

Woodfuel supply chain integration in the South West of England:

A transaction costs approach to bioenergy development

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Pedro Andrés Garzón Delvaux:

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Abstract

The wood energy market remains nascent in the UK, despite climate change policies and energy security concerns. Transaction costs have been identified as one barrier to woodfuel development. However, few studies provide explicit insights into such barriers to spontaneous exchange in this sector and how they influence its formation. The study approaches the development of woodfuel in the South West Region of England through Transaction Costs Economics (TCE) and aims to identify the appropriate governance structure of the supply chain as a response to existing transactions costs. When transaction costs increase, seamless market exchange gradually gives way to credible contracting and even to full vertical integration or unified ownership. The TCE approach provides insights to analyse friction and barriers to exchange and allows for a dialogue between economics, law and day-to-day business decision-making. Fuel procurement from woodfuel suppliers to woodfuel users is central to this project in looking at the barriers to exchange. Original data was collected through 42 in-depth interviews, mainly with suppliers themselves but also from Forestry Commission, regional agencies, NGOs and lobbies involved. The results suggest the influence of transaction costs. Also, there is some evidence that wood-energy regional actors are embracing organisational diversity from known rural business structures to less familiar ones in the UK, such as cooperatives and new partnerships as answers to, among other factors, transaction costs. The evidence suggests that not only support to demand and supply is necessary, as generally identified, but it is also needed at its interface by supporting the governance of the supply chain. Some practical implications for both public and private sectors are identified to better articulate the response to this need.

Keywords: woodfuel, wood energy, bioenergy, transaction costs, governance.

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Contents

Abstract	2
Acknowledgements	3
I Background	20
1 Introduction	21
1.1 Problem statement and general hypothesis	21
1.2 Rationale	23
1.3 Delimitation of issues and approach	25
1.4 Contributions	26
1.5 Limitations	27
1.6 Plan of thesis	27
2 Context	29
2.1 Introduction	29
2.2 Wood as energy source	30
2.2.1 Definition	30
2.2.2 Forms	32
2.2.3 Bioenergy conversion essentials	33
2.3 Potential and sustainability	33
2.3.1 The concept of potential	33
2.3.2 Woodfuel: UK current assets	36

2.3.3	Estimates for the South West	39
2.4	Woodfuel production and logistic challenges	41
2.4.1	Harvesting and processing	41
	Harvesting	41
	Storage	41
	Processing	42
2.4.2	Geography and the (transaction) costs of procurement.	44
	Transport	44
	Geography and transaction costs	45
2.5	Consumption of woodfuel and energy	46
2.5.1	European trends	46
2.5.2	UK woodfuel use and relation to general energy use	50
	South West consumption estimates	52
2.6	Problem statement: Approaches to woodfuel development	54
2.6.1	Innovation and woodfuel	54
2.6.2	Background on critical factors to bio-energy market development	59
2.6.3	Policy responses in the UK and the South West	62
	Targets for the UK	62
	The responses	62
	Focus: The Woodfuel Strategy for England	63
2.6.4	Diversification of actors and levels in UK energy policy design and implementation	65
2.7	Summary	66

II Approach 68

3 Theory and philosophy of the approach 69

3.1	Introduction and rationale	69
-----	--------------------------------------	----

3.2	Theoretical origins	71
-----	-------------------------------	----

3.3	Neo-Institutional Economics and TCE in perspective, institutions and levels of analysis	72
3.4	What are transaction costs?	75
3.4.1	Introduction to transactions.	75
3.4.2	Identifying transaction costs.	76
	Asset specificity	77
3.4.3	Transaction costs as a family	78
3.5	The assumptions of TCE	81
3.5.1	Operational study of transactions and their dimensions	81
	Asset specificity	82
	Uncertainty	83
	Frequency of transactions	83
	General context	84
3.6	Transaction costs and the governance approach	85
3.6.1	Spot markets	86
3.6.2	Hierarchies	88
3.6.3	Hybrids	88
	Relevant manifestation of hybrids	90
3.6.4	Conclusion on governance	93
3.7	Transaction costs in real time	93
3.7.1	The “contractual” or TCE perspective	96
3.7.2	The “competence based” / “evolutionary approach” views	97
3.8	The main refutable propositions empirically testable of TCE	99
3.8.1	The discriminating alignment hypothesis	99
3.8.2	Empirical evidence and support to theoretical expectations of TCE	101
3.9	Summary	102

4	Implication of an institutional approach the woodfuel supply chain	103
4.1	Introduction	103
4.2	Forestry	104
4.3	Bioenergy	106
4.4	From business model to governance	110
4.5	Beyond activities: Exploring transactions along the supply chain	115
4.6	Before the characteristic of the transaction, the characteristics of the fuel	117
4.7	Implications of assets specificity for woodfuel development	120
4.8	Uncertainty	120
4.9	Conclusion: Drawing hypotheses	121
5	Methods	122
5.1	Introduction	122
5.2	The study	123
5.2.1	Rationale	123
5.2.2	General traits of the study	125
5.2.3	Following best practice	126
5.3	Levels and units of analysis	129
5.3.1	Levels of analysis and time span	129
5.3.2	Independent and dependent variables.	130
5.4	Data requirements and instruments to gather evidence	132
5.4.1	Written sources	133
5.4.2	Oral sources	134
5.4.3	Instruments	134
	Interviews with businesses	135
	Interviews with supporting organisations	137
5.5	Stakeholders and informants	137
5.5.1	Contact data base	137
5.5.2	Categories of stakeholders	138

5.6	The process and experience of field work	139
5.6.1	The process	139
5.6.2	The experience	140
5.7	Summary	141
III	Evidence	142
6	Woodfuel supply market characteristics	143
6.1	Introduction	143
6.2	Who populates the woodfuel supply chain?	144
6.2.1	Individuals contacted	145
6.2.2	Type of businesses	147
6.2.3	Age of business and time in woodfuel trading	149
6.2.4	Size of businesses	150
6.2.5	Implications of the type of businesses	150
6.2.6	Origin of the woodfuel venture and motivations	151
6.2.7	Who populates the supply chain: Summary	158
6.3	Characteristics of the woodfuel market	158
6.3.1	Range of woodfuel-related activities	158
6.3.2	Degree of integration of activities along the supply chain	159
6.3.3	Volumes	164
6.3.4	Prices of woodfuel	166
6.3.5	Distances from source to combustion	167
6.3.6	Customers	169
6.4	Summary	170
7	The difficulties and issues raised by participants	172
7.1	Introduction	172
7.2	Material availability	174
7.2.1	Physical dimension	174

7.2.2	Economic dimensions of scarcity	180
7.2.3	Alternative sources	182
7.2.4	Local sources and beyond:	183
7.2.5	Supply of material and some governance issues	184
7.2.6	Summary and conclusions	186
7.3	Information:	187
7.3.1	Quality standards.	188
	Effects and implementation of product quality standards.	188
	Quality standards of the specific fuels	191
	Users' knowledge: Quality, origins and implications	196
	Summary	198
7.3.2	Know-how.	198
	Installers and other cowboys of the Wild West.	201
7.3.3	Conclusion on information issues:	206
7.4	Institutional factors	207
7.4.1	Awareness about support available	207
7.4.2	Capital grants and more	208
7.4.3	Access to credit	210
7.5	Summary	210
8	Crafting order	213
8.1	Introduction	213
8.2	Governance structures	214
8.2.1	Spot market	214
8.2.2	Fully integrated	214
8.2.3	Contracting or not contracting (i.e. relational contracts)	215
8.2.4	Current experiences of long-term contracting: sales contracts	215
	Hypothetical contracting	223
8.2.5	Other hybrid options	226

Selling	226
Procurement	227
8.3 Determinants of governance choice	228
8.3.1 Dimensions of asset specificity	228
Capital investments	228
Future plans	230
8.4 Capital asset specificity	231
8.5 Site specificity	231
8.6 Dedicated assets and temporal specificity	232
8.6.1 Discussion on asset specificity	232
8.6.2 Woodfuel match and mismatch in TCE	234
8.7 Summary	235
IV Concluding	239
9 Summary, thesis conclusions and recommendations	240
9.1 Summary	240
9.2 Thesis conclusions	245
9.3 Implications and limitations	249
9.4 Future research implications	252
9.5 Lesson learned and recommendations	253
9.5.1 Public sector and supporting organisations	253
9.5.2 Suppliers of woodfuel	256
Bibliography	258
Appendix	275
A Information letter	275
B Consent form	278

C List of variables	281
D Questionnaire to businesses	285
E Interview guide to supporting organisations	313
F Support for renewable electricity generation: The Renewables Obligation (RO)	315

List of Tables

- 2.1 Summary of wood fuel resource estimates for the UK /or/ Britain (000's odt y^{-1})* 37
- 2.2 Overview of woodfuel potential accounting for markets, per country, (000's odt y^{-1}) 38
- 2.3 Estimates of waste wood, 000s tonnes 39
- 2.4 Estimates of quantities of woodfuel from UK sourced roundwood compared to total deliveries for soft and hardwood (000's green tonnes) 50
- 2.5 Woodfuel supply by sawmills and round fencing manufacturers, 2006-2009 (000's green tonnes) 51

- 3.1 Typologies of transaction costs 80
- 3.2 Asset specificity manifestations 83
- 3.3 Comparative attributes of governance structures 87
- 3.4 Comparative attributes of governance structures 90
- 3.5 Characteristics of fuel contracts 91

- 4.1 Intrinsic features of woodfuel and its main energy commodity competitors 118
- 4.2 Intrinsic features of types of wood fuels 119

- 5.1 Potential dimensions of a case study 125
- 5.2 Case study criteria of best practice 126
- 5.3 Originality of data (N=20) 133
- 5.4 Organisations contacted 135

- 6.1 Role of interviewees, (N=30) 146
- 6.2 Age class of respondents, (N=26) 146

6.3	Formal education of interviewees, (N=26)	146
6.4	Businesses formally contacted, (N=30)	148
6.5	Years in operation (N=29)	149
6.6	Direct employment implications of woodfuel (N=14)	150
6.7	Motivations for woodfuel	152
6.8	Enterprises by product(s), Frequency. (N=28)	161
6.9	Outlet: Retail, wholesale and own consumption, Frequency (N=28) . .	161
6.12	Estimated volumes traded by businesses in the South West (2009-2010)	165
6.10	Conversion table: Coefficients for standardising weight and volumes into Oven Dry Tonnes equivalent (odt).	165
6.11	Volumes traded by businesses contacted in the South West (2008-2009), odt equivalent.	165
6.13	Price set by businesses for logs and woodchips (2008-2009), in GBP, odt equivalent.	166
6.14	Average prices in GBP comparing odt and seasoned tonne (30% MC) of material	167
6.15	Mean hauling distances from source to processing/ storage yard (valid N=23).	167
6.16	Mean “economic distance” from source to processing/ storage yard, ac- counting for joint-products (valid N=23).	168
7.1	Importance given to perceived wood scarcity, by county of activity (N=26)	176
7.2	Woodland area by county	176
7.3	Proportion of broadleaved and conifer woodland by county	177
7.5	Off the gas grid households and fuel poverty by county for 2006.	178
7.6	Information-related costs	187
7.7	Importance given to lack of quality standards as a barrier, by product (N=25)	189
8.1	Businesses with long-term contracts (N=28)	215
8.2	Summary characteristics of renewed templates and contracts	217
8.3	Would you be interested in formal ongoing long-term contracts? (N=26)	224

8.4	Flexibility versus Stability trade-offs (N=19)	226
8.5	Investment in the last two-three years (percent, before 2009)	229
8.6	Machinery and equipment purchase (percent)	229
8.7	Plans for the future (N=19)	230

List of Figures

2.1	Woodfuel in relation to energy sources in general.	31
2.2	Logs, Woodchips and Wood Pellets	32
2.3	Bioenergy conversion possibilities	34
2.4	Entire biomass and biomass available for energy purposes	35
2.5	Woodfuel supply chain (basic diagram)	43
2.6	Trends of the production and consumption of woodfuel in Europe (1960-2000)	47
2.7	Estimates of sources of woodfuel and uses of wood energy in Europe in 2005	49
2.8	Proportion of respondents who use wood as fuel in their home by surveys and country between 1997-2007 (%)	53
2.9	Proportion of respondents who use wood as fuel in their home, by region (%)	55
2.10	The commercial maturity of new and renewable energy technologies relative to market penetration.	57
3.1	Economics of institutions	74
3.2	Simple contractual diagram: The Discriminating Alignment Hypothesis	100
4.1	The supply chain as web of transactions	116
5.1	Dyadic relationships	130
6.1	Activities around woodfuel, Percent of businesses, (N=28)	160
6.2	Activities around woodfuel by outlet, Percent (N=28)	163
6.3	End-user customers of woodfuel, Weighted percent (N=19)	170

7.1	Importance given by businesses to barriers to the development of their woodfuel activity (N=26)	173
7.2	Awariness of participants to initiatives and support grants? (N=20)	209
8.1	Ideal length for a supplying contract to user (N=13)	224
8.2	Foremost feature required from a long term agreement (N=17)	225
8.3	Second most important feature required from a long term agreement (N=17)	225
8.4	Businesses represented by principal fuel and associated governance option on contractual diagram.	236