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