Transition to Bio Economy: Risk, Infrastructure and Industry Evolution

Legal Structures and Issues for the Bio Economy

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Trends and Assumptions

- Farmers, farming more land
- Growth in bioenergy feedstock demand
- Bioenergy companies securing, managing supply

Managing Risk

- Bioenergy companies must manage supply and price risk to energy industry standard:
  - predictable supply
  - longer range pricing
  - greater control over supply chain
  - greater focus on components, starch, oil, etc.

Managing Risk

- Farmer producers will seek to reduce downward market risk
  - lack of capital to sustain upstream purchasing/production failure risk
  - fixed vs. market margins
  - fewer open markets; more contract markets

Managing Risk

- Transition Period
  - high volatility
  - change of participants and infrastructure use
  - well-capitalized participants will be more likely to survive and take advantage of opportunities

Trend Change

- Farmer producer: contract production
- Commodity Users: cost plus, indexed contracts, contract land use rights
- Grain commodity handlers: financially backed production, fewer hedging opportunities, contract storage for Commodity Users, acquisition by Commodity Users

Trend Change (cont.)

- Grain Use
  - Exports and livestock use of whole grains decrease
  - More fractionation of grains, increased constituent use starch, proteins, etc.

Infrastructure Change

- Farmers – selling cash crops → selling production rights
- Pricing – CBOT → use area component pricing
- Government Farm Programs → redefine price and crop supports
- Grain Handling and Storage → storage for new crops, fractionation, pricing crop components