

Predicting the Future

There's a whole new crop of processes and uses for agricultural products. What will this mean for the seed industry?

By Julie McNabb

With the recent explosion of bioenergy, bio-products, nutraceuticals, pharmaceuticals, and value-added products onto the agricultural scene, it is hard to ignore the fact that we're entering a bio-products age. As this surge of new knowledge, technologies, and processes expands markets for agricultural products, how will it affect the seed industry? What role will seed play in powering the future?

Some of these questions are already being answered in the ethanol industry. You don't have to go very far to see concrete examples of how an alternate use like ethanol is affecting the seed business. One example is the success of the DuPont and Monsanto programs for grain varieties with higher starch conversion rates that gain ethanol plants an extra 5-7% efficiency. Those programs now exceed 200 varieties and are helping farmers and the biofuel business.

Tom Wilttrout, Global Business Leader, Corn and Sorghum, for Dow AgroSciences, says when it comes to the ethanol industry the focus is on producing trait products to maximize grower yields. "I think overall in the next few years we are going to see increased acreage and potentially higher grain prices for the grower, depending upon yields and global demand," he says. "I don't see a lot of structural changes other than maximizing the use of technologies that result in highest potential yields."

Dan Basse of AgResource Company agrees production

increases remain paramount and notes this will still drive change. "The farming community will enter into contracts with end-users and the result will be an increased demand in genetically modified seed," he says. "These contracts will demand producers plant GM seeds to boost product output." Basse says end-users will demand certain varieties and seed companies need to be ahead of this curve. "Seed companies should be looking at what industries are in their area and try to differentiate to help farmers meet these new contract obligations," says Basse. For example, with ethanol that means offering different seed varieties that may enhance starch content for corn users.

"Everyone needs to think in terms of contract farming rather than traditional commodity farming," says Basse. "There will be a push towards higher value crops with different traits." As a result, he says seed companies will be forced to hire more research people in their genetic divisions, which will be hard for smaller companies. "This new emphasis on genetic traits will force consolidation of the seed industry."

Addressing Value

So will these new markets mean higher value when, for example, ethanol plants are looking for feed grade wheat and barley? Most people in the industry take the stance that anything creating added demand means higher value. "It definitely means higher value than the alternate choice which is not having that demand at all," says Kimball Nill, Technical Issues Director for the U.S. Soybean Export Council.



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However, others believe it's more complex than that and the bio-products age will mean higher value for trait and bio-product companies, but not necessarily for retail seed companies that don't have a trait business. "Farmers and seed companies have to continue to be the least cost producer – they don't get to share in the high-value – that goes to the end-user," said one source. On the other hand, bigger seed companies will have more opportunity to leverage their traits, seed business and distribution channel with their brands. "Companies with trait businesses will get more value."

Changing the System

In order to take advantage of this emerging bio-products age, Nill says there has to be a change in the mindset of seed companies when it comes to adhering to regulatory requirements. "Right now we are failing to deal with overseas regulatory requirements, and this is going to make or break the bio-products age." He says this means adopting an airtight, closed loop system like the one the U.S. soybean industry has been using since 1998 to keep value-added beans confined and out of export markets. "The U.S. Soybean Export Council has a policy prohibiting the unrestricted U.S. commercialization of any new biotech seed until after it has received all required overseas import approvals," he says. "If a seed company feels it cannot wait for all those approvals to be granted then it must keep its new biotech seed totally contained within an airtight, closed loop system, including final processing of the resultant seed."

Nill says the closed loop system is much more rigorous than the already established IP system and ensures unapproved overseas value-added beans are kept out of the system entirely. "It's easier to contain the value-added beans than tighten up IP systems," he says. The idea is a separate entity that would run adjunct to the existing IP system.

While another source concurs that alternate uses will lead to an enhanced IP system, he terms it another way: "it will lead to another level of identity preservation." He takes it even further, adding that he envisions some smaller seed companies changing gears and becoming specialized IP or alternate use businesses. "Like local stores that focus on specializing their meat or produce departments so they aren't in direct competition with Wal-Mart. They became known for their niche value, and I can see some seed companies going in this direction when it comes to IP"

Other structural changes will include a shift in production to be closer to processing facilities and plants, which is already happening in the ethanol industry. "Processing will become the paramount decision for location," says Nill.

The reality is that we're entering a new age – an age where producers are going to be able to make a decision to sell an acre of corn either to the feedlot or to someone using it for plastics or bio-products. And the seed industry is going to have to adapt to this reality that more people are competing over the same acre of corn.



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