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COSTS AND BREAK EVEN VOLUMES FOR UNIVERSAL DENSITY AND MODIFIED FLAT BALE PRESSES

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ESCS READING ROOM
RECEIVED
MAY 1976

Reprinted from Cotton and Wool Situation,
CWS-5, May 1976, by the Commodity
Economics Division, Economic Research Service,
U.S. Department of Agriculture, Washington, D.C.

COSTS AND BREAKEVEN VOLUMES FOR UNIVERSAL DENSITY AND MODIFIED FLAT BALE PRESSES

by

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ABSTRACT: Breakeven volumes for installation of a universal density press versus a modified flat bale press were developed for 8, 12, 16, 20, and 24 bale per hour gins. The breakeven point ranged from 3,850 bales at 12 bale per hour gins to 5,117 bales at 24 bale per hour gins. An equation, enabling an individual gin owner or manager to substitute his own specific data and calculate breakeven volumes for his ginning operation is presented.

KEYWORDS: Cotton, gins, density, breakeven volumes.

INTRODUCTION

The development and recent acceptance of the Universal density (UD) cotton bale by all segments of the cotton industry have caused many gin operators to consider making substantial changes in their pressing operations. With UD compression of bales at the gin to approximately 28 pounds per cubic foot, no further compression is required in subsequent stages in the marketing system, including bales for export. Traditionally, bales are pressed to a density of about 12 to 14 pounds per cubic foot (modified flat press) at the gin and then further pressed to a higher density at compress facilities.

The modified flat (MF) bale press is essentially a regular flat bale gin press that has been modified by lining the press box with wood to reduce the bale width to accomodate the necessary bale dimension for UD compression later in the marketing system. Any new baling installation should involve either the UD or the MF bale press to accomodate today's marketing needs. A bale of cotton initially compressed to a universal density at the cotton gin offers many potential savings and benefits in handling, compressing, and storage to the cotton industry. UD compression, however, requires a greater capital investment by the gin in addition to other financial considerations. In most areas, an allowance or rebate is paid to the ginner by the cotton warehouse for delivery of UD bales for storage. The amount of this allowance, usually about \$3 per bale, is eventually passed on to the

buyer of the cotton as a compression charge when the bale is removed from storage and shipped.

Gin operators, when considering installation of a UD press in a new gin instead of a new MF bale press or replacing an older flat bale press in an existing plant, must compare the additional costs of owning the UD press with the potential savings in operation and the additional revenue (rebates) resulting from its installation and use. This article describes the cost relationships and computational procedures necessary to enable gin operators to make these economic determinations regarding their operation.¹

DETERMINING THE TYPE OF PRESS TO INSTALL IN NEW GINS

In considering the installation of either a UD press or a MF bale press, there is an annual volume of bales pressed short of which installation of the MF press is advisable and beyond which the added investment for a UD press is justified. This point is the volume at which the total compression costs using either type of press is the same. This indifference point, or breakeven volume,

¹ This article is based on results of a comprehensive study of baling cotton at gins. The complete analysis is currently being cleared for publication by the Economic Research Service.

The above equation can be used to calculate break-even volumes under different cost conditions using the appropriate value for a specific situation. For example, breakeven volumes shown in table 20 were developed by

Table 20—Breakeven volumes for new gins at different allowance rates, by gin plant size

Universal density compression allowance	Gin plant size (bales per hour)				
	8	12	16	20	24
Per bale	Bales	Bales	Bales	Bales	Bales
None	11,233	11,531	15,838	17,009	17,891
\$1.00	6,898	6,943	9,120	9,496	9,765
\$1.50	5,782	5,791	7,524	7,779	7,958
\$2.00	4,977	4,967	6,404	6,587	6,715
\$2.50	4,369	4,348	5,574	5,712	5,808
\$3.00	3,893	3,850	4,934	5,042	5,117

Based on average cost and operating relationships of actual cotton gins.

introducing several allowance rates for UD compression and holding all other variables constant. However, changes in crew requirements, wage rates, bagging and tie costs or investment cost can readily be inserted in the equation and a new set of breakeven volumes developed.

REPLACING AN EXISTING MODIFIED FLAT BALE PRESS

A gin owner considering the installation of a new UD press in place of an existing MF bale press which could be used for several more years also needs to know the breakeven or indifference volume for his plant.

Investments in existing MF bale presses vary appreciably from plant to plant. Investment costs used to calculate breakeven volumes for these plants typify those costs commonly incurred in installing a new flat bale press in the early 1960's and modified in 1973. Combined, these costs were \$25,000 for a MF bale press with a capacity of up to 15 bales per hour, and \$30,000 for one with a capacity of 16-24 bales per hour. With other cost relationships and assumptions remaining the same, breakeven volumes between the two types of presses for various UD compression allowances were computed and are shown in table 21.

Based on the current UD compression allowance (\$3.00 per bale), breakeven volumes ranged from 5,657 bales in 8-bale per hour gins to 7,205 bales in the 24-bale per hour gins. Substantial increases in breakeven volumes occur as the compression allowance decreases.

Breakeven volumes when replacing an existing MF bale press that could be used for several more years with

Table 21—Breakeven volumes for replacement of an existing press at different allowance rates, by gin plant size

Universal density compression allowance	Gin plant size (bales per hour)				
	8	12	16	20	24
Per bale	Bales	Bales	Bales	Bales	Bales
None	16,323	16,884	22,302	23,952	25,193
\$1.00	10,024	10,166	12,842	13,372	13,751
\$1.50	8,403	8,479	10,595	10,953	11,206
\$2.00	7,233	7,272	9,017	9,275	9,456
\$2.50	6,349	6,366	7,848	8,043	8,179
\$3.00	5,657	5,636	6,948	7,100	7,205

Based on average cost and operating relationships of actual cotton gins.

a new UD press, are about 45 percent higher for the 8 and 12 bale per hour plants and 41 percent higher for the 16 to 24 bale per hour plants than the volumes required for new MF bale presses compared to new UD presses. Breakeven volumes are higher because the investment and related fixed costs of the existing flat bale press are considerably lower than the costs of a new flat bale press.

IMPLICATIONS

Results show that the installation of UD presses rather than MF bale presses when erecting new gins appears to be justified with projected annual volume of over 3,850 bales in the 8 and 12 bale per hour gins and over 5,000 bales for the 16, 20, and 24 bale per hour plants. However, any significant decrease in the compression allowance results in a significant increase in break-even levels required. Moreover, when erecting a new facility, a larger size gin than is actually needed should not be constructed just because volume levels would also justify UD compression.

Replacement of an existing MF bale press which could be used several more years with a new UD press appears to be justified in 16, 20, and 24-bale per hour gins with projected annual volumes of over 6,948 bales. These findings further indicate that these volumes are even lower for 8 and 12-bale per hour plants. Based on the capacities and volumes of the U.S. ginning industry, a sizeable expansion in the use of UD presses appears feasible from an economic standpoint. However, costs of new UD presses are likely to be higher in the future than those on which the findings of this study are based. Costs of bagging and ties, labor, power, and other basic inputs are also rising. Changes in the relative cost differences between these two types of presses will also have an impact on breakeven levels.

