

# Cooperative Market Pooling



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## COOPERATIVE MARKET POOLING

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Special acknowledgement is due the management team of each pooling cooperative described in this report. Every individual contacted showed an extraordinary willingness to share his insights and expertise. As a result, this was indeed a most pleasant assignment.

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## SUMMARY

The primary objective of this study was to establish a profile of current domestic agricultural commodity marketing pools, and develop observations which might prove beneficial to other cooperatives considering new pooling operations. Marketing pools of five cooperative associations in different parts of the United States were studied in depth by personal interview and record inspection. Commodities involved were rice, cotton, and wheat.

A marketing pool, in simplistic terms, is a means of combining the crop volumes of many growers under the marketing skills of a specialized central staff. Each producer then receives payment based on the average price received by the pool for each represented quality of product and the quantity of each quality delivered. Pool expenses are prorated in various ways among the participating producers, and are deducted prior to pool settlement. Two general types of pools predominate: the "seasonal pool" and the "contract pool". The latter is also known as "call pool" and "purchase pool".

Under seasonal pools, which form the backbone for each of the operations included in this report, all marketing decisions, without reservation, are in the hands of the central staff. Progress payments are almost always made during the marketing period, with equalization payments made at the close of the pool. Under contract pools, each grower has the option of retaining some degree of control over timing of sale and/or price at which his particular crop is to be offered, and often has opportunity to raise or lower his reservation price with changes in market conditions. Any product remaining unsold at the close of the marketing year is typically placed in a special liquidation pool and sold at best obtainable price.

The market pool concept is appealing to growers as long as expectations of higher returns from their crops exist. The management strategy of the successful pools studied does not rely exclusively on ability to outguess or predict the market more successfully than individual growers. Each has a special feature which provides a unique edge in the market place. American Rice, Inc., developed improved grading standards which permit sales without traditional buyer

inspection, and has integrated forward into processing. Riceland Foods operates an integrated system capable of taking member rice through to the supermarket shelf under consumer-branded packages. Calcot, Ltd., (cotton) has an active quality-control program including shipment of cotton in containers, and an active program to provide buyers with forward contracting and delivery schedule flexibility. American Cotton Growers is organized around the concept of bringing all off-farm costs in cotton distribution under the control of one integrated organization, including acquisition of textile mills.

Each marketing pool requires a mechanism for acquiring and storing the crop delivered by members. While various options prevail, most successful pooling associations choose to work through existing private and/or cooperative handling and storage facilities. Advantages with minimum expenses are associated with this practice.

Member communications must be given considerable attention if a pooling program is to survive. A strong system of local managers provides an ideal communications network, if properly used by the pooling association. Newsletters and frequent member meetings at local levels are important means of keeping members informed.

While not completely standardized, agreements between pool association and individual local associations are usually formalized. Typical contract provisions with local associations cover a dozen or more points, with agreement of the pooling association to handle all products delivered under marketing agreements being one of the most important.

Four of the five market pooling operations characterized in this report are classified as being successful and on-going. The one wheat pool studied had outlived its usefulness, due to changes in federal programs, and was terminated at the close of the 1974-75 season. The successful pool operations reported herein are: (1) American Rice, Inc., Houston, Texas; (2) Riceland Foods, Stuttgart, Arkansas; (3) Calcot, Ltd., Bakersfield, California; and (4) American Cotton Growers, Lubbock, Texas. The wheat pool that was terminated was a joint venture between Landmark, Inc., and the Ohio Farm Bureau Federation, Inc., with headquarters at Columbus, Ohio.

A number of similarities were found among the successful and the one terminated market pool operations. Even so, specific uniqueness of each successful operation prevailed, and contributed toward its success. Any cooperative or other body initiating a market pool must be certain it can provide a special service or expertise that is truly beyond the reach of individual growers, if sustained success is to be assured. Evidence is conclusive that merely combining the crop volume of a number of growers for marketing purposes is not enough. The successful operations studied capitalized on one or more special advantage(s) they developed to differentiate their role in the marketing of the agricultural commodities with which they are identified.

## COOPERATIVE MARKET POOLING

T. M. Hammonds

### INTRODUCTION

This study was carried out at Oregon State University under funding from the Farmer Cooperative Service, Washington, D.C.

The objective was to establish a profile of current domestic marketing pools, primarily in cotton and rice, and to develop observations which might prove helpful to those considering new pooling operations, regardless of the product involved. While published sources were used, almost all the material presented in this manuscript was developed through personal interviews during 1975.

The material in this bulletin is meant to be used as part of a broader educational program on market pools, to be carried out by the Farmer Cooperative Service. This, then, is a base document which is not intended to cover all the technical or legal details involved in establishing an actual pooling operation.

### TYPES OF POOLS

A marketing pool is simply a device for combining the crop volumes of many growers under the marketing skill of a central professional staff. Each producer then receives payment based on the average price received for all product of like quality in his pool. The specifics of the acquisition process and the actual marketing techniques are unique to each pool. However, two general types emerge.

There are pools which place all marketing decisions in the hands of a central staff, without reservation, and there are pools which allow the grower to retain some degree of authority over timing and/or price. The former is almost always known as a seasonal pool, while the latter may go by a variety of names including contract pool, call pool, and purchase pool.

Seasonal pools form the backbone for each of the five operations interviewed for this report. This type provides the greatest flexibility for professional management to move large crop volumes when market conditions seem most favorable. Since volume alone is often a substantial advantage in marketing, this aspect is not to be underestimated. Seasonal pools require a specific crop volume to be delivered to the market organization (referred to hereafter as the association) with no prior price commitment. All authority over decisions as to price, terms of sale, extent of processing, and market timing is left to the professional management. Most pools require all of a member's crop to be delivered, with production declared in advance, either on an acreage or a unit (bales, pounds, bushels, etc.) basis. All responsibility for the crop typically passes to the association upon delivery to the local warehouse or processing facility. Contracts typically contain a damage provision which requires the producer to pay an amount large enough to discourage any default on the terms of the contract.

Upon delivery, the marketing pool pays an advance to each grower, based on perceived market conditions. The association's board of directors fixes the level of this advance each year in consultation with the management team. When U.S. government loan programs are applicable, the advance is usually pegged to some fraction of the loan level; perhaps 85 to 90 percent of the loan value in a weak year, 150 to 200 percent in an exceptionally strong year.

As the year progresses and actual sales are booked, progress payments are made to reflect market conditions. All producers, regardless of their actual crop quality and variety, generally receive the same per-unit payments until late in the marketing year. When most of the crop has been disposed of, an equalization payment is made to bring producers in line with their actual crop values according to quality and varietal differences. One method for doing this is described in the section on American Rice, Inc. After the crop has been sold, the proceeds, less operating costs and less any retains, are distributed in a final settlement.

Nonseasonal pools are difficult to describe in a general way, since the variety of possible arrangements under which the grower retains some control over marketing decisions is almost endless. However, the basic character of



these pools is to require a specific volume commitment, but to allow producers to set specified striking prices. An actual sale is made as soon as possible after the market level reaches the specified prices. Producers are generally allowed to move their designated striking prices up or down at any time prior to actual sale of their crop. At the end of the marketing year, any crop left unsold is typically placed in a special liquidation pool and sold over a period of approximately 30 days at the best obtainable prices.

Readers should be aware that terminology has been standardized only with respect to seasonal pools. For all other types, individual cooperatives are consistent within their own operations, but not between themselves. What one management team calls a contract pool, another may call a call pool, and a third may call a purchase pool. The only safe procedure is to determine exactly what options remain with the producer under the stated contract terms, since the character of nonseasonal pools tends to be unique with each cooperative.

It is also important to be aware that nonseasonal pools actually conflict with the basic philosophy of pooling. If the purpose of a pool is to bring a large volume under control of a single selling agent, the nonseasonal pools defeat this purpose. Pools which retain grower authority fragment the total association's volume available for sale at any one time, and tend to prevent fast action when selling options are open for only a short time. Although the terminology is widely used, the author questions whether nonseasonal pools should be known as pools at all. They do make use of a central professional staff, but fail to capture the economic advantage of moving large volumes at one time.

Other difficulties complicate nonseasonal pools. Grower authority often leads to considerable "Monday Morning Quarterbacking". When the seasonal pool performs better, the nonseasonal pool growers are unhappy; when the nonseasonal pool performs better, the seasonal pool growers are unhappy. The built-in conflict is obvious. In addition, the staff needed to handle incoming member calls is larger, and the bookkeeping costs are much greater than under a seasonal pool. With these disadvantages, one might reasonably wonder why such a pool would be used at all.

Certainly one important reason is as a device for building membership. Pooling is a new concept to most growers. As a consequence, they are understandably reluctant to commit their crop to a new and unproven staff. Nonseasonal pools allow growers to enter the program while retaining some decision-making authority. Most associations limit the participation in these pools to some specified fraction of each producer's volume, and gradually phase them out entirely as the management team proves itself. Given the difficulties of handling nonseasonal pools successfully, associations would be well-advised to begin operations with a seasonal pool whenever possible.

#### POOLING STRATEGY

The market pool concept is appealing. Marketing is becoming an increasingly complex undertaking which, for many crops, involves an intimate knowledge of international trading. At the same time, the recent magnitude of price fluctuations makes the penalty for an error severe, if not disastrous. It seems to make sense to consolidate marketing decisions into the hands of skilled professionals.

However, this is not enough for establishing and operating a successful pooling operation. One lesson came through loud and clear during the series of personal interviews: All the successful pools have "something extra", a special feature which provides a unique edge in the marketplace. None of them rely exclusively on their ability to outguess the market more successfully than their individual members.

Growers are extremely reluctant to accept a delivery commitment for all their crop unless the average price level can be increased significantly. It is unlikely that such an increase can be assured unless some feature of the normal marketing channel can also be changed. Readers will note that each of the pooling operations described in this report has at least one special feature which produces a competitive edge. American Rice, Inc., has an improved grading service which allows the purchase of rice without buyer inspection, and a recently acquired processing facility; Riceland Foods has an integrated system capable of taking member rice through to the supermarket shelf under consumer-branded packages; Calcot, Ltd., has an active quality-control program

including shipment of cotton in containers, and an active program to provide buyers with forward contracting and delivery schedule flexibility; and American Cotton Growers is organized around the concept of bringing all off-farm costs in cotton distribution under the control of one integrated organization, including acquisition of textile mills. These activities are certainly not unique to cooperative pooling associations. But they are examples of sound professional processing and marketing techniques used to enhance the basic pooling concept. Merely combining the crop volume of a large number of individual producers is, by itself, no guarantee of success.

A new association must ask itself the question: What can we provide that the individual producer cannot achieve by himself? Of course, providing professional management and, therefore, doing a superior job of assessing market conditions, are important. However, the real key is moving into areas truly beyond the control of individuals. Opportunities for doing this are numerous. They include improved grading standards, improved quality control, elimination of cost centers through the elimination of duplicative functions, gaining the ability to service large-volume customers, maintaining representatives or brokers in foreign markets, integrating forward into processing facilities, and developing consumer labels. Each of these opportunities will be discussed briefly.

#### Improved Grading Standards

For many crops, U.S. government grades are effective for some, but not all, members of the marketing channel. This often occurs when specialized processors find that USDA grades do not adequately reflect their yield standards. This provides an opportunity to work with those processors to develop a new set of grades compatible with their needs. Even within existing USDA grades there is the opportunity to develop a working relationship with buyers over time which allows them to eliminate their own inspection program.

It is difficult and time-consuming to develop new grade standards and to train personnel in implementing those standards. However, if successful, this provides one of the best ways to develop "captive" markets and to earn extra revenue by selling the service to other groups.

### Improved Quality Control

This alternative is open to almost every market pool. Quality is essential for any good marketing program. By assuming responsibility for the crop as early in the distribution channel as possible, an association has the opportunity to maintain quality at a consistently high level. This program may include inspection and approval of warehouse facilities, programs which move the crop under cover earlier than is traditionally done, prohibiting on-farm storage if facilities are inadequate, and developing a system of containerization.

An individual producer usually has little control over quality of the final product. He loses control of the crop early in the distribution chain, and cannot assure careful handling throughout the system. A marketing association can provide this assurance through integration.

### Elimination of Cost Centers

When control of a distribution channel is fragmented, many functions are duplicated throughout the system. Product is typically resampled, regraded, reweighed, etc., each time a change of ownership takes place. Integration of control can eliminate much of this. Integration can also provide the opportunity to package a product early in the chain, such that it will be compatible with its specific end use. For example, in cotton merchandising an association can produce high-density bales for that portion of their crop destined to be shipped overseas. This eliminates the need for assembling and rebaling conventional bales at the shipping terminal.

Fragmented control in the marketing channel, and its resultant duplication of functions, represents one of the clearest opportunities for a successful pooling association - the opportunity to perform a service beyond the reach of individuals.

### Large-Volume Customers

Servicing large-volume customers is a mixed blessing. On the one hand it represents a real opportunity for an association. Large-volume sales are becoming more and more frequent, particularly in the export market. Merchants

therefore need to tap the growing area for large volumes deliverable within relatively short time periods. An association can provide this service at a price premium for speed and reliability.

On the other hand, this means that it is difficult for an association to start small and grow gradually. When size commands a premium, a minimum-volume threshold must be reached before the program reaches any effectiveness. This means a very extensive membership drive when the association is established, and utilization of an acquisition network already in place. For this reason it is usually to the advantage of a market pool to work through established local elevator or warehouse facilities.

Servicing large-volume buyers also means it is advantageous to know crop volume as early as possible, preferably before harvest. Grower contracts which declare delivery intentions are, therefore, desirable. Since forward-sale commitments may be established well before harvest, a strong damages provision to prevent member-default is also necessary for most associations. Of course, this whole process is much easier in areas with predictable, stable yield patterns from year to year.

The desire for volume leads most associations to require that members commit their entire crop. This practice has the additional advantage of concentrating the acquisition area into its smallest geographic region. Transportation costs are therefore minimized, and the job of physically organizing membership meetings is simplified.

Large volume confers two additional advantages upon an association. One is the ability to arrange product flows to match the schedule of buyer processing facilities. As industries become more and more capital-intensive, this ability commands a growing price premium. The other advantage is the ability to blend raw product from several producing areas to achieve an exact quality level specified by the buyer. Blending protein levels in wheat would be an example. Individual producers usually have a crop uniformity which prevents doing this unilaterally.

### Maintaining Contacts in Foreign Markets

It is obvious that export sales are a potent and growing market force. Associations are in a much better position than are individuals in developing foreign sales offices or broker networks.

### Forward Integration and Consumer Labels

Many of the currently successful pooling associations are built on the concept of carrying member products as far forward in the distribution channel as possible. When successful, this concept creates a very strong organization, with high member loyalty and ample profit potential. However, it does require a new set of marketing skills. Professional management familiar with advertising, retailing, and consumer trends is an absolute necessity. While the potential benefits are large, so are the risks.

Most associations would be well-advised to grow into this area slowly and carefully.

### LOCALS AND THE MARKETING POOL

Each marketing pool requires a mechanism for acquiring and storing the crop delivered by members. One alternative would be for the pooling association to construct or purchase its own local handling and storage facilities throughout the producing area. This is usually not a desirable alternative, for obvious reasons. First, the capital outlay required by such a program is typically more than can be justified for a newly established pooling association. Second, such action would result in some loss (perhaps a considerable amount) of producer identity with existing local facilities. If the local facility has been operating successfully, the loss of local goodwill may be a serious handicap. Third, this action, in all likelihood, would be viewed as threatening by the management and employees of the established locals. At a minimum, this means having to train additional people to replace former employees of the local who choose not to work for the new association. At a maximum, it means waging a difficult and lengthy membership campaign against locals who oppose the new association and encourage producers not to participate.

Most successful pooling associations choose to work through existing local private and/or cooperative handling and storage facilities. This strategy gives them access to well-managed operations throughout the producing area, with a minimum of expense and opposition. Where this alternative exists, it is usually preferable to direct acquisition or new construction.

Member communications must be given considerable attention if a pooling program is to survive. It would be hard to over-emphasize the importance of this function. A strong system of local managers provides an ideal communications network if properly used by the pooling association. Most successful marketing pools publish an association newsletter, and arrange for frequent member meetings at each local facility. These regular meetings are supplemented by periodic visits from pool staff representatives. In addition, most pools encourage strong identity with the local facility by paying their members through the locals rather than using a direct payment system.

In short, the establishment of a marketing pool need not represent a threat or conflict with established local cooperatives handling facilities. The concept of pooling is itself new in many areas, and it is usually to the advantage of the association to establish itself with a minimum of disruption to existing patterns of handling in the producing area.

Typical arrangements require growers to be members of both the local cooperative and the pooling association. The locals themselves agree to be bound by policies of the pooling association board of directors and by agreements between the pool and the grower. In turn, the pooling association maintains representation from the local cooperatives on its board of directors.

The governing structure might be established along the following lines. Each local cooperative develops a local member advisory committee. The local board of directors is elected by the membership, and serves with the input of the advisory committee and under the advice and consent of the pooling association board. Each local cooperative board also elects one or more representatives to serve on the pooling association board of directors in which all final authority lies.

Formal agreements are signed between the local association and the pooling association. Some operations require producers to sign one agreement with the local and one with the pool. Others cover all producer responsibilities with one master agreement. The agreement signed by producers will be covered in the sections on individual pooling cooperatives. The agreement between the pool and the local will be covered here.

#### Typical Contract Provisions for Local Facilities

1. The association (marketing pool) agrees to handle all product delivered under marketing agreements between the producer, the local, and the association.
2. The association agrees to pay advances through the local to local patrons. Amounts will be established by the association board of directors, along with allowable deductions for charges, fees, and capital retains.
3. The local agrees to represent the association exclusively in its market area. The local further agrees to assist patrons in preparation of any necessary contracts or documents, and to maintain records for each individual patron account as specified by the board of directors.
4. The local agrees to hold the association harmless for any losses due to fraud, dishonesty, and/or errors on the part of the local's employees or management.
5. The local agrees to secure and maintain an adequate fidelity bond covering its agents and employees.
6. The local agrees that patron participation may be restricted by the physical capacity of the plant, as established by the association's board of directors.
7. The association agrees to pay the local a fee of \_\_\_ per unit of product handled.



8. The local agrees to invest per-unit retains, as specified by the association's board of directors, to cover planned construction projects.
9. The local agrees that title to any and all product passes directly from the producer to the association upon delivery of the product specified in the grower's marketing agreement to the local's facilities.
10. The local certifies that its organizations and operations conform to all relevant laws governing cooperatives.
11. This agreement continues in force for one year from date of signing, and on a year-to-year basis thereafter, unless terminated by either party prior to \_\_\_ of the calendar year.

This is, of course, only a skeleton framework intended for general reference. Market pools should not attempt to develop any such agreements without the services of legal counsel.

There is a special problem in establishing a grain marketing pool with a system of local cooperative elevators which deserves comment. If the growing area produces several crops, member service may well conflict with the pooling operations. Cooperative elevators must provide service to their members. This means handling crops as they come from the field, even if two or more crops are produced during the same marketing year. A pool designed to handle a crop produced early (wheat, for example) may find local elevators unavailable for storage because they must clear the bins to handle a late crop (corn or soybeans, for example). Building or leasing separate storage facilities may be the only answer in such a situation.

#### FUTURES TRADING AND THE MARKETING POOL

Most successful marketing pools utilize selective hedging when active futures markets are available for their crops. However, their authority to do so has not been clear under Commodity Exchange Authority regulations. Many

pools do not assume actual ownership of their members' crop and are, therefore, acting as agents. CEA regulations do not spell out the authority of an association under such conditions. Hedging by market pools has not been challenged by the CEA, but many pool managers are concerned about the legal status of their activities.

The author made contact with the newly established Commodity Futures Trading Commission during the summer of 1975 to ask for a clarification to allow pool hedging. The CFTC is still in the process of a comprehensive review program to establish their authority, scope, and responsibilities. A committee to redefine hedging was set up as part of that review.

While it is too early to provide exact language, it is apparent that the definition will be liberalized. It is also apparent that the will of the committee is to allow hedging by market pools, even if they have not technically assumed ownership. It seems safe to assume that this practice will be permissible.

#### MARKET POOL SUMMARIES

Five market pool operations are summarized in this section. Four are successful and on-going; one was unsuccessful and terminated in 1974-75.

The formats for each summary are similar, but not identical. An attempt was made to highlight the special features of each operation and, therefore, a slightly different emphasis is given in each section. They are meant to be read together.

One caution should be kept in mind. Each section contains a summary of the association's member marketing agreements. The highlights presented do not reflect the full nature of the actual marketing agreements, and are intended to be read in the context of the other material presented in this report. Many of the contract provisions used in current marketing agreements are still evolving as on-going litigation suggests modifications. No association should attempt the construction of such an agreement without the guidance of legal counsel.

American Rice Inc.  
2000 Governors Circle  
Houston, Texas 77018

American Rice, Inc., is a cooperative chartered and licensed in the State of Texas. It was organized by six Texas rice farmers in 1969 to develop a grading system for rough rice which would reflect milling standards. At that time government grading was available, but the service was not adequate to reflect milling quality.

The grading system developed by ARI has been so well-received that, for the last two years, ARI rice has been sold by grade without buyer inspection. Other rice is sold primarily by sample, in the manner traditional for this crop. The added convenience and quality assurance from the ARI grading system provide a substantial marketing advantage.

Building on the initial strength of its grading service, ARI formed a marketing pool in 1971, with a membership of 453 rice farmers marketing rice from 97,000 acres equalling approximately 4,500,000 hundredweight. During its second year of marketing, the pool membership expanded to 654 members with 6,400,000 hundredweight, and the organization moved into Southwest Louisiana. Membership has continued to increase. In 1975 approximately 1,600 rice farmers participated, with more than 325,000 acres for a total in excess of 13,500,000 hundredweight.

#### Pooling Operations

During crop year 1974-75, ARI operated two types of marketing pools: a seasonal pool and a contract pool. The seasonal pool authorized ARI to market the crop at its discretion, and accounted for approximately 98 percent of ARI volume. The remaining 2 percent was in the contract pool, which allowed the grower to pledge rice before harvest against any fixed-price advance sale which ARI had made. Starting with the 1975-76 crop year, all contract pool operations are discontinued.

ARI handles the total crop volume of each member, with exceptions made

during the first year of membership if necessary. Initial contracts are for two years, with yearly renewal thereafter. All new members and all contract renewals are subject to approval of a board composed of members nominated and elected on a geographic basis from Texas and Louisiana.

Under both types of pools, members select their own dryer and storage facility. If the dryer has been approved by ARI, dryer personnel sample the rice and issue a negotiable warehouse receipt in the name of ARI. The samples are then graded by ARI and the grower is notified, with the dryer or grower retaining the right to resample and/or ask for regrading within three days. The association then has the right to commingle, pool, pledge the rice as security for loans from the Commodity Credit Corporation or any other lender, sell the rice in either the natural or processed form, and/or to engage in hedging operations on any commodity futures exchange.

If the dryer has not been approved, including on-farm storage, the grower delivers an exclusive option to ARI to purchase the rice on or before April 15 of the following year.

All rice is assigned to marketing pools on the following criteria:

1. Class (long grain or medium grain).
2. Payment option (immediate initial advance or deferred initial advance).
3. Crop (first or second crop).
4. Delivery basis (dry or wet).
5. Eligibility for price support (when applicable).

All rice ineligible for price support due to quality defects is assigned to a separate ineligible-for-grade pool, regardless of any other factors. All rice ineligible for price support because it was grown on a farm not in compliance with acreage allotments is assigned to pools separate from eligible rice, and separate from rice ineligible because of quality defects.

Members may receive an initial payment from either pool under delivery of the appropriate warehouse receipt. The seasonal pool payment has traditionally amounted to 90 percent of the government price support value for eligible rice. If support prices are not applicable, an appropriate level is established by the board of directors. Growers may elect to defer the initial payment into the next calendar year and receive an interest credit on all funds so deferred. When the contract pool was operating, initial payments were established through an adjustment formula approved by the board each year, and applied to the individual forward price applicable to the grower for each lot.

As the marketing year progresses, an additional seasonal pool payment is made which reflects the actual market prices received. This is known as a progress payment, and it typically is made around the first of November of each year. In 1972 it amounted to an additional 15 percent of the price support level, and in 1973 it amounted to an additional 60 percent. The size of the payment is set by the board, and applies equally to all lots within a given pool. Rates may, however, differ between classes of rice (long versus medium grain, first versus second crop, etc.) to reflect differences in actual market values. All advance payments are funded through the Houston Bank for Cooperatives or the Commodity Credit Corporation. Contract pool progress payments are usually made only after a substantial volume has been actually sold.

The next payment to members is made during the first week of January, when the payment base is changed from the government support price to actual realized market values. Any payments deferred at the member's option, and any interest credits on these deferrals, are also paid at this time. Prior to this adjustment, an evaluation of all sales over the season is made, and a comprehensive analysis of the rice quality grade, whole grain content, and broken grain content of each pool is made. The purpose of this analysis and evaluation is to allow the computation of equalization values, which assure that each member who has delivered exactly the same quantity of rice to a pool receives exactly the same settlement rate of payment per unit, and to assure that the relationship of payments between quality levels reflects actual market values received during the season. Equalization rates are established, and an additional January payment is made to bring each member to the equalized value which reflects his actual quality level within each pool.

When the marketing season closes, typically in May, final shipping weights and grades are determined, all sales are reconciled, and all market and administrative expenses are allocated. The board of directors then determines the final value of each pool, and the excess over previous payments is disbursed. This final payment brings ARI's financial position to zero profit-and-loss for the season. An amount equal to 12 1/2 cents per hundredweight of rice delivered is retained for funding purposes. Three-year rotation stock is issued for this, meaning that each member has the retain from two crop years invested at any one time.

A computerized record-keeping system is maintained. It is possible, for audit purposes, to produce a complete record of every transaction involving each member's delivery, by lot, for the entire marketing season. At the end of the season each member receives a summary-and-analysis statement for each lot delivered. This statement details all of the financial transactions that have taken place for each lot, on both a dollar-value basis and a physical-unit basis.

The method used to allocate expenses to the various pools differs with the type of expense involved. Each pool bears the direct costs of marketing such as freight, grading, and shrinkage. These costs are allocated to the appropriate pools on a unit basis. For interest allocation purposes, all rice is valued at 90 percent of the government support price, and the total amount of this valuation is accumulated for all rice delivered by members. This total is then divided into the total interest cost for the season to calculate an average interest rate used to allocate this cost to all pools. However, rice eligible for price support receives a lower interest rate on advance payments funded by the Commodity Credit Corporation than ineligible rice, for which advance payments are funded through the Houston Bank for Cooperatives. To correct for this difference, all eligible pools are credited on a dollar-value basis with the difference between the average interest rate calculated previously and the actual CCC rate.

Storage costs are charged directly to the pools whenever possible. However, much of the storage is common storage not traceable directly to a pool. Allocation is handled by totaling the hundredweights of all rice delivered, and dividing the total into the common storage cost. This figure is then used to make the

allocation to each pool. On-farm storage, which incurs a lower cost for ARI, is allocated as a credit to the pool or pools which those lots were in. Brokerage fees are allocated by this same calculating procedure.

General and administrative expenses such as salaries, office supplies, communication costs, occupancy costs, etc., are allocated on a per-unit basis proportional to the physical volume in each pool.

All ARI-approved warehouses operate under standard agreements with uniform rates and terms. Members handling rice through commercial warehouses which have not been approved, or who use on-farm storage, are responsible for maintaining their own quality and for making their own storage payments. They are reimbursed for that storage by ARI according to a standard rate schedule.

Sample Pool Calculations

Since this is the first pooling operation discussed, it will be useful to see how an actual pool calculation might look. The pooling concept is that each pool is handled and marketed without regard to the identity of any particular member's lot. During the marketing season each member has a proportional interest in every lot of rice within the pool, with actual quality differences adjusted for later. The overall pool account might look like this at the end of the year:

Typical Pool - Final Closing	
1,000,000 Hundredweight (cwt)	
Sales. . . . .	\$5,900,000
Payments:	
Initial, at delivery. . . . .	\$4,500,000
Progress payments . . . . .	<u>870,000</u>
Total producer payments. . . . .	<u>5,370,000</u>
Undistributed balance. . . . .	\$ 530,000
Less:	
Storage @ 15¢/cwt . . . . .	\$ 150,000
Interest. . . . .	60,000
Other expenses, @ 4¢/cwt. . . . .	<u>40,000</u>
Total expense. . . . .	<u>\$ 250,000</u>
Net to be distributed. . . . .	\$ 280,000
Final payment. . . . .	<u>280,000</u>
Balance. . . . .	-0-

Let us assume that equalization is to be made at this final payment. This means that each producer is now to be brought in line with the prices received for his actual quality grades. At the time of the initial advances and progress payments, the market price differential between quality grades is not known with certainty. For this reason, most pools pay advances to their growers at a fixed level, regardless of quality. At the end of the season, when price differentials are firmly established, the association adjusts each member's entire crop volume at the unit-price level appropriate for his actual quality grades.

In this example all initial and progress payments have been made at equal rates, which total \$5.37 per cwt. (\$5,370,000/1,000,000). An additional 25 cents per cwt. (\$250,000/1,000,000) of the total sales receipts have been committed to cover operating expenses. We will assume, for this example, that only one pool exists and, therefore, all producers share equally in the expenses. Let us further assume that we have only six different producers in the pool, each with a different, but uniform, quality grade. The actual sales price received for each grade was as follows:

<u>Quality grade</u>	<u>Actual market price per cwt.</u>
A. . . . .	\$5.97
B. . . . .	5.95
C. . . . .	5.92
D. . . . .	5.86
E. . . . .	5.84
F. . . . .	5.76

The equalization amounts to be disbursed are then calculated by subtracting total previous payments and expense allocations from the actual market prices:



<u>Quality grade</u>	<u>Actual market price per cwt.</u>		<u>Previous payments and expenses allocation</u>		<u>Equalization rate</u>
A	\$5.97	minus	\$5.62	equals	35¢
B	5.95		5.62		33¢
C	5.92		5.62		30¢
D	5.86		5.62		24¢
E	5.84		5.62		22¢
F	5.76		5.62		14¢

The final payments are then distributed as follows:

<u>Volume (cwt.)</u>	<u>Quality grade</u>	<u>Equalization rate</u>	<u>Equalization payments</u>
200,000	A	35¢	\$ 70,000
200,000	B	33¢	66,000
200,000	C	30¢	60,000
200,000	D	24¢	48,000
100,000	E	22¢	22,000
100,000	F	14¢	<u>14,000</u>
TOTAL FINAL PAYMENT. . . . .			\$280,000

### Membership Agreement

Each member of ARI signs a uniform marketing agreement. The key provisions are:

1. The grower agrees to sell ARI all rice grown, produced, and/or controlled by him. The association agrees to buy all such rice.
2. ARI has the authority to make rules and regulations governing the methods of weighing, handling, sampling, analyzing, storing, and delivering the rice. ARI also retains the right to reject any rice in nonmarket condition.
3. ARI is authorized to retain for capital purposes an amount not to exceed 12 1/2 cents per hundredweight of rice delivered, but the members may, at any annual meeting, increase this amount.

4. Nothing in the agreement requires the grower to continue growing rice. In the event that, by July 1 of each year, ARI has not contracted with growers for rice from 70,000 acres or more, the agreement is void at the option of either party.
5. If the grower should breach the provisions of the agreement regarding the sale or delivery of rice, liquidated damages are established on a per-acre basis.

The grower further agrees to pay all costs, premiums for bonds, expenses, and fees incurred by ARI in conjunction with any litigation resulting from such breach.

#### Marketing Operations

ARI marketed its rice primarily to Texas milling firms on a negotiated basis in rough, or unprocessed, form prior to 1975. On July 1, 1976, ARI purchased the physical assets of Blue Ribbon Rice Mills, Inc. Almost all the 1975 crop was marketed through newly acquired facilities in processed form. Payment for these facilities was funded by a 22.5 cent per hundredweight retain established on a four-year rotation.

This recent development adds a new dimension to the traditional marketing strength of ARI. Prior to 1975 the company's growth was dependent upon marketing advantages for unprocessed rice, which evolved from:

1. The improved grading standards which reflected milling quality more adequately than traditional government standards. This grading service is also available to nonmembers on a fee basis. The advantage to marketing rice by specification, without the need for personal inspection, is obvious.
2. The ability to guarantee large-volume deliveries. Exporters were able to obtain substantial quantities of rice without having to go into the producing area themselves.

3. The ability to meet specific quality requirements by mixing the individual lots of several producers. A grower seldom has the quality variety to do this himself.
4. The ability to provide delivery scheduling flexibility for milling firms during periods of heavy supply requirements.
5. The ability to furnish buyers with a rough rice inventory by variety, grade, and milling quality. This is a valuable service for buyers of any crop where there is wide variation in the type and quality of product available.

On the supply side, ARI works through local sales offices which serve as grower contact points and as agents in the disbursement of funds. These were former local sales offices already in operation before the establishment of ARI. Therefore, the association did not compete with product volume movement through already existing sales offices during its formative stage. The association also gained access to local growers through this procedure, without the need to train local representatives or to acquire local office facilities in the country.

A very active program of member contact and member information is maintained. Periodic briefings are held at the local sales offices to report progress during the marketing year, and a grower newsletter is published on a regular basis.

The contract pools have been eliminated as a marketing tool. Problems with this vehicle developed, both in marketing flexibility and grower relations. On the flexibility side, allowing growers to establish a fixed price reduced the ability of ARI to schedule the crop flow during the marketing year. On the relations side, allowing growers to set a price tended to encourage "second guessing" of the market and, therefore, member unrest.

Riceland Foods<sup>1/</sup>  
P. O. Box 927  
Stuttgart, Arkansas 72160

Riceland Foods is the trademark used to identify products and operating divisions of the Arkansas Rice Growers Cooperative Association. There are actually 26 farmer-owned organizations which comprise the Riceland Foods network and do business under this common name. The cooperative celebrated its fiftieth anniversary in 1970, and now enjoys sales in excess of \$550 million yearly, with a membership of approximately 25,000 farmers.

The organization was originally founded in 1921 as a marketing cooperative for Arkansas Rice. The trade name "Riceland Foods" was adopted August 1, 1970, in recognition of the broadened product and regional scope of the association. Soybean growers now outnumber rice growers in membership by a margin of four to one (20,000 versus 5,000), and business is conducted in eastern Arkansas, north-eastern Louisiana, southeast Missouri, and western Mississippi. All operations are coordinated through the central management headquarters, where basic policy decisions are made. However, each individual cooperative in the complex does operate as a separate legal entity, with its own board of directors.

Physical facilities now include four rice mills, three soybean processing plants, a hydrogenation plant, a rice parboiling plant, a soybean oil cannery, 23 driers, and storage space for 90 million bushels of grain. A fifth rice mill is now under construction at Jonesboro, Arkansas, and a sixth mill-parboiling plant, also to be constructed at Jonesboro, was approved at the April 1976 board of directors meeting. Total employment now exceeds 2,000 people. Grains were added to Riceland in 1958, and accounted for roughly 15 percent of the association's \$35 million sales volume in that year. By 1964 grains had pulled even with rice in dollar volume, and now account for more than 60 percent of total association sales. This represents soybeans almost entirely, with a small volume of wheat, oats, and milo.

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<sup>1/</sup> Readers are referred to Riceland Foods, FCS Information Bulletin 101, U.S. Department of Agriculture, 1975, for additional background.

The association has been an innovator in both processing and marketing methods since its beginnings. Its marketing philosophy and techniques have been very successful, and have certainly played a large role in the grower acceptance of the product-marketing pools. As early as 1946, consumer-branded packages were introduced under the Riceland label, with the now-familiar Chefway label added in September 1971. This program is unique among the cooperatives included in this report, and does confer unique advantages on the pooling operations.

### Pooling Operations

Riceland operates three basic pools: a seasonal pool for rice, a seasonal pool for soybeans, and a purchase pool for soybeans. Wheat is also marketed, but not through a true pooling operation. The volume is small by comparison, one to two million bushels yearly, and the crop is handled primarily as a service to members, including those with garlic-infested grain.

Rice has always been on a seasonal-pool basis, giving the association full control over marketing decisions. Rice is not traded on the commodity futures exchanges and, therefore, does not offer the opportunity for price protection so often necessary with a nonseasonal pool. Rice is classed for pooling on the basis of quality (milling yield), variety (long or medium grain), and grade (1 through 5). In addition, support-eligible product may be separated from non-support-eligible when differences in interest rates exist for financing advances through government programs versus private sources.

An initial advance amounting to approximately 75 percent of the support level (or an amount determined by the board if the support is not applicable) is paid upon delivery of the rice to a local dryer-elevator division. An additional advance is made in December, usually 10 to 15 cents per bushel, another payment the following February when conditions warrant, and an equalization payment in April. A final payment is made on or about September 15 of the year following harvest. Payments are made directly to producers for rice, rather than routing checks through the locals. A drying fee is deducted from the initial advance and remitted to the local, along with a payment from Riceland for acquisition and storage. Locals never assume ownership of the product.

Samples are taken upon delivery, and the rice is then commingled at the elevator. Riceland pays all the freight from the locals to the mill at Stuttgart so that no advantage is conferred upon members closer to the milling facility.

Approximately 60 percent of the total Arkansas rice crop is now handled through Riceland. The association's program has been so successful that the number of independent mills in Arkansas has been declining for several years. Riceland faces no strong competition, and handles all the rice which its physical facilities can absorb. Since the association does not have sufficient capacity to process all its members' rice, producers are not required to deliver all their crop volumes. In fact, delivery limitations are imposed by the association, when necessary, to prevent acquisitions in excess of capacity.

A voluntary contract is used which does not specify minimum delivery volume, and contains no damage provision for failure to deliver. If a grower decides to leave the cooperative, he is generally expected to give notification by February 15 preceding his harvest. If a member fails to deliver any rice for a period of two years, the board has the option of cancelling the contract. The association started pool operations with a contract requiring a firm delivery commitment from each grower. Legal enforcement problems, coupled with the success of the marketing program, led to adoption of the more lenient voluntary agreement.

Soybeans are handled in two pools, with selection at the grower's option: a seasonal pool which gives full authority for marketing decisions to the association, and a purchase pool which provides the grower with price flexibility.

The soybean seasonal pool functions in essentially the same manner as the rice seasonal pool just described. An initial advance, as determined by the board of directors (\$2.25 per bushel in 1975), is paid when the beans are delivered to a local warehouse. Additional advances are paid through the marketing season, usually in January, March, and June, with final settlement made in September after closing pool operations on July 31 following harvest. The only difference between this and the rice pool is that first advances are paid to members through the locals. All subsequent payments are made directly from Riceland.

The soybean purchase pool contains several options. First, the purchase pool provides price quotations prior to harvest, allowing members to make forward sales. All beans acquired in this manner are then hedged on the commodity futures market. Second, the grower may sell at the quoted price when he delivers his crop. These beans are also hedged until an actual sale is made by Riceland. Third, the grower may choose to make a forward sale at delivery time, based on price quotations given by the association for a variety of future time periods. This option is known as the Booking Program, and the beans are hedged by the association prior to actual sale. Fourth, growers may deliver their crop at harvest time and defer the marketing decision entirely. Under this program, known as Grower's Option, the producer may sell any or all of his beans at the current daily price on any date prior to June 30 of the year following harvest; or, make a forward sale for any or all of his beans at a future month's price, as quoted by Riceland, on any date prior to June 30 of the year following harvest. Under the latter option, no future month's bookings past July are allowed.

The Grower's Option program makes no assessment for storage if the grower makes a sale or booking prior to January 31 of the year following harvest. After January 31 a charge of 2 cents per bushel-month is levied. If a sale has not been made by June 30, the remaining soybeans are marketed during July, with all growers in this special liquidation paid at the average actual sale price. No beans delivered under this option may be transferred to the seasonal pool.

Many members deliver both rice and soybeans to the association. Under flexible payment provisions it is, therefore, possible for individuals to receive payment checks each month of the year.

#### Membership Agreements

Two basic uniform marketing agreements are used, one for rice and one for soybeans. Key provisions of the rice pool agreement are as follows:

1. The grower appoints the association as agent to sell, market, and pool rice delivered by him to a warehouse for the account of the association, or by delivery of a negotiable warehouse receipt to the association.

2. The association shall determine or have determined the grade, weight, milling yield, class, quality, and variety of the rice. Payment is to be made on a dry-weight basis.
3. The association agrees to make an advance as soon as possible after delivery, in an amount determined by the board of directors.
4. The grower agrees to allow the association to pledge the rice as security for loans, and/or to borrow money on any accounts receivable from sale of the rice.
5. The association retains the right to reject rice delivered in a nonmarketable condition, and to stop member delivery after all storage space has been filled.
6. The association may sell rice anywhere at its complete discretion, in either the natural or the processed state. All rice of the same variety, grade, and quality shall constitute one pool, whether sold rough or clean, unless placed in a separate late-delivery pool as designated by the board.
7. Deductions from the net proceeds of sales may be made for costs and expenses of the association, amounts for the purchase of revolving capital certificates as specified in the by-laws, and reserves not to exceed 2 percent of the gross selling price of all rice.
8. The grower agrees to notify the association of any and all liens against rice delivered.
9. The agreement continues in force from year to year, unless cancelled in writing by either party prior to August 1 of any year.

Key provisions of the soybean pool agreement are as follows (one agreement covers all pool types and options):



1. Growers may elect to appoint the association as agent to sell, market, and pool all soybeans delivered by him to a warehouse for the account of the association, or by delivery of a negotiable warehouse receipt to the association.
2. The association shall determine, or have determined, the grade, weight, class, and quality of the soybeans.
3. The association agrees to make an advance as soon as possible after delivery, in an amount determined by the board of directors.
4. Growers may elect to deliver soybeans to the association for the cash price, if any, that the association is paying at that time; or for the price quoted, if any, by the association for specified future delivery dates.
5. The grower agrees that the association may borrow money on the soybeans delivered, as though it were the absolute owner, by pledging such soybeans or by giving lien. The association may also borrow money on any accounts receivable from sale of the soybeans.
6. The association retains the right to reject soybeans delivered in a nonmarketable condition, and to stop member delivery after all warehouse space has been filled.
7. The association shall have complete discretion in all sales in either the natural or the processed state. All beans of the same grade, class, and quality shall constitute one pool, unless placed in a separate late-delivery pool as designated by the board.
8. Deductions from the net proceeds of sales may be made for costs and expenses of the association and amounts for capital not to exceed 3 percent of the gross sale price of all soybeans.
9. The grower agrees to notify the association of any and all liens against soybeans delivered.

10. The agreement continues in force from year to year, unless cancelled in writing by either party prior to August 1 of any year.

### Marketing Operations

Riceland Food's marketing operations are its real source of strength. The soybean division conducts three marketing programs, the rice division conducts two, one program is carried out jointly between these two divisions, and one is carried out by the seed division. Both domestic and export markets are utilized, with 59 percent of the rice products and 35 percent of the soybean products currently marketed abroad.

The soybean division runs an oil program, a meal program, and a by-products program. Riceland prefers to market finished products whenever possible. The association has facilities for hydrogenation and winterization of oil, with approximately three-fourths of its domestic oil sales to large food manufacturers making mayonnaise and margarine. The association has the capacity to process 36 million bushels of soybeans yearly, which produces approximately 378 million pounds of oil and 860,000 tons of meal. Meal moves to Arkansas's livestock and poultry feeders as well as to neighboring states and to some European feeders.

The soybean division also conducts hedging operations through the Illinois Cooperative Futures Company. An effort is made to market grain acquired in the purchase pool as soon as possible, by selling the products for cash or advance contracts. However, a lag often occurs before processing and sale. To provide protection during the interim, commodity futures contracts are sold for beans, oil, and/or meal, depending upon the price relationships existing at the time of hedge placement.

The rice division operates a milled rice program and a by-products program. All rice in the association's marketing pools is processed by Riceland, with the exception of seed stock. The pools therefore serve largely as an acquisition program for milled rice products. The association follows a policy of using brokers who handle Riceland's products exclusively. In the domestic market, sales are made to various institutional and government processors and to processors of consumer goods, including quick-cooking and specially-seasoned rice.

In the export market, sales of cleaned and uncleaned rice are made to the Scandinavian countries, Iran, Iraq, the U.S.S.R., Germany, the Caribbean countries, and some African countries; sales of parboiled rice are made to Europe, South Africa, and Saudi Arabia.

The direct consumer marketing program straddles both soybeans and rice. The labels "Riceland" and "Chefway" parboiled rice were carried in 35 metropolitan market areas, an increase of 17 markets over the previous year. This program provides the association with a unique advantage not enjoyed by the other marketing pools discussed in this report.

Performance of the pools has been excellent. Growers using the seasonal pool for soybeans between 1964 and 1974 earned an average of 35 cents per bushel more than the U.S. all-grower average. Growers electing the purchase pool earned an average of 16 cents per bushel more. The rice seasonal pool returned to grower members an average of 40 cents per hundredweight of rice more than the U.S. all-grower average over the period 1944-74.

Landmark, Inc. and the Ohio Farm Bureau Federation, Inc.  
245 North High Street  
Columbus, Ohio 43216

Landmark and the Ohio Farm Bureau Federation operated a wheat pool for nine years ending with the 1974-75 crop year. The pool consisted entirely of soft red winter wheat, although corn and soybeans are also grown in the same production area.

Volume was never large. The pool was originally established primarily as a service to those Farm Bureau members growing wheat under the 15-acre exemption program of the USDA. Wheat was, therefore, not the major crop of the producers, and tended to receive little marketing attention from the individual members. Volume peaked in 1967-68 at just under 1.5 million bushels delivered to the pool, and declined steadily to under 400,000 bushels in 1970-71. A jump in 1971-72 to just under 1 million bushels was again followed by a steady decline to less than 150,000 bushels in 1974-75, the last year of operation.

#### Pooling Operations

A seasonal pool was used by Landmark, which authorized the cooperative to market the crop at its discretion. Producers were never given the option of establishing striking prices or specifying any particular time of sale. Each producer was allowed to participate with all or part of his crop, with no firm volume commitment required in most years. A volume commitment was introduced in 1974-75, but the contract penalty of 10 cents per bushel for failure to deliver was never utilized.

An advance of approximately 80 percent of the estimated market value of the wheat was paid upon delivery to the pool, with all advance payments funded internally by the cooperative. Final settlement payments were made within 30 to 60 days after the last wheat was sold and payment was received at Landmark. The pool was closed on May 31 of the year following harvest if all grain had not been disposed of prior to that date.

Commercial elevator storage was required, with on-farm storage never allowed during the nine years of pool operation. Since producer wheat acreage was small

(15 to 25 acres), on-farm storage facilities were not usually adequate to guarantee quality maintenance. At the peak of the program, more than 100 elevators were participating with the pool.

One of the primary problems with this pooling arrangement was the conflict over storage space with corn and soybeans. The area elevators were primarily farmer-owned cooperatives and, therefore, dedicated to member service. Service at corn and soybean harvest could not be provided if elevator facilities were tied up with wheat storage. This situation caused great pressure to move wheat out early in the marketing year (before September 1), regardless of market conditions. In 1974-75 only two Landmark-affiliated elevators and one outside elevator were available for actual storage of pooled wheat. An additional difficulty was experienced because most pooled wheat during 1974-75 was originating from the northwest corner of Ohio and was, therefore, not easily moved to the Columbus area.

#### Membership Agreement

Each pool participant was required to sign a mutual wheat pool agreement with the Ohio Farm Bureau Federation, Inc., and the Farm Bureau Cooperative Association, Inc., known as "Landmark". The key provisions were:

1. The grower must be a member of the County Farm Bureau, and maintain membership during the term of the agreement.
2. The grower agreed to deliver soft red winter wheat of a volume estimated at the time of agreement signing, from a specified number of acres.
3. Title passed to Landmark at time of delivery, with the pool having full power to store, handle, contract, and market the wheat in any manner consistent with the objectives of the pooling program.
4. The producer agreed to pay liquidated damages of 10 cents per bushel for each bushel not delivered as estimated at the time of agreement, unless such failure was caused by conditions beyond the control of the grower.

5. All wheat delivered was adjusted to a No. 2 USDA grade. Adjustments for actual grade differences were made at the elevator operator's determination at time of delivery.
6. The agreement was intended to remain in force for a 10-year period. Producers could terminate by written notice given before April of any year.

### Marketing Operations

Marketing decisions were made by designated Farm Bureau and Landmark management personnel. An elected panel of growers was maintained as an advisory committee to the management, to provide marketing advice and to assist in informing members of program progress. Wheat was marketed primarily to grain merchandisers through normal marketing channels, in part through a liaison with Great Plains Wheat, Inc.

The key marketing problem experienced by the pool was lack of sufficient volume to test the potential advantages of large scale. The crop was a minor one for the members, and the pool never reached sufficient volume to become a significant factor in the market. This problem was complicated by high variability of volume over the last years of operation. Lack of stability made it very difficult to establish a working relationship with the major merchandisers.

During the nine years of pool operation, producers gained additional flexibility in pricing wheat outside of the pool. Wheat futures established a longer reach, eventually offering up to 18 months of forward-pricing latitude. In conjunction with this extension, wheat elevators in the Ohio area provided greater flexibility in allowing producers to delay the pricing of their crop after actual physical delivery.

In short, the pool offered little advantage to producers. Merchandising opportunities opened to individual growers duplicated the activities of the pooling operation. The lack of a large and reliable product volume prevented Landmark from developing unique marketing advantages which would be unavailable to individuals. This fact was recognized by the pool managers, and operations were suspended with the 1974-75 crop year.

When asked to comment on assessing the probably success for a new producer pool, Landmark officials offered the following guidelines. Whatever the crop or market area, a new pool should:

1. Attempt to establish itself in a relatively stable market area, with well-defined price relationships within the geographic region.
2. Attempt to establish flexibility of market outlets such that the pool is not tied to one user.
3. Attempt to establish a logistical pattern which will handle crop collection from growers and disbursements to buyers without delay. Timeliness is important in maintaining buyer confidence.
4. Attempt to establish a mechanism which will allow a substantial advance payment to be made at delivery time. This provides the necessary grower-incentive for participation, especially for the young, highly leveraged producers.
5. Attempt a thorough assessment of the marketing alternatives available to individual producers. The pool must increase the alternatives available, particularly in assembling sufficient volume to support the bargaining power of the pool.

Calcot, Ltd.  
P.O. Box 259  
Bakersfield, California

Calcot, Ltd., evolved from its parent organization, the San Joaquin Cotton Growers, which originated in the Delano area of California in 1927. At that time the primary market for domestic cotton was in New England, over 3,500 miles from California. The problems of timing and transportation associated with such a distant market naturally led to cooperative marketing agreements. The association began formal pooling operations in the mid-1940s, when it enjoyed its rise to a major economic force in cotton merchandising. Membership today totals approximately 3,000 growers in California, Nevada, and Arizona, marketing 1.4 million bales through the association.

In 1947 Calcot constructed its first warehouses, to enable a more orderly movement of product. Compress-warehouse facilities are now located in each major production service area. The association attempts to move cotton into protective warehouse facilities as early as possible, to prevent gin-yard weather damage. Shipment is made by container to further protect the product from wuality deterioration.

Calcot participates in a joint marketing venture known as Amcot, a world-wide sales arm with offices in Atlanta, Charlotte, Greenville, Europe, Hong Kong, Korea, and Japan. Although Amcot functions as the sales representative, all sales and pricing decisions for Calcot are made at the association's headquarters in Bakersfield, California. Extensive laboratory and classification facilities are maintained by Calcot to match shipments to mill specifications. In some cases the association supplies the entire requirements of customer mills. Varieties marketed include two growths of Upland cotton, Acala from the San Joaquin Valley of California and the Pahrump Valley of Nevada; Deltapine Land Cotton from Southern California and Arizona; and American Pima (a long-staple growth) from Arizona.

#### Pooling Operations

During the 1974-75 season Calcot operated both a seasonal pool and a call pool. The seasonal pool leaves the marketing decisions to the association, and accounts



approximately 60 to 65 percent of its volume. The remaining 35 to 40 percent is placed in the call pool, as specified by growers, which allows the individual grower to establish a price. Each member agrees to deliver all his cotton to the pools, with a yearly sign-out period from February 1 to February 15 for those wishing to terminate the agreement. Any or all of an individual producer's volume may be placed in the call pool.

Each member agrees to deliver his crop steadily, as ginned. Members select their own ginning facilities, and Calcot assumes responsibility for movement from the yard to their compress-warehouse plants. All advance payments are made on the basis of U.S. government classifications. However, once the advances have been made, Calcot further classifies the cotton for sales purposes. Classification is made according to six basic grade standards, three basic staple lengths, and four basic micronaire standards, plus a further separation based on eligibility or lack of eligibility (when applicable) for government loan programs. Liquidated damage provisions are specified in the membership agreement, to be assessed in the event that the specified number of bales cannot be delivered to the association for marketing.

Payments to growers are made in three stages: an initial advance, progress payments, and final settlement. The schedule for advance and progress payment is established each Fall by the board of directors. Generally, the seasonal pool initial advance is made at delivery for an amount equal to that which the association can borrow on the cotton, either from the U.S. government or from lending institutions, minus a \$3 per bale primary retain. Progress payments are then made during the marketing year as actual sales conditions warrant. A final settlement is generally made in July of each year for the equalized balance due to each pool, minus a 25-cent per bale secondary retain.

The call pool receives an initial advance based on the borrowing rate, just as the seasonal pool does, if no sales striking price has been designated by the grower. If a sales price has been specified by the grower, an advance is made as close to this price as the board of directors deems prudent. Growers in both pools may defer payments if they so desire.

Marketing may take place over as long as 24 months. However, the objective is to liquidate for final settlement by July of the same crop year, whenever possible. The primary retain is revolved over a 5-year cycle, with the secondary retain revolved over a 6-year cycle.

Unless otherwise specified, all cotton is placed in the seasonal pool. Each grower may designate a specified number of bales for the call pool prior to March 1 of each crop year. All of a grower's crop may be placed in the call pool, but the individual is liable for any loss incurred by the association as the result of failure to deliver the specified number of bales. For this reason, Calcot discourages growers from assigning more than one-half their anticipated crop volume to the call pool prior to harvest. Additions to the original volume designated may be made at any time prior to the March 1 deadline. Once designated, call pool cotton cannot be revoked or transferred to the seasonal pool. In addition, all call pool options must be satisfied by delivery before a grower can invoice any cotton to the seasonal pool. No membership agreements may be terminated for any part of a grower's crop volume while a call option is unsatisfied by the grower.

Once cotton has been placed in the call pool, a grower may fix his base striking price at any time up to May 31 following harvest. No call pool sales are made until the grower fixes a price by placing an open order at the association's offices. If no open order has been received by May 31, or if the grower has established a price sufficiently high to preclude sale, Calcot sells the cotton at the best price obtainable within a reasonable time.

Once an open order price has been established, it may be changed up or down, or removed entirely to be redesignated at a later date, provided that the order has not been executed. Once a sale has been made, the grower assumes full responsibility for his open order price. If the market can absorb only a portion of the open orders at any given price level, those first received from the growers are executed first.

All open orders are based on Middling grade (in the San Joaquin Valley, Middling 1 3/32"; in Southern California and Arizona, Middling 1 1/16"; in

Nevada, Middling 1 1/8"; and for Pima cotton, Pima No. 4-1 3/8"). Differences between these Middling prices and prices for the grades actually delivered are settled at time of the final payment. Seasonal pool calculations are also based on standard Middling grades, with differences settled at final payment.

#### Membership Agreement

Two separate uniform agreements are used, one for the call pool and one for the seasonal pool. Key provisions for the seasonal pool are:

1. The grower agrees to deliver all cotton produced or controlled by him. Calcot agrees to receive all such cotton, to be delivered regularly as it is ginned unless deferred by prior written agreement.
2. In the event that the grower should fail to deliver any of the cotton covered by the agreement, he agrees to pay liquidated damages of \$5 per bale, plus 50 percent of the closing price per pound on the New York Cotton Exchange for the nearby No. 2 March contract on the second Friday in January following the year of production, multiplied by the number of pounds withheld.
4. The grower agrees to pay all costs, premiums for bonds, expenses, and fees related to legal action brought by the association with regard to breach or threatened breach of agreement.
5. Calcot has authority to make rules and regulations with respect to classing, grading, financing, shipping, contracting, and selling all cotton under its control. Titles pass to Calcot upon delivery.
6. The agreement remains in effect for one year, and on a year-to-year basis thereafter, unless terminated by the grower between February 1 and February 15 of any year. One exception is provided for. Any agreement entered into after October 31 shall continue, with privilege of withdrawal until the second February 15 succeeding the agreement date.

Call pool agreements supplement the basic seasonal pool agreements with a second contract. The key provisions are as follows:

1. The grower specifies by number of bales the volume to be delivered to the call pool. This volume must be satisfied before any cotton may be placed in the seasonal pool.
2. The grower agrees to establish a price for his cotton on or before May 31 of the crop year. In the event this is not done, Calcot is authorized to establish a price in any manner deemed necessary.
3. Should the grower fail to deliver the specified number of bales, he agrees to pay all actual damages suffered by Calcot as a result of that failure. The liquidated damage provisions, as specified in the seasonal pool contract, are not applicable. No event, Act of God, or circumstances whatsoever, relieve the grower from making delivery.
4. All bales delivered must average 500 pounds, plus or minus 1 percent.
5. Calcot agrees to operate the pool to the best of its ability, but does not guarantee that the final price obtained will be equal to or greater than the price specified by the grower.

#### Marketing Operations

The seasonal pool forms the backbone of Calcot's marketing operation. The call pool was started in the late 1960s, with significant use beginning in 1973 when almost 50 percent of the association's volume was placed under the call provision. Since then its use has declined, with 45 percent of the volume under call in 1974 and 35 percent in 1975.

Actual sales through the seasonal pool may draw on the physical volume of the call pool when conditions dictate. This volume is replaced at a later date, and the association hedges the cotton on the futures market to protect against

loss in the interim. Hedging is also used to establish price levels in the seasonal pool when the cash market is slow. All hedges are lifted when sufficient sales can be made in the cash market.

At present Calcot has a total capitalization of approximately \$15 million. Funds for advances prior to actual marketing are drawn from the Berkeley Bank for Cooperatives, the Bank of America, and/or the U.S. Commodity Credit Corporation, under government loan.

Calcot markets unprocessed cotton to mills both domestically and overseas. Full-time sales representatives are employed to contract mills throughout the year, primarily as employees or agents of Amcot, the sales arm for U.S. cotton-marketing cooperatives. Sales are negotiated primarily under forward-contracting arrangements, but some volume does move for immediate shipment. The ability to guarantee both quality and quantity for large-volume shipments, as well as the ability to provide delivery-scheduling flexibility, are important parts of Calcot's marketing program.

Over time, the association has evolved a progressively stronger membership agreement with progressively stronger damage provisions. As forward contracting gained importance, and as market price fluctuations became more pronounced, it became more important to have a firm volume commitment from growers. The present membership contracts give this assurance.

American Cotton Growers  
3301 East 50th Street  
Lubbock, Texas

American Cotton Growers was formed in March of 1973 to handle the pooling operations of the parent association, the Plains Cotton Cooperative Association of Lubbock, Texas. Three cooperative gins founded ACG when they combined their resources and constructed a single "super" gin located in Crosbyton, Texas. In 1975, 25 additional gin communities were accepted into membership, and construction of a denim manufacturing plant was undertaken at Littlefield, Texas. This plant has now begun limited operation, having manufactured its first yard of cloth on May 4, 1976. Plans call for approximately 65,000 bales of ACG-member cotton to be processed annually through the denim plant, with the balance pooled and marketed under contractual agreement with PCCA.

PCCA was organized in September 1953, to market cotton for Texas producers. The association has been an active innovator of processing and marketing techniques, including a compress and warehouse program introduced in 1963, a production-line fiber testing laboratory opened in 1964, and a system of selling by competitive sealed bid developed in 1961.

The sealed bid system of cotton merchandising, now 15 years old, has evolved from an airmail/telephone system to a sophisticated computer network facility known as Telcot. Telcot, now in its second year of operation, maintains a central headquarters computer which connects remote terminals in the offices of participating merchants. Approximately 16 of these remote facilities were in operation during 1975. Producers, through their local gins, call PCCA for current price quotations and, if they feel the current range is acceptable, instruct the association to sell a specified volume. PCCA then distributes the specifications for that particular producer's crop over their computer network, and a sale is made as soon as the central computer selects the highest bidder, normally within a 15-minute period.

American Cotton Growers was organized to administer the pooling program for PCCA, with Telcot remaining as the marketing arm for nonpool members. Prior to the early 1970s, the philosophy of PCCA was merely to encourage competition

among the merchants purchasing members' cotton and to distribute price information as efficiently as possible. With the phase-out of government loan guarantees, a decision was made to provide more complete service for member cotton from the field to the mill. As of 1975, there were six districts in ACG, each having separate corporate identities with local gins contracting for the marketing services of the pool.

### Pooling Operations

During the 1974-75 crop year, ACG moved approximately 200,000 bales through a seasonal pool. Member acreage has expanded from 40,000 in 1973 to approximately 300,000 in 1975. All marketing decisions are in the hands of a 26-man pool committee. Each participating member is committed to deliver all his crop volume under contracts which continue on a year-to-year basis, unless terminated with written notice by any of the parties during February of any crop year.

When seed cotton is harvested and ginned, an initial advance is made. This advance is at least as great as the CCC loan value, less any retains, when it is available, although larger advances may be made in good marketing years. When the cotton is marketed through the season, further progress payments are made. As soon as the pool is liquidated, the final equalization payment is made to members. All cotton of the same grade, staple, and micronaire range is placed in a commingled pool. There are, therefore, as many separate pools as there are quality groupings for that crop year. All growers who produce the same quality cotton receive exactly the same seasonal average price, regardless of when it was harvested or ginned.

Current organizational plans call for a total-systems approach which would bring the responsibility for off-farm costs in cotton distribution under the control of one integrated organization. Over time, ACG intends to absorb all the necessary facilities including gins, compresses, warehouses, and mills, to provide this integrated control. Off-farm handling and processing would be done at cost under the supervision of producer-members. Each responsibility center would route all charges and proceeds back to the local cooperative gin offices, enabling the ACG member to receive single lump-sum checks rather than dealing with each accounting entity separately.

Consistent with the philosophy of greater efficiency through integration would be the following advantages:<sup>2/</sup>

1. Acquisition costs would be reduced by the use of pre-harvest delivery contracts.
2. Integration of grower accounts with marketing, ginning, and warehousing data would reduce overhead costs of data processing. By using the "lot" method of marketing, the number of inventory accounts would be reduced by up to 90 percent.
3. Changes in packaging, sampling, and blending at the gin plant mean that the marketing association would redo less work and require fewer employees.
4. Samples taken from uniform quality lots would provide a more reliable basis on which to market cotton, and should reduce the rate of buyer rejection.
5. Classing costs at the marketing association would be reduced, since each sample would represent more than one bale of cotton. Each classer could therefore select more per day for shipment.
6. Open-yard storage of cotton would be minimized or eliminated; therefore, outbound shipments could be made faster, with reduced handling costs.

#### Membership Agreement

Each member signs a four-way contract mutually obligating the member, the local cooperative gin, ACG, and the PCCA. Each local member gin has, in turn, contracted with ACG under a stipulation that only ACG cotton will be processed in that facility. This arrangement was motivated in large part by the Houston

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<sup>2/</sup> Taken from The Feasibility of a New Division of American Cotton Growers, Farmer Cooperative Service, USDA, Washington, D.C.



Bank for Cooperatives, which stipulated long-term contracts and substantial producer cash investments under an individual membership organization versus a much more lenient arrangement under a 100 percent gin-participation arrangement. The association also feels that 100 percent participation helps to prevent any problems which might arise from conflicting objectives between pool and nonpool gin members; helps to keep the membership in a geographic region small enough to facilitate communications; and helps to reduce the number of separate handling operations which might be necessary under more fragmented control.

Key provisions of the agreement between the local cooperative gin and the association are:

1. ACG agrees to handle all cotton ginned by the local, and to pay patron advances within five days following delivery of the cotton to ACG. Provision is made for deferring payments at the producer's option.
2. The gin agrees to represent ACG and PCCA exclusively in the community, and to require that all cotton processed by the gin be marketed through the pool. Participation is limited, based on the capacity of its ginning facilities and on the policies established by the ACG board of directors and 26-man pool committee.
3. The gin agrees to indemnify ACG for any losses incurred as a result of any errors, fraud, or dishonesty by the gin's agents or employees. A fidelity bond is to be maintained to secure this obligation.
4. ACG agrees to pay the gin a fee, as fixed by the board of directors, for each bale delivered to the pool.
5. When practical, the gin agrees to sample, tag, and weigh the cotton to eliminate the necessity of performing these services at the compress.

6. The gin agrees to invest a sum of \$10 per bale multiplied by the gin's 5-year average annual ginnings, in the form of ACG building bonds.

Key provisions of the individual member's uniform marketing agreement are:

1. The grower agrees to report his planting intentions and actual plantings by ASCS farm number. All seed cotton produced is to be delivered to the local cooperative gin, and all lint cotton produced is to be delivered to ACG for marketing.
2. ACG agrees to process and sell, or to market in unprocessed form under contractual agreement with ACCA, all cotton delivered. The agreement continues in force unless terminated by any party during February of any marketing year. Title passes to ACG following ginning.
3. ACG shall have full authority to tender and pledge cotton to be marketed under the agreement, and products thereof, for loans, liens, and to sell the cotton and/or products. PCCA shall have the same authority for any cotton and/or cotton transferred to it by ACG.
4. The grower agrees that ACG may pay holders of any liens before payment is made to the grower. All records, including ASCS records and those relating to the production, transportation, weighing, ginning, classing, warehousing, and sale of a grower's cotton, are subject to inspection by the association.
5. The grower agrees to pay all costs, bond premiums, expenses, and fees, including attorney's fees, in the event of legal action on the contract.
6. The agreement runs with the land, and is binding on the successors and assigns of the parties during the same crop year. It shall not be assignable for any period beyond the crop year for which it is effective without the prior written approval of each of the parties.

## Marketing Operations

ACG markets raw cotton both domestically and overseas. ACG participates in the Amcot system, which serves as the sales arm for U.S. cotton marketing cooperatives. In 1973 their foreign sales surpassed domestic sales for the first time, with the primary customers being, in declining order of importance, Japan and Korea, China, Southeast Asia, Europe, and Africa. Both Telcot and ACG handled approximately 450,000 bales in the 1975 crop year, with one-half moving directly to mills and one-half to various merchants. ACG ships virtually all their pool volume directly to mills, with the exception of a 65,000-bale commitment to its own textile mills.

ACG is in the process of completing construction for its textile mill and weaving plant in Littlefield, Texas. This operation is consistent with the original philosophy of the association to coordinate distribution and processing activities as far forward in the chain as possible. Equity capital is being furnished by cooperative gins of the High Plains and Rolling Plains of Texas, with long-term capital furnished by the Houston Bank for Cooperatives. The decision to construct this mill was stimulated by a recent breakthrough in spinning technology especially suitable for West Texas cotton. In producing coarse yarn, the process is four to five times faster than conventional ring spinning, and requires 60 to 70 percent less labor.

The pool marketing committee feels that the new mill will be a significant extension of ACG's program. It will be the only integrated manufacturer of cotton textile products and, therefore, should achieve significant advantages in its ability to attract pool members and in its ability to coordinate activities for maximum operating efficiency.