Biomass subsidy faces threat of elimination

Written by

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Washington, D.C. — A subsidy that next-generation biofuel producers are counting on to procure their feedstocks is in danger in Congress.

The subsidy program, created in the 2008 farm bill, is set to expire in 2012 and it could be out of money sooner if House Republicans get their way.

An Agriculture Department spending bill that the House could debate this week would eliminate funding from the Biomass Crop Assistance Program for the budget year that starts Oct. 1.

Poet LLC is already using the subsidies for a $250 million project at Emmetsburg designed to produce 25 million gallons of ethanol a year from bales of corncobs, husks and stalks that farmers would be paid to harvest.

Farmers who harvest the corn stover for Poet get government payments for two years of $45 a ton. Poet hasn't started on the ethanol distillery yet - it will be attached to an existing corn-starch facility - but farmers already are selling stover to the company for research purposes. The subsidies are meant to offset the cost of new equipment that farmers need or help pay for the cost of seeding other types of biofuel crops, such as switchgrass.

"It's a new technology, and it's going to need some government help to get off the ground," Poet CEO Jeff Broin said.

The Obama administration has been touting projects such as Poet's as the future of biofuels because feedstocks such as cornfield residue won't compete with food supplies and are available nationwide.

In addition to crop residue, forestry waste, perennial grasses and even municipal waste could be used to make ethanol or synthetic versions of conventional fuels. All those feedstocks are sources of cellulose, the fibrous material that makes up plants. Cellulose contains sugars that are tough to break down but can be turned into fuel just

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as cornstarch is now.

Producing 25 million gallons of ethanol would require more than 300,000 tons of stover.

Farmers won't give the stover away. Not only is there the time, labor and equipment needed to harvest and bale it, but it also is valuable in maintaining soil fertility and protecting the ground from erosion.

In areas where there is little risk of erosion, farmers could harvest one to two tons of stover an acre without creating environmental issues, according to USDA research. A typical cornfield contains about five tons of stover in the fall.

Farmers who harvest some of that will have to apply extra fertilizer to their fields to replace nutrients removed with the crop material, primarily potassium and phosphorus but also some nitrogen.

That additional fertilizer will cost about $15 to $20 an acre, said Douglas Karlen, a USDA soil scientist in Ames who has studied the impact of harvesting stover on soil fertility.

Together with the biomass subsidy, farmers are getting about $80 to $85 for selling stover to Poet.

Poet isn't alone in worrying about the subsidies. Representatives of BP Biofuels, a unit of the British oil company, and other companies pitched the subsidy program to congressional aides last week.

Biofuel producers will likely have to count on the Democrat-controlled Senate to save the biomass subsidies.

Iowa Sen. Tom Harkin, a senior Democrat on the Senate Appropriations Committee, is a strong supporter of the program.

It "is crucial in getting producers to initiate biomass feedstock production on millions of acres as required to meet" federal biofuel mandates, which will require refiners to use 36 billion gallons a year by 2022, said Harkin spokeswoman Kate Cyrul. Much of that fuel must come from sources other than cornstarch.

The pending House appropriations bill would cut overall spending for the USDA and Food and Drug Administration by more than 13 percent for fiscal 2012. Individual programs, such as the biomass subsidies, would get hit harder than others.

"The reality is that this is a starting point of discussion on the budget," Agriculture Secretary Tom Vilsack said of the House

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proposal to eliminate the biomass subsidies. "This is not finalized. We have many opportunities to have input."

Harkin also will work to extend the program when Congress writes the next farm bill, Cyrul said.

The possible end of the biomass subsidies isn't the only roadblock facing Poet and other companies. The other challenge is finding a market for ethanol. Unless refiners start mixing more ethanol in gasoline than they do now, there won't be a domestic use for the biofuel, Broin said.

The Environmental Protection Agency is moving to increase the blending limit from 10 to 15 percent for 2001 and newer vehicles, but it's not clear how widely the higher blend would be sold, given the restrictions on which cars and trucks can use it. Some can run on 85 percent ethanol, E85, but that product has never taken off.

The ethanol industry wants the government to require automakers to equip all new cars and trucks that way and to subsidize retrofits to service stations to sell higher blends of ethanol.

"If there's no government commitment, it will be difficult to get cellulosic ethanol off the ground," Broin said.

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