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Funding for New Biobased Chemical Plants May Be Found Overseas, ACORE Official Says

PHILADELPHIA–Finding funding to build new facilities to produce biobased chemicals and biofuels is challenging in the current economic environment, but it is possible through specially crafted bonds and by building pilot and demonstration plants in countries seeking to support these technologies, the general counsel for the American Council on Renewable Energy (ACORE) said Nov. 13.

Biochemical and biofuel facilities are being successfully constructed and beginning commercial operation and production in the United States and abroad, Mark Riedy, who also is an attorney with Mintz Levin Cohn Ferris Glovsky and Popeo P.C., said during the first meeting of the Society for the Commercial Development of Industrial Biotechnology (SCD-iBIO).

Financing Tools. Riedy identified a number of financing tools these companies are using, which include:

- tying bonds to credit-enhancements such as federal loan guarantees, Treasury STRIPS (separate trading of registered interest and principal securities), letters of credit, or other mechanisms to provide long tenors, low interest rates, and other attractive debt terms to reinforce the credit strength of a project, and

- constructing pilot and demonstration plants in certain countries, such as Australia, Canada, and the United Kingdom, which are offering project grants to support the emergence of such technologies.

Participants at the SCD-iBIO conference told BNA that finding financing is a tremendous challenge. They hope the initial success of some biobased chemical companies will spur large trade associations, such as the American Chemistry Council, to lobby for increased federal support for this sector of the chemicals industry.

One participant told BNA Riedy's presentation was particularly relevant for companies that had gone through the initial phases of development and were scaling up for commercial sales. That can easily take five years, he said, adding that each stage of development brings its own financial challenges.

Riedy said finding funding for new commercial ventures is challenging, as some tax incentives have already expired or are set to expire, and grant and federal loan programs, such as many of those at the Departments of Agriculture and Energy, require new and additional appropriations.

12 U.S. Projects Qualified. Riedy's team, investment banker Stern Brothers, and its counsel, Krieg DeVault, have helped draft the legal documents to qualify 12 new U.S. biobased chemical and advanced biofuel facilities for funding.

Deals on three of those projects have already closed and construction or commercial operations have started, Riedy said. The other nine are in the queue headed toward closing, using techniques such as ''credit-enhanced project bonds,'' which tie those bonds with loan guarantees from the USDA or other federal agencies, he said.

The bonds are then sold with long maturities and low interest rates to institutional investors to successfully fund the projects, he said.

Export-Import Banks. Some foreign institutions such as the Belgium Export-Import Bank and Denmark's EKF export credit agency can provide loans and loan guarantees to new U.S.-based companies, he said.

Riedy said additional funds could become available from the U.S. Export-Import Bank if President Obama remains committed to attaining his goal of rechartering the bank to permit lending to domestic companies for U.S. projects. The mission of the U.S. Export-Import Bank is to help in financing the export of U.S. goods and services to international markets.

Congress has provided a historically high level of funding—$140 billion—to the bank for fiscal year 2013, he added.

Financing Demonstration Plants Abroad. ''This extraordinary amount of funding to date has been available solely for the funding of commercial projects in foreign developed and developing countries and not for projects in the U.S.,'' Riedy later told BNA.

He told conference participants that he also has arranged funding of clients' pilot and demonstration projects in Australia through the Australian Renewable Energy Agency, which began to offer $3.2 billion in financing in July. Riedy also intends to explore projects with Australia's Clean Energy Finance Corp., which will provide $10 billion in funding for renewable energy and energy efficiency beginning July 1, 2013.

The United Kingdom's Green Investment Bank began providing initial capital of about $5 billion for a variety of projects in April, Riedy said.

Canada's Sustainable Development Technology Fund also is offering grants for renewable energy pilots and demonstration projects generally, while its Next Generation Biofuels Fund is offering loans and loan guarantees to fund first commercial advanced biofuels facilities, he said.

These various funds may be available, or could be made available to fund biochemical facilities, Riedy told BNA.

He told the conference that pilot and demonstration projects funded through the Australian, U.K., or Canadian programs must be built in the country providing the financing.

But once a technology has proven itself in those respective countries, it is far easier to find funds for additional commercial facilities through U.S. domestic institutions or other sources.

Advocacy Needed. Advocacy could help increase domestic sources of capital, said Riedy, voicing a perspective many conference participants shared.

For example, master limited partnerships (MLPs), which combine the tax benefits of limited partnerships with the liquidity of publicly traded securities, are a useful approach, he said.

MLPs are taxed at the personal income level rather than being subject to corporate income tax. Thus, such funding vehicles are subject only to one, and not two, levels of taxation. ''Therefore, the substantial corpus of funding raised therein is protected from taxation,'' he said.

The use of MLPs for biofuels or biochemical facilities, however, would require a statutory revision to U.S. tax laws, Riedy said, adding that such legislation has already been introduced.

In June, Sens. Chris Coons (D-Del.) and Jerry Moran (R-Kan.) introduced S. 3275, the Master Limited Partnerships Parity Act. Reps. Ted Poe (R-Texas) and Mike Thompson (D-Calif.) introduced H.R. 6437 as companion legislation in September, he added.

''We would like to see the renewable chemical industry voice its support and get involved with us in each effort,'' Riedy told BNA.

The MLP bills are unlikely to move during the current lame-duck session, and industry should urge lawmakers to reintroduce the legislation and approve it in the next Congress, he told conference participants.

SCD-iBIO, an affiliate of the Society for Chemical Manufacturers & Affiliates (SOCMA), was established to help companies throughout the supply chain share information and lessons learned to increase the market potential for biobased chemicals as well as fuels.

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Information about SCD-iBIO is available at http://www.scd-ibio.org/home.html.

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