

How Patronage from Selling Grain to a Cooperative Affects Your Net Marketing Price

The net price a producer receives marketing grain depends on a number of factors: the futures price, basis, and interest and insurance on stored grain. But there is another factor producers may be overlooking when analyzing their marketing plan: patronage refunds from cooperatives.

In simple terms, a patronage refund is the mechanism by which grain marketing cooperatives return profitability to their member-owners and build capital. It is also a distinguishing factor between cooperative and non-cooperative firms. For a producer selling grain, the cash portion of the patronage refund effectively enhances the cash price for grain, much like a basis improvement. It also may partially explain why basis at a cooperative is different, for example, than at the ethanol plant, feed mill, or another grain-buying firm in the area.

Here is how it works: By marketing large quantities of grain, and through the use of storage and hedging strategies, grain marketing cooperatives capitalize on economies of scale in grain transactions. In years where their grain marketing efforts are profitable, cooperatives distribute a portion of those profits back to its members who sold grain to the cooperative. This is patronage, and the amount of patronage is announced at the end of the cooperative's fiscal year as a per-bushel patronage rate once it has determined profitability.

Per-bushel patronage rates are a co-op decision, and will vary year-to-year depending on the overall profitability of the cooperative and its grain marketing margins. In recent years, patronage rates have commonly been between 1.5 – 5 cents/bu. A minimum of 20% and up to 100% of the patronage rate is payable as cash, and typical cash rates are 30% - 60% of the qualified amount announced.¹

Example

Suppose you are a member of a cooperative and sell 100,000 bushels of grain to it during its fiscal year. The cooperative was able to earn a profit by marketing its members grain, and announces a qualified patronage refund of \$0.03 per bushel, 50% of which is payable as cash. Your effective per-bushel patronage refund is 3 cents, or a total of \$3,000. You will receive 50% as cash this year, and the remainder will be equity issued in your name at the cooperative, payable at some point in the future. The short-run effect is to increase your current-year marketing price by 1.5 cents per bushel, much like an improvement in basis. The allocation of profits by a cooperative to its members is considered income for the member and is taxed the same as other farm income in that year.

Producers marketing their grain through a cooperative should: 1) verify with the cooperative that they are a member and eligible to receive patronage, and 2) ask the cooperative to provide its recent historical patronage refunds rates. While patronage cannot be guaranteed because it is subject to the economic conditions of the year and the co-op's profitability, producers can check with their cooperative to understand the patronage potential. For more information about cooperative patronage and ownership, visit: <https://www.extension.iastate.edu/agdm/cooperatives.html>.

¹ The minimum cash patronage rate applies to qualified patronage allocations. Producers should check with their cooperative to understand whether it commonly allocates qualified patronage and the cash rate paid.