and disappear without paying for the produce they took.
3. There are large exporters/importers in the US and Mexico that tend to monopolize regional markets in the border. These firms have warehouses in both countries, technology and a large staff of buyers, sellers and brokers that work for them. Many brokers started working with them or worked with them at one point or the other of their career. These firms make competition harder for they control the market and prices. Brokers try to compete and make room for maneuver in the market implementing an incredible amount of strategies in their business. Some of the most common are the following:
  4. By forming a family business.
  5. By paying cash.
  6. By finding small farmers and negotiating production contracts that would secure cheaper produce.
  7. By creating a diversity of networks and connections in a wide geographical area, through different agricultural seasons, on both sides of the chain, in both countries.

For brokers, production contracts are a way of achieving high profits with relatively small investments. They invest only half the costs and rely on farmers' capacity to obtain financial resources and use unpaid family labor. Production contracts are seen as temporary - a business for a few years or even perhaps for only one season.

The role played by production contracts varies. It depends not only on the crop produced and the market for which it is intended, but also on the actors involved. In small communities, production contracts are made between brokers who usually do not have roots in the communities and can easily move to another region. They rarely develop social ties and ritual links with the farmers with whom they work.

Most brokers are interested in short-term profits at minimal cost. This has meant intensive use of land. Invariably, after a foreign firm has been active in a region for some

years, natural resources suffer from over-exploitation, and exhibit signs of environmental degradation and soil erosion, while the frequency of crop diseases and pests increases and water resources are depleted. As Reynolds argues in her analysis of oriental vegetable production in the Dominican Republic: 'What is at stake here is not only short-term foreign exchange earnings and domestic employment, but the long-term productivity of critical natural resources' (1994: 232). It is usually three or four years after crop disease starts to appear in the fields that the firms disappear with whatever produce they can extract. Experience probably indicates to them when productivity is likely to decrease and when crop disease will get out of control or be too expensive to fight, as happened in La Loma. This is a very common pattern in small communities. Having gone through the same processes in other regions, brokers and firm representatives already know the symptoms.

However brokers and the firms they own or represent can be an important alternative for small farmers if certain conditions are met:

1. State support is needed: farmers need financial and technical support to increase their negotiation power *vis-à-vis* brokers;
2. If farmers develop strong local organizations, their negotiating power will increase and production contracts can become an alternative for small farmers; however, these organizations need to be democratic and flexible;
3. Farmers need better channels of communication and information at national and international levels;
4. Mechanisms need to be found to prevent firms from disappearing, leaving behind unfinished business and environmental damage;
5. Farmers must be able to diversify their production, to shift from one crop to another, and to access alternative markets.

These factors are necessary if better terms are to be negotiated and if some brokers are to be stopped from abusing farmers, their families and the country's natural resources.

Fruit and vegetable business in the world market is extremely competitive, subject to all sorts of problems including price fluctuations, overproduction, non-tariff barriers, dumping, and so on. Authors such as Feder (1977) and Watts (1990), consider farmers to bear all the risks. Our cases have shown that brokers and small firms also bear important risks and are also vulnerable to market fluctuations. For brokers the fruit and vegetable business is also a risky venture, even if the profits can be considerable. However, I fully agree that small farmers, and especially farmers from small communities, are much more vulnerable, bearing most of the risks that characterize this agribusiness.

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