

MEMBERSHIP POLICY ALTERNATIVES
FOR AMERICAN COTTON GROWERS

EXECUTIVE SUMMARY

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INTRODUCTION

*BUY-SELL MARKETING-MEMBERSHIP POLICIES NOT CRUCIAL

*COMMITTED MARKETING (POOLING AND MARKETING AGREEMENTS) --
MEMBERSHIP POLICIES ALL IMPORTANT

·PARTICULARLY NEEDED WHEN INTEGRATED VERTICALLY INTO
PROCESSING

·MEMBERSHIP POLICY MUST FACILITATE ACQUISITION OR TRANSFER
OF RIGHTS

·MEMBERSHIP POLICY MUST ALLOW FOR GROWTH

*MEMBERSHIP POLICY CAN BE ...

EITHER...1. TIED IN WITH CAPITAL PLAN

-CAPITAL PLAN CAN BE METHOD FOR ESTABLISHING
MEMBERSHIP POLICY

-USED TO DEFINE MEMBER

-MEANS OF TRANSFERRING MEMBERSHIP OR PARTICIPATION
RIGHTS

OR 2. SEPARATE FROM CAPITAL PLAN

-ALTERNATIVE DISCUSSED IN THIS REPORT

CONCEPTUAL FRAMEWORK

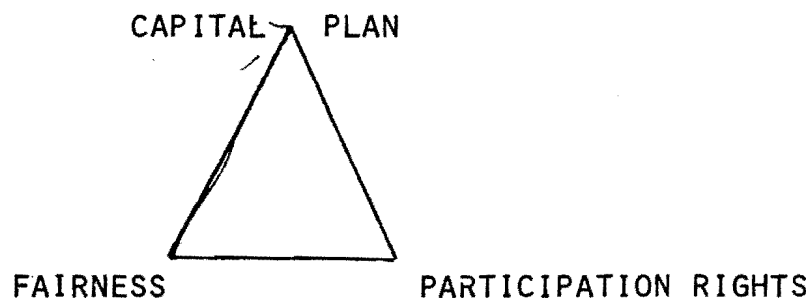
*THREE DISTINCT AND SEPARATE CONSIDERATIONS REGARDING MEMBERSHIP IN A LIMITED MEMBERSHIP COOPERATIVE (NOTE: MOST COOPERATIVES HAVE NEVER FACED THIS PROBLEM AS THEY OPERATE IN A BUY-SELL FASHION).

· ESTABLISHMENT OF A POLICY WITH REGARD TO ACQUISITION AND TRANSFER OF PARTICIPATION RIGHTS, I.E. RIGHTS TO DELIVER TO THE POOL

· FAIRNESS TO ORIGINAL MEMBERS WHO SUPPLIED THE RISK CAPITAL TO BUILD THE PROCESSING FACILITIES

· CAPITAL PLAN FOR EACH MEMBER

*DIAGRAM OF CONCEPTUAL FRAMEWORK



· DIAGRAM INDICATES THAT POLICIES REGARDING THE CAPITAL PLAN, FAIRNESS AND PARTICIPATION RIGHTS CAN BE SEPARATED

· HOWEVER, INTERACTION DOES EXIST, POLICIES REGARDING PARTICIPATION RIGHTS MAY IMPACT ON FAIRNESS AND THE CAPITAL PLAN

*DEFINITIONS

'PARTICIPATION RIGHTS MEANS "WHO HAS THE RIGHT TO DELIVER
TO THE POOL"

'FAIRNESS MEANS THAT ALL MEMBERS, OLD AND NEW, PROVIDE THEIR
FAIR SHARE OF THE EQUITY

'CAPITAL PLAN MEANS THE MEMBER EQUITY SCHEME OF THE COOPERATIVE

PARTICIPATION RIGHTS ALTERNATIVES

*RIGHTS CAN BE ATTACHED TO:

•LAND BY DESCRIPTION

•MEMBER

•MEMBER AND LAND

•RETAINED BY THE BOARD OF DIRECTORS

NOTE: IN THIS REPORT, THIS SYSTEM WILL BE CALLED THE
NON-TRANSFERABLE SYSTEM

*FOUR ESSENTIAL ASPECTS OF EACH ALTERNATIVE IS PRESENTED

•THE PURPOSE OF THE POLICY

•THE MECHANICS OF THE POLICY

•THE ADVANTAGES OF THE POLICY

•THE DISADVANTAGES OF THE POLICY

PARTICIPATION RIGHTS ALTERNATIVE
LAND BY DESCRIPTION

*PURPOSE OF THE POLICY

• DEFINE THE ACQUISITION AND TRANSFER OF PARTICIPATION RIGHTS THROUGH LAND ONLY

• ATTACHED TO SPECIFIC NUMBER OF ACRES, USUALLY DESCRIBED BY ASCS

• WOULD STABILIZE MEMBERSHIP IN COOPERATIVE - MAKES ACQUISITION AND TRANSFER OF PARTICIPATION RIGHTS DIFFICULT RELATIVE TO OTHER ALTERNATIVES

• TIED TO LAND OWNERSHIP

*MECHANICS OF POLICY

• INITIAL ASSIGNMENT OF RIGHTS WOULD BE ON BASIS OF NUMBER OF ACRES THAT BOARD DECIDES TO INCLUDE IN EACH MEMBERS INITIAL ASSIGNMENT

• DIFFERENT SITUATIONS COULD ARISE WITH REGARD TO INITIAL ASSIGNMENT AND THE ACQUISITION AND TRANSFER OF EXISTING RIGHTS (SEE TABLE 1)

*ADVANTAGES

• MOST DIFFICULT SYSTEM TO TRANSFER PARTICIPATION RIGHTS - MEMBERSHIP TURNOVER WOULD BE LESS RELATIVE TO OTHER ALTERNATIVES

Table 1. Land by description.

ITEM	SITUATION A	SITUATION B	SITUATION C	SITUATION D
INITIAL ASSIGNMENT	OWNER 1000 A. farm 1000 A. cotton	OWNER 1000 A. farm 500 A. cotton	LANDLORD-GROWER 1000 A. farm 1000 A. cotton	LANDLORD-GROWER 1000 A. farm 500 A. cotton
	Acres by description. Right assigned to Farm Serial Number. 1000 A.	Acres by description. Right assigned to 500 A. ----- Option of 1000 A.	Acres by description. Only landlord is ACG member. Right assigned to Farm Serial Number. 1000 A.	Acres by description. Only landlord is ACG member. Right assigned to 500 A. ----- Option of 1000 A.
ACQUISITION OR TRANSFER OF EXISTING RIGHTS	Sell acres with rights.		Sell acres with rights. Landlord only.	

- MEMBER STABILITY WOULD MAKE QUANTITY AND QUALITY OF COTTON MORE PREDICTABLE

- COST OF EDUCATION AND OTHER SERVICES WOULD BE LESS, OTHER THINGS CONSTANT

- HOWEVER, MAKING TRANSFER DIFFICULT MIGHT BE CONSIDERED A DISADVANTAGE FOR THE MEMBER

*DISADVANTAGES

- PRODUCTION WOULD BE FROZEN ON A CERTAIN NUMBER OF ACRES AT THE TIME THE SYSTEM WAS ADOPTED. COST OF COTTON PRODUCTION IN THE POOL WOULD INCREASE RELATIVE TO NON-POOL COTTON. REASON:

- PRODUCTION COULD NOT MOVE TO AREAS WHERE COST OF PRODUCTION IS LOWEST

- RIGHTS TO THE POOL WOULD BE CAPITALIZED INTO COST OF PRODUCTION

- PROBLEM OF ASSIGNMENT BETWEEN LANDLORD AND GROWER-TENANT

- NEW OR EXPANDED RIGHTS WOULD ALWAYS GO TO THE LANDLORD (TENANT MAY CONSIDER THIS UNFAIR)

- COULD LEAD TO ARBITRARY DECISIONS ON ALLOCATION OF NEW RIGHTS BY BOARD, IF POOL ACRES WERE EXPANDED

PARTICIPATION RIGHTS ALTERNATIVE
MEMBER SYSTEM

*PURPOSE OF SYSTEM

- ASSIGN PARTICIPATION RIGHTS TO MEMBER RATHER THAN LAND
- COULD BE DEFINED IN EITHER ACRES OR BALES
- AMOUNT OF PARTICIPATION RIGHTS FOR EACH MEMBER WOULD SIMPLY BE CARRIED ON ACG BOOKS
- MEMBER COULD SHIFT HIS RIGHTS TO SPECIFIC ACRES FROM SEASON TO SEASON

*MECHANICS OF SYSTEM

- INITIAL ASSIGNMENT OF PARTICIPATION RIGHTS WOULD BE EASY RELATIVE TO LAND BY DESCRIPTION SYSTEM. FOUR DIFFERENT SITUATIONS COULD EXIST (SEE TABLE 2).
- RIGHT COULD BE SOLD TO ANY OTHER COTTON FARMER, SUBJECT TO BOARD APPROVAL. SALE WOULD BE A PRIVATE TREATY TRANSFER AT WHATEVER PRICE THE SELLER COULD OBTAIN.
- WHEN TRANSFER DID OCCUR RECORDS AT ACG WOULD CHANGE TO REFLECT THE TRANSFER
- NEW OWNER WOULD HAVE TO USE PARTICIPATION RIGHTS WITHIN A CERTAIN LENGTH OF TIME OR LOOSE THEM (EXAMPLE - 2 YEARS)
- EXPANSION IN POOL ACRES OR NUMBER OF MEMBERS COULD BE ALLOWED, PROBABLY TO EXISTING MEMBERS

Table 2. Member only.

ITEM	SITUATION A	SITUATION B	SITUATION C	SITUATION D
INITIAL ASSIGNMENT	OWNER 1000 A. farm 1000 A. cotton	OWNER 1000 A. farm 500 A. cotton	LANDLORD-GROWER 1000 A. farm 1000 A. cotton	LANDLORD-GROWER 1000 A. farm 500 A. cotton
	Records of ACG show 1000 A. right to deliver to pool, specifies acre location annually.	Records of ACG show 500 A. right to deliver to pool, specifies acre location annually. ----- Option to show all 1000 A.	Records of ACG show total of 1000 A. with split being whatever landlord & grower agree upon. Specify acre location annually.	Records of ACG show total of 500 A. with split being whatever landlord & grower agree upon. Specify acre location annually. ----- Option to show all 1000 A.
ACQUISITION OR TRANSFER OF EXISTING RIGHTS	Private treaty transfer at whatever price seller can obtain. Subject to Board approval. Records of ACG changed to reflect transfer. May have time limit on transfer.			

*ADVANTAGES

- IMPLEMENTATION OF MEMBER SYSTEM WOULD BE RELATIVELY EASY.
RECORDS COULD BE KEPT SIMPLE.
- DOES NOT FREEZE THE ACRES ON WHICH COTTON CAN BE PRODUCED.
- COTTON WOULD BE PRODUCED ON ACRES THAT HAD A COMPARATIVE
COST ADVANTAGE.

*DISADVANTAGE

- POSSIBILITY OF SPECULATION. ACG MEMBER MIGHT BUY RIGHT
IN EXPECTATION THAT THE VALUE OF THOSE RIGHTS WILL INCREASE.

-COULD BE CONTROLLED BY LIMITING THE NUMBER OF ACRES
OWNED BY ANY ONE MEMBER (EXAMPLE: 5 PERCENT OF
OUTSTANDING RIGHTS). HOWEVER, "FAMILY BLOCKS"
COULD STILL CONTROL A HIGH PERCENTAGE OF RIGHTS.

-POTENTIAL SPECULATION MIGHT ALSO BE DISCOURAGED - OR
CONTROLLED - BY REQUIRING THAT THE MEMBER EITHER "USE
OR LOOSE" HIS PARTICIPATION RIGHTS WITHIN A CERTAIN
TIME

· VALUE OF PARTICIPATION RIGHT IS CAPITALIZED INTO THE COST OF
PRODUCTION BUT NOT LAND VALUES

· MEMBERSHIP INSTABILITY RELATIVELY HIGH, MAY INCREASE COST
OF MEMBER EDUCATION AND COOPERATIVE PLANNING

· ALLOCATION OF EXPANDED PARTICIPATION RIGHTS IS ARBITRARY
BOARD DECISION

PARTICIPATION RIGHTS ALTERNATIVE
MEMBER & LAND

*PURPOSE OF SYSTEM

- COMBINATION OF MEMBER SYSTEM AND LAND BY DESCRIPTION SYSTEM
- ATTEMPTS TO GAIN ADVANTAGES OF EACH SYSTEM
 - MEMBER STABILITY FROM THE LAND BY DESCRIPTION SYSTEM
 - FLEXIBILITY OF ASSIGNING ACRES ON A SEASONAL BASIS FROM MEMBER SYSTEM

*MECHANICS OF THE SYSTEM

- MEMBERS ASSIGNED RIGHTS RATHER THAN LAND. HOWEVER, TRANSFER OF RIGHTS CAN TAKE PLACE ONLY WITH SALE OF LAND.
- INITIAL ASSIGNMENT OF RIGHTS UNDER THE MEMBER AND LAND SYSTEM WOULD BE ESSENTIALLY IDENTICAL TO THE MEMBER SYSTEM (SEE TABLE 3).
- PRIMARY DIFFERENCE BETWEEN MEMBER ONLY AND MEMBER AND LAND SYSTEMS IS TRANSFER OF RIGHTS TO DELIVER TO POOL, I.E. ONLY WITH THE SALE OF LAND.
- NEW MEMBERS SUBJECT TO BOARD OF DIRECTOR'S APPROVAL

*ADVANTAGES

- MORE STABLE MEMBERSHIP RELATIVE TO MEMBER SYSTEM

Table 3. Member and land.

ITEM	SITUATION A	SITUATION B	SITUATION C	SITUATION D
INITIAL ASSIGNMENT	OWNER 1000 A. farm 1000 A. cotton	OWNER 1000 A. farm 500 A. cotton	LANDLORD-GROWER 1000 A. farm 1000 A. cotton	LANDLORD-GROWER 1000 A. farm 500 A. cotton
	Same as member only.	Same as member only.	Same as member only. Likely it would go exclusively to landlord.	Same as member only.
ACQUISITION OR TRANSFER OF EXISTING RIGHTS	Transfer only with the sale of land. Subject to Board approval. Price of right is included in the price of land. May not want to allow lease of right.		Grower could sell initial right if he first bought land. Transfer only with the sale of land. Subject to Board approval. Price of right is included in the price of land. May not want to allow lease of right.	

• DOES NOT FREEZE PRODUCTION ON CERTAIN ACRES. OVER TIME,
PRODUCTION WOULD MOVE TO LOWEST COST OF PRODUCTION AREAS.

*DISADVANTAGES

• CUMBERSOME TO TRANSFER RIGHT

• LEASING OF RIGHT NOT ALLOWED

• ALLOCATION OF NEW OR EXPANDED RIGHTS STILL ARBITRARY UNDER
SYSTEM

PARTICIPATION RIGHTS ALTERNATIVE
NON-TRANSFERABLE

*PURPOSE OF SYSTEM

- ALLOW BOARD OF DIRECTORS TO MAINTAIN MAXIMUM CONTROL OVER MEMBERSHIP RIGHTS
- NO LATERAL TRANSFERS ALLOWED FROM ONE MEMBER TO ANOTHER (ONLY BOARD TO MEMBER, MEMBER TO BOARD).

*MECHANICS OF THE SYSTEM

- THREE WAYS OF DEFINING PARTICIPATION RIGHTS UNDER THE NON-TRANSFERABLE SYSTEM (SEE TABLES 4, 5 AND 6)
 - NUMBER OF ACRES
 - BALES
 - "UNLIMITED"-MEMBER TRANSFER ONE TO ONE

*ADVANTAGES

- ~~BOARD OF DIRECTORS WOULD HAVE MORE CONTROL OVER PARTICIPATION OF RIGHTS RELATIVE TO OTHER ALTERNATIVES~~
- SYSTEM IS SIMPLE TO IMPLEMENT
- PRODUCTION OVER TIME CAN MOVE TO LOWEST COST OF PRODUCTION AREAS

Table 4. Non-transferable, acreage.

ITEM	SITUATION A	SITUATION B	SITUATION C	SITUATION D
INITIAL ASSIGNMENT	OWNER 1000 A. farm 1000 A. cotton	OWNER 1000 A. farm 500 A. cotton	LANDLORD-GROWER 1000 A. farm 1000 A. cotton	LANDLORD-GROWER 1000 A. farm 500 A. cotton
	1000 A. rights.	500 A. rights.	1000 A. rights, split however landlord-grower wish.	500 A. rights, split however landlord-grower wish.
ACQUISITION OR TRANSFER OF EXISTING RIGHTS	To Board if ceases production. Reassigned at discretion of Board, with or without equity transfer. Acquisition of rights by new member only occurs when equivalent amount of rights are turned into Board.	Reassigned at discretion of Board, with or without equity transfer.	Reassigned at discretion of Board, with or without equity transfer.	Reassigned at discretion of Board, with or without equity transfer.

Table 5. Non-transferable bales.

ITEM	SITUATION A	SITUATION B	SITUATION C	SITUATION D
INITIAL ASSIGNMENT	OWNER 1000 A. farm 1000 A. cotton	OWNER 1000 A. farm 500 A. cotton	LANDLORD-GROWER 1000 A. farm 1000 A. cotton	LANDLORD-GROWER 1000 A. farm 500 A. cotton
	X-year season average on yield from delivered acres is used to calculate equivalent bale rights.		X-year season average on yield from delivered acres is used to calculate equivalent bale rights. Split of rights is however landlord and grower wish.	
ACQUISITION OR TRANSFER OF EXISTING RIGHTS	To Board if ceases production. Reassigned at discretion of Board, with or without equity transfer. Acquisition of rights by new member only occurs when equivalent amount of rights are turned into Board.	Reassigned at discretion of Board, with or without equity transfer.	Reassigned at discretion of Board, with or without equity transfer.	Reassigned at discretion of Board, with or without equity transfer.

Table 6. Non-transferable "unlimited."

ITEM	SITUATION A	SITUATION B	SITUATION C	SITUATION D
INITIAL ASSIGNMENT	OWNER 1000 A. farm 1000 A. cotton	OWNER 1000 A. farm 500 A. cotton	LANDLORD-GROWER 1000 A. farm 1000 A. cotton	LANDLORD-GROWER 1000 A. farm 500 A. cotton
	Member.		Landlord is member. Grower is member.	
ACQUISITION OR TRANSFER OF EXISTING RIGHTS	To Board if ceases production. Reassignment to any other non-member, with or without sale of equity.			

*DISADVANTAGES

- SOME MAY CONSIDER BOARD TO HAVE TOO MUCH DISCRETIONARY POWER
- ALLOCATION OF EXPANDED RIGHTS IS ARBITRARY (NOTE: COULD BE SOLVED BY A BIDDING SYSTEM, DISCUSSED IN NEXT SECTION)
- NOT MUCH INDIVIDUAL MEMBER FREEDOM

SEALED-BID SYSTEM
NON-TRANSFERABLE RIGHTS

*PURPOSE OF SYSTEM

- 'MEANS OF BRINGING IN ADDITIONAL ACREAGE TO THE POOL
IN A FASHION EQUITABLE TO EXISTING POOL GINS
- 'CURRENT POOL GINS ARE OPERATING AT VARIOUS LEVELS OF
CAPACITY, HENCE COST OF GINNING
- 'ALLOWS ECONOMIC FORCES TO ALLOCATE NEW POOL ACRES TO
EXISTING GIN FACILITIES AND MEMBERS
- 'USES "SEALED BIDS" WHENEVER ADDITIONAL POOL ACRES WERE
DEEMED DESIRABLE BY THE ACG BOARD
- 'SYSTEM WOULD ALLOW GINS WITH A RELATIVELY LOW SEASON
AVERAGE PERCENT UTILIZATION TO INCREASE THEIR UTILIZATION
FACTOR BY BIDDING MORE THAN GINS WITH COMPARABLE TECHNO-
LOGY BUT WITH A HIGHER UTILIZATION RATE
- 'OUTCOME OF BIDS DEPENDS ON THE RELATIVE PER UNIT COST
EFFICIENCIES, GIVEN CURRENT TECHNOLOGY AT EACH GIN
- 'THE THEORETICAL BASIS FOR THE "SEALED BID SYSTEM, NON-
TRANSFERABLE RIGHTS" IS SHOWN IN FIGURES 1, 2, 3, 4,
AND 5.

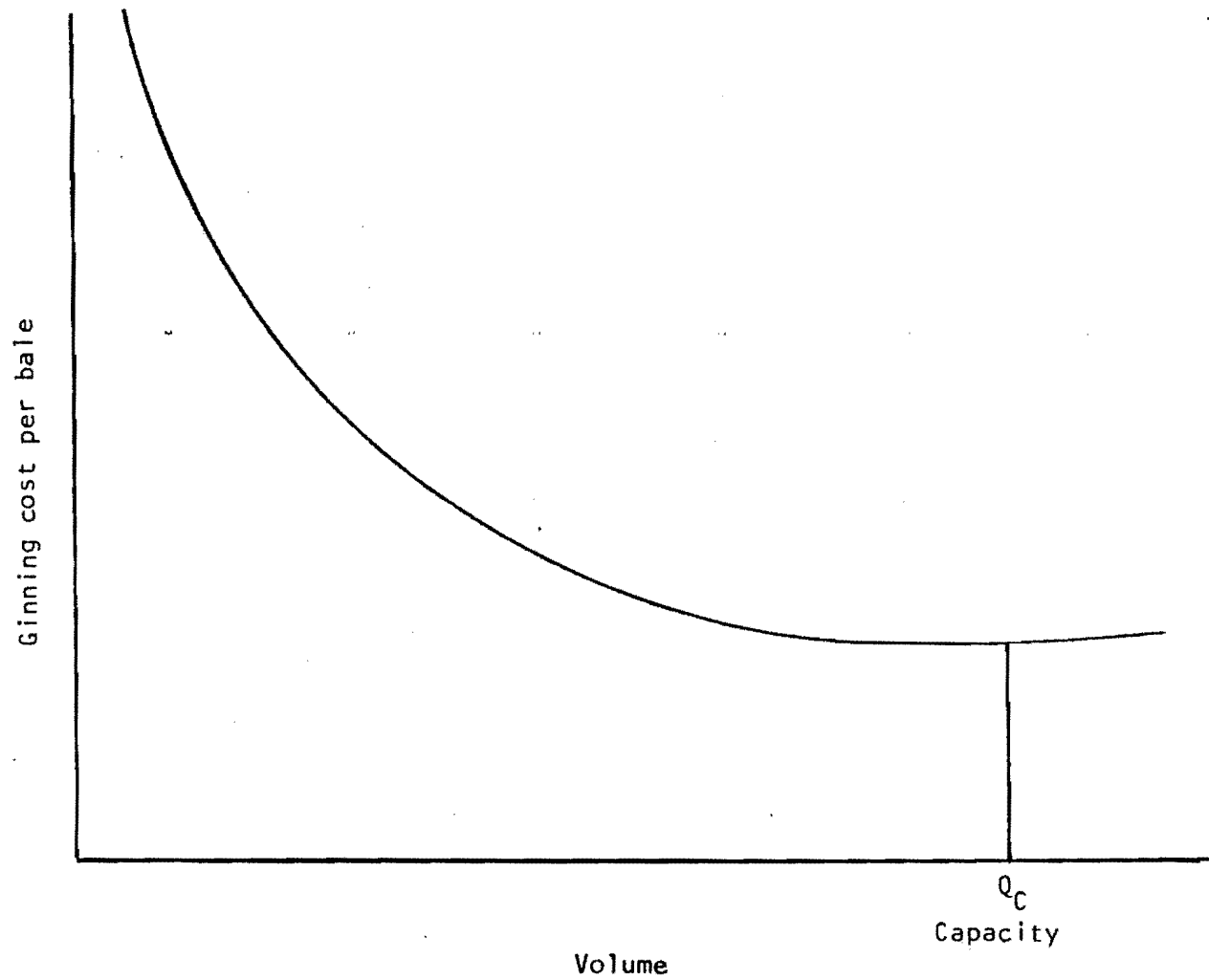


Figure 1. Typical long run average cost curve for gins of similar technology

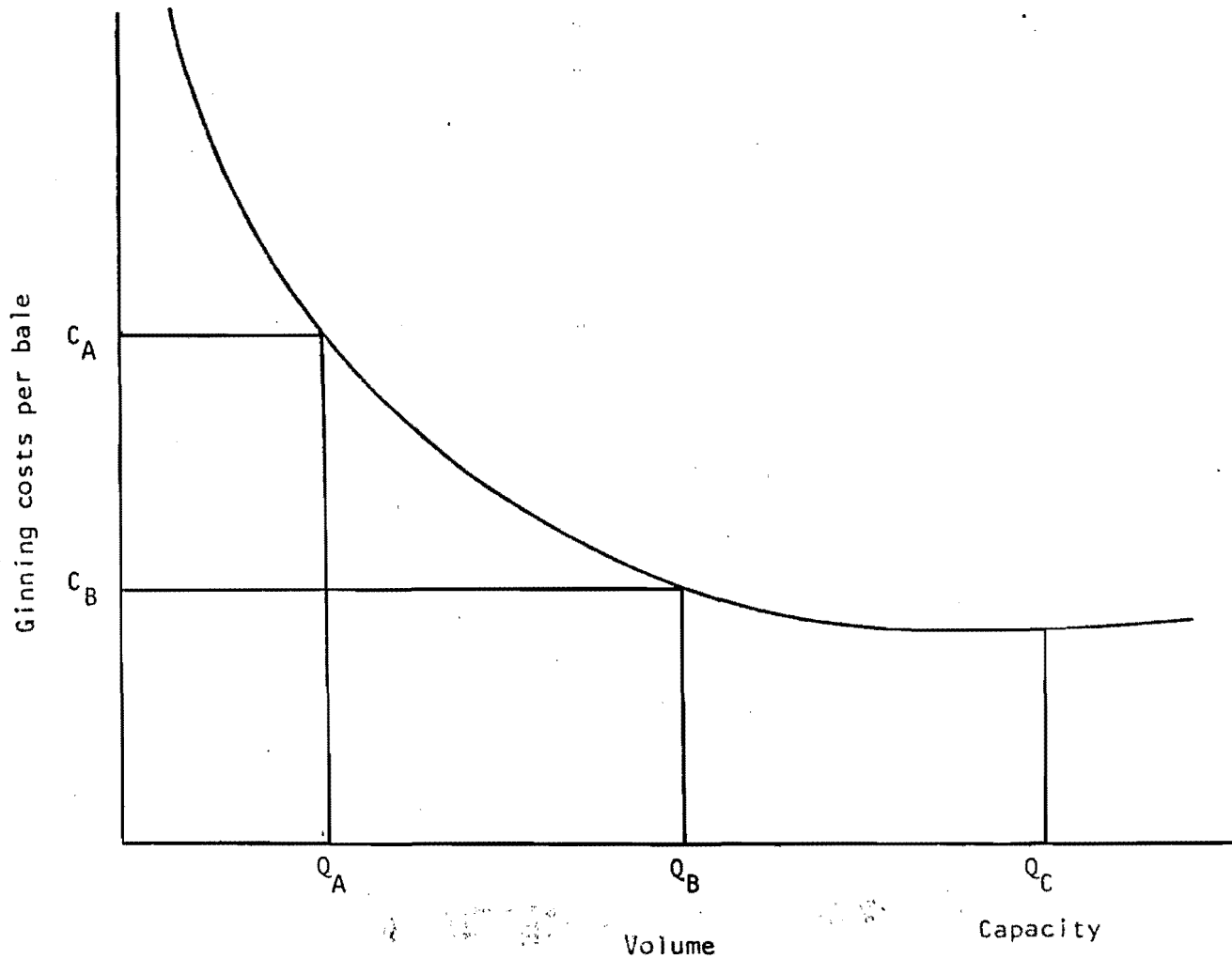


Figure 2. Ginning costs per bale for two gins, A and B, with similar technology but differing average utilizations

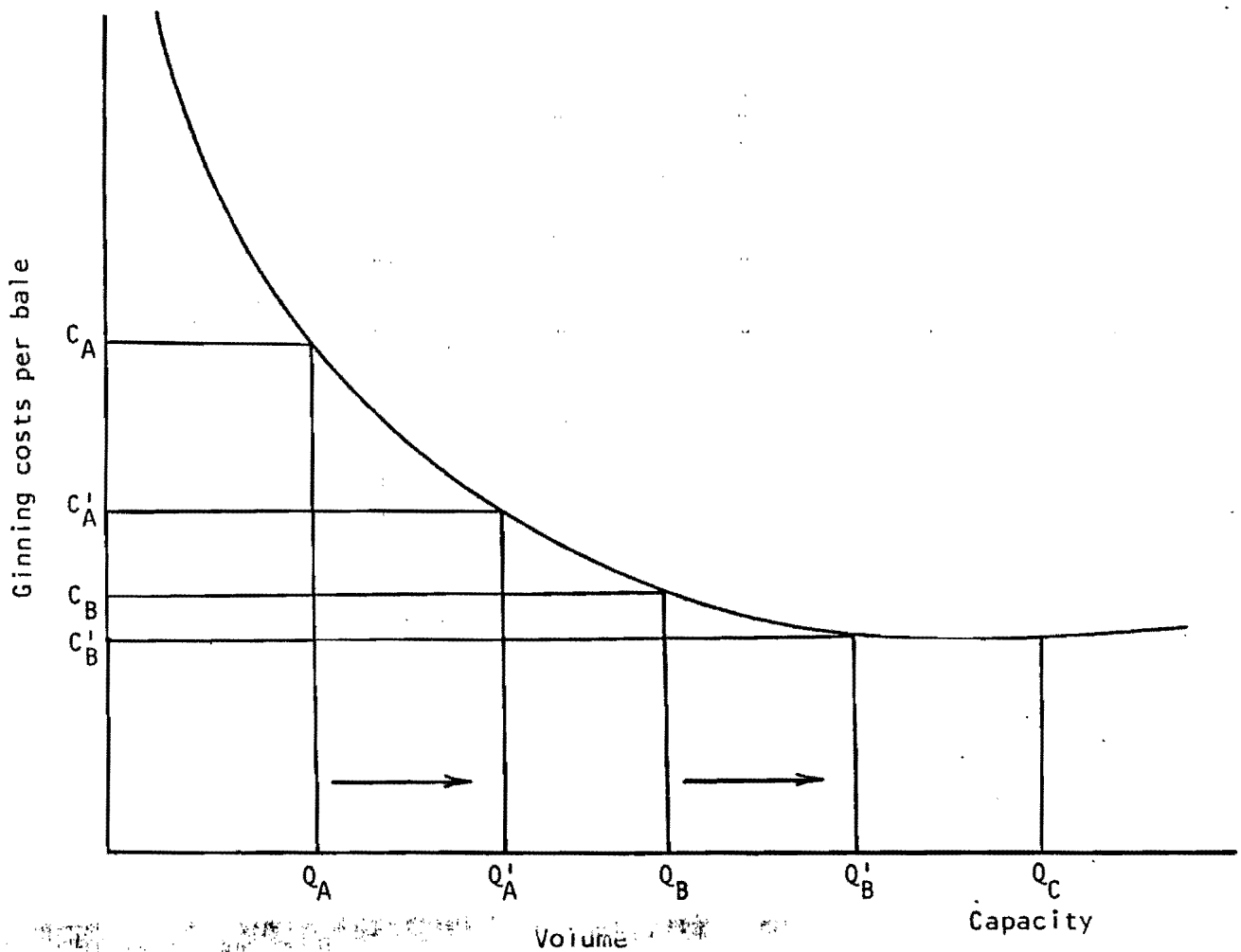


Figure 3. Potential relative changes in ginning costs, given an increase in average utilization, for two gins, A and B

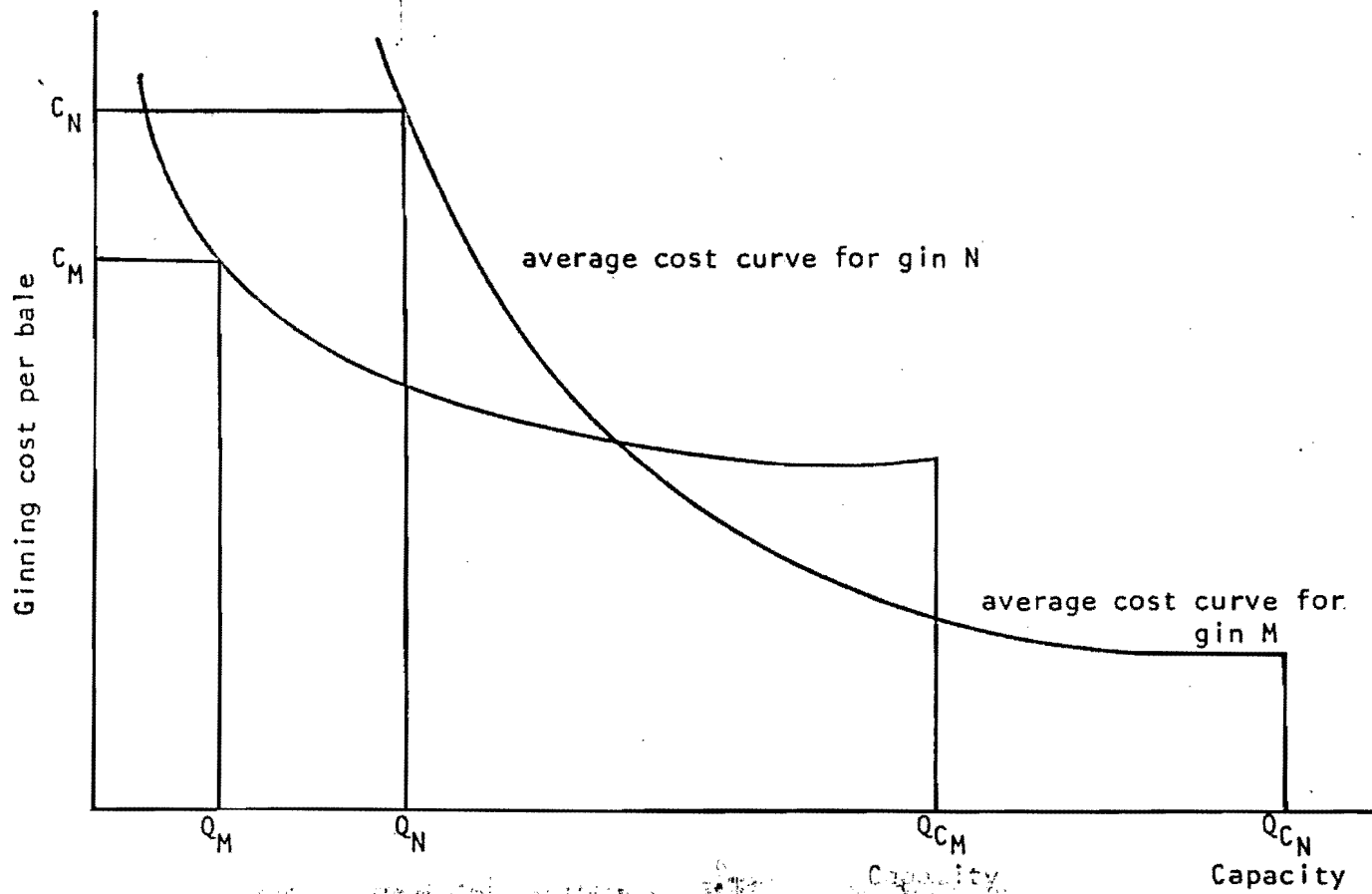


Figure 4. Typical long run average cost curves for two gins, M and N, of different technology and capacity

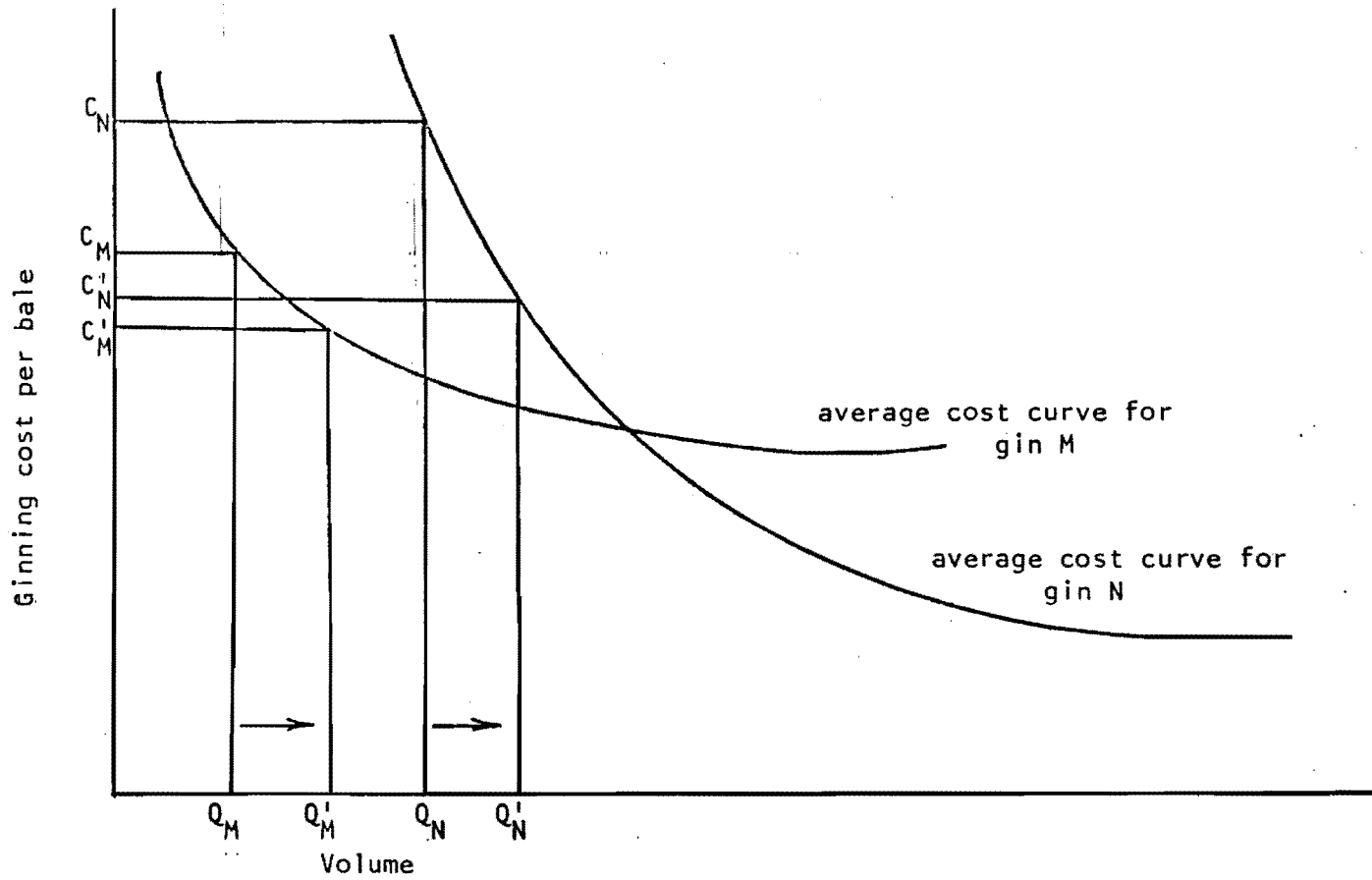


Figure 5. Potential relative changes in ginning costs, given an increase in average utilization, for two gins, M and N

*MECHANICS OF THE SYSTEM

'ASSUMES THAT ORIGINAL ACG MEMBERS WERE ASSIGNED PARTICIPATION RIGHTS, EITHER ON A BALE OR ACRE EQUIVALENT BASIS

'MECHANICS COULD VARY CONSIDERABLY

'WOULD BECOME OPERATIONAL AT GIN LEVEL

'FOR EXAMPLE, ACG BOARD DECIDES TO EXPAND THE POOL.

AMOUNT OF EXPANSION WOULD BE ANNOUNCED UP FOR BIDS, ONE BID FROM EACH GIN. THREE POSSIBLE OUTCOMES ARE SHOWN IN THE FOLLOWING TABLE, ASSUMING ONLY 2 ACG GINS ARE BIDDING FOR 10,000 NEW ACRES:

SITUATION	AMOUNT BID (PER ACRE EQUIVALENT) BY		OUTCOME
	GIN A	GIN B	
1	5¢ FOR 10,000 ACRES	3¢ FOR 10,000 ACRES	10,000 NEW ACRES FOR GIN A
2	5¢ FOR 2,000 ACRES	3¢ FOR 5,000 ACRES	2,000 NEW ACRES FOR GIN A, 5,000 NEW ACRES FOR GIN B, POOL EXPANDS BY ONLY 7,000 ACRES
3	5¢ FOR 5,000 ACRES	3¢ FOR 8,000 ACRES	5,000 NEW ACRES FOR GIN A, 5,000 NEW ACRES FOR GIN B

'RELATIVE BIDS REFLECT THE RELATIVE COST DECREASING
IMPACT ON GINNING COSTS FOR MARGINAL EXPANSION IN
GIN UTILIZATION (NOTE: ACG BOARD COULD REJECT ALL BIDS)

'ALLOCATION OF NEW ACRES AMONG MEMBERS OF LOCAL ACG GIN
WOULD BE DECISION OF LOCAL BOARD OF DIRECTORS

'BID BY LOCAL GIN COULD REFLECT BOTH POTENTIAL GINNING COST
REDUCTION AND THE DESIRE OF LOCAL MEMBERS FOR ADDITIONAL
ACRES

'AT THE DISCRETION OF LOCAL BOARD, BIDS FROM GROWERS OUTSIDE
ACG GIN COULD ALSO BE INVITED TO SUBMIT BIDS TO BECOME
ACG MEMBERS

'REVENUE ALLOCATION

-BIDDING PROCEDURE WOULD BE USED ONLY WHERE ACG
POOL EXPANSION IS DESIRED, SAY TWICE IN TEN
YEARS

-REVENUE FROM BIDDING PROCESS COULD BE USED TO REDUCE
EQUITY REQUIREMENT OF EVERY MEMBER. THIS MEANS THAT
THOSE MEMBERS WISHING TO EXPAND DELIVERIES TO THE
POOL WOULD MAKE, IN EFFECT, A TRANSFER PAYMENT TO THE
ORIGINAL MEMBERS WHO DID NOT WISH TO EXPAND.

-OR, REVENUE COULD BE TREATED AS ACG SALES INCOME AND
SIMPLY DISTRIBUTED TO MEMBERS THROUGH A HIGHER FINAL
POOL SETTLEMENT AT END OF SEASON

-IN EITHER CASE, REVENUE IS SHARED EQUALLY AMONG ALL
MEMBERS.

-NO NET LONG-TERM PRODUCTION COSTS INCREASE WOULD RESULT FROM THE BIDDING SYSTEM

'OTHER CONSIDERATIONS

-INTEREST RATES AND PRESENT VALUE CONSIDERATIONS WOULD PLAY MINOR ROLE IN BIDDING STRATEGY. REASON: ALL GINS WOULD BE SUBJECTED TO THE SAME PREVAILING INTEREST RATES FOR OPPORTUNITY COST OF MONEY.

-THE LONG-TERM CONSEQUENCES OF COMPARATIVE PRODUCTION COST ADVANTAGES IS TO SHIFT PRODUCTION FROM ONE AREA TO ANOTHER. SYSTEM DOES NOT AFFECT THIS.

*ADVANTAGES

'ALLOCATION OF NEW ACRES REFLECT ECONOMIC CONDITIONS, NOT ARBITRARY RULES

'GIN CONSOLIDATION COULD MOST EASILY OCCUR UNDER THIS SYSTEM

'BIDDING SYSTEM RECOGNIZES THE NEED FOR LONG-TERM EFFICIENCY IN THE ENTIRE ACG SYSTEM, NOT JUST THE POOL OPERATION

*DISADVANTAGES

'ESTIMATES OF REDUCTIONS IN GINNING COSTS PER BALE WOULD BE DIFFICULT. RECORD KEEPING COSTS MIGHT INCREASE.

'INCREASE COMPETITION AMONG GINS. SOME MAY CONSIDER THIS UNDESIRABLE.

'RECORD KEEPING WOULD INCREASE DUE TO MECHANISM FOR
1) BIDDING SYSTEM AND 2) ALLOCATING REVENUE

'SOME MAY CONSIDER SOME POSSIBLE OUTCOMES OF BIDDING
TO BE "UNFAIR"

FAIRNESS ALTERNATIVES

*CONCERNED ABOUT FAIRNESS TO ORIGINAL MEMBERS OF ACG

'INTENT IS TO ASSURE ALL MEMBERS CONTRIBUTE FAIR SHARE
OF EQUITY OVER TIME TO THE OPERATION

'INVOLVES DIFFERENTIAL TREATMENT OF NEW AND OLD MEMBERS

*FOUR MEMBERSHIP POLICY ALTERNATIVES REGARDING FAIRNESS ARE

'BASE CONTRACT SYSTEM

'FRONT-END EQUITY REQUIREMENT

'POOL PRICE DIFFERENTIAL

'MULTIPLE POOLS

BASE CONTRACT SYSTEM

*PURPOSE OF SYSTEM

- REWARD ORIGINAL RISK CAPITAL WHILE PROVIDING FOR GROWTH OF COOPERATIVE
- MAKE USE OF NEGOTIABLE (OR MARKETABLE) MARKETING RIGHTS WHICH ARE ALLOCATED TO ONLY THE ORIGINAL MEMBERS
- OVER TIME THE VALUE OF THESE NEGOTIABLE MARKETING RIGHTS, OR BASE CONTRACTS IS THE RETURN TO ORIGINAL RISK CAPITAL

*MECHANICS OF THE SYSTEM

- CREATES A CERTAIN AMOUNT OF RIGHTS TO DELIVER TO THE POOL WHICH WILL HAVE VALUE OR A MARKET PRICE
- BASED ON (SAY) 3-YEAR DELIVERY AVERAGE
- BASE ACRES COULD BE SOLD IN PRIVATE TREATY TRANSACTION AMONG GROWERS
- RESTRICTION--BASE ACRES MUST BE USED OR LOST (SAY) IN 2 YEARS
- IN CASE OF ACG, BASE CONTRACTS WOULD BE ASSIGNED TO ORIGINAL MEMBERS. BASE CONTRACTS WOULD ACCRUE MARKET VALUE OVER TIME
- "TERM CONTRACTS" AS WELL AS "BASE CONTRACTS" COULD BE USED FOR POOL EXPANSION. "TERM CONTRACTS" NOT NEGOTIABLE, HAVE NO SALE VALUE. ALL SHARE EQUALLY IN POOL PROCEEDS.

- ONLY PERMANENT MEMBERS OF ACG COULD HOLD BASE ACRES
- "TERM CONTRACT" COULD GO TO ACG MEMBERS, THEN TO NON-ACG MEMBERS

*ADVANTAGES

- ALLOWS FOR REWARD TO ORIGINAL RISK CAPITAL
- FLEXIBLE OVER TIME IN MEETING SIZE REQUIRMENTS OF POOL.
ALLOWS FOR PERMANENT OR TEMPORARY POOL EXPANSION OVER TIME
- NEUTRAL AS FAR AS CONSOLIDATION OVER TIME WITHOUT ACG

*DISADVANTAGES

- POSSIBILITY OF SPECULATION IN BASE ACRES. NO GOOD WAY OF PREVENTING SHORT-TERM SPECULATION
- SOME GROWERS COULD CONSIDER "PRODUCE IT OR LOSE IT" UNFAIR. HOWEVER, NECESSARY PART OF BASE ACRE SYSTEM
- INCREASED COST OF PRODUCTION FROM BASE ACRES
- BASE ACRE SYSTEM NOT COMPATIBLE WITH ALL PARTICIPATION RIGHTS ALTERNATIVES
- BOARD OF DIRECTORS HAS WIDE DECISION-MAKING LATITUDE
- BASE CONTRACTS MAY PROMOTE STATUS QUO

DIFFERENTIAL FRONT-END EQUITY
REQUIREMENT

*PURPOSE OF SYSTEM

- PROVIDES FOR A HIGHER EQUITY REQUIREMENT FOR FUTURE ACG MEMBERS
- PROVIDES AN INDIRECT RETURN TO RISK CAPITAL OF ORIGINAL MEMBERS
- REPRESENTS A "FRONT-END", ONE-TIME PAYMENT BY NEW ACG MEMBER AT THE TIME HE JOINS THE ORGANIZATION
- FRONT-END EQUITY IS SEPARATE FROM EQUITY REQUIREMENT UNDER THE CAPITAL PLAN OF COOPERATIVE

*MECHANICS OF SYSTEM

- AMOUNT ESTABLISHED BY BOARD
- AMOUNT OF FRONT-END EQUITY BASED ON NEW ACREAGE THAT "ACQUIRES RIGHT" TO DELIVER TO POOL
- CALCULATIONS TYPICALLY BASED ON SAME PERCENT OF CROP VALUE DELIVERED FOR THE FIRST YEAR AND WOULD BE A PER UNIT RETAIN

*ADVANTAGES

- SIMPLE
- CAPITAL FOR EXPANSION PROVIDED AT A LATER TIME

*DISADVANTAGES

• ORIGINAL OWNERS ARE REWARDED INDIRECTLY

• HARD TO CALCULATE EXACT BENEFIT TO ORIGINAL OWNERS

POOL PRICE DIFFERENTIALS

*PURPOSE OF SYSTEM

'ASSURES RETURN TO THE CAPITAL OF ORIGINAL MEMBERS BY PAYING DIFFERENTIAL POOL PRICES BASED ON THE AMOUNT OF TIME A MEMBER HAS BELONGED TO THE COOPERATIVE

'IN EFFECT, SUB-POOLS ARE CREATED FOR DIFFERENT CLASSES OF MEMBERS

'WOULD ALLOW FOR UNEQUAL PROPORTIONING OF THE MILL PROCESSING MARGINS

'PROBLEM: UNDER CAPPER-VOLSTEAD, DIFFERENTIAL TREATMENT OF MEMBERS MUST BE BASED ON COST DIFFERENCES

'WOULD WORK BEST WHERE ALL RAW PRODUCT COMING INTO POOL IS PROCESSED. NOT SO IN THE CASE OF ACG.

'WOULD BE DIFFICULT TO JUSTIFY ON COST BASIS IN CASE OF ACG. IDEA STILL PRESENTED HERE FOR DISCUSSION.

*MECHANICS OF SYSTEM

'NEW MEMBERS WOULD BE ALLOCATED A RELATIVELY HIGHER COST SHARE OF OPERATING THE PROCESSING FACILITIES; HENCE HE WOULD RECEIVE A LOWER POOL PRICE

'DIFFERENTIAL COULD BE ON A SLIDING PERCENTAGE SCALE BASED ON THE NUMBER OF YEARS IN POOL

*ADVANTAGES

'NO LUMP SUM REQUIRED--MIGHT BE EASIER FOR YOUNG FARMERS
TO PARTICIPATE IN ACG

*DISADVANTAGES

'UNLESS COST JUSTIFIED, ILLEGAL UNDER CAPPER-VOLSTEAD

'TAX IMPLICATIONS NOT CLEAR

'COULD DISCOURAGE NEW MEMBERS

'RELATIVELY COMPLEX TO ADMINISTER

MULTIPLE POOLS

*PURPOSE OF SYSTEM

'BASED ON PHILOSOPHY THAT NO FAIR WAY EXISTS TO TREAT
ORIGINAL MEMBERS WHEN EXPANSION OCCURS WITH A SINGLE POOL

*MECHANICS OF SYSTEM

'ONLY ORIGINAL MEMBERS WOULD SHARE BENEFITS OF CURRENT MILL

'A NEW SEPARATE POOL WOULD BE ESTABLISHED FOR NEW FUTURE
MEMBERS OF ACG

*ADVANTAGES

'SOME WOULD CONTEND THIS IS THE MOST FAIR SYSTEM TO ORIGINAL AND NEW MEMBERS

*DISADVANTAGES

'MANAGEMENT OF MULTIPLE POOLS WOULD BE A PROBLEM

'INCENTIVES TO JOIN ACG IF MULTIPLE POOLS OPERATE MAY NOT EXIST

'FRAGMENTATION OF ACG (SUB-COOPS)

'MULTIPLE POOLS WOULD NOT RECOGNIZE THE NEED FOR EFFICIENCY IN THE TOTAL ACG SYSTEM

'NOT COMPATIBLE WITH ALL PARTICIPATION RIGHTS ALTERNATIVES