



1 of 2 DOCUMENTS

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**The Washington Post**

washingtonpost.com

The Washington Post

January 10, 2010 Sunday  
Suburban Edition

**SECTION:** A-SECTION; Pg. A03

**DISTRIBUTION:** Maryland

**LENGTH:** 1108 words

**HEADLINE:** Biomass subsidy has hidden cost;  
MORE HARM THAN GOOD? Composite wood makers see unintended impact

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**BODY:**

It sounded like a good idea: Provide a little government money to convert wood shavings and plant waste into renewable energy.

But as laudable as that goal sounds, it could end up causing more economic damage than good -- driving up the price of raw timber, undermining an industry that has long used sawdust and wood shavings to make affordable cabinetry, and highlighting the many challenges involved in decreasing the nation's dependence on oil by using organic materials to create biofuels.

In a matter of months, the Biomass Crop Assistance Program -- a small provision tucked into the 2008 farm bill -- has mushroomed into a half-a-billion dollar subsidy that is funneling taxpayer dollars to sawmills and lumber wholesalers, encouraging them to sell their waste to be converted into high-tech biofuels. In doing so, it is shutting off the supply of cheap timber byproducts to the nation's composite wood manufacturers, who make panels for home entertainment centers and kitchen cabinets.

While it remains unclear whether Congress or the Obama administration will push to revamp the program, even some businesses that should benefit from the subsidy are beginning to question its value.

"It's not right. It's not serving any purpose," said Bob Jordan, president of Jordan Lumber & Supply in North Carolina, even while noting that he might be able to get twice as much money for his mill's sawdust and shavings under the program.

"The best thing they could do is forget about it. All it's doing is driving the price of wood up."

A range of renewable materials can be converted into energy sources: Wood pellets, rice hulls and fiber from sugar cane can produce electricity; algae and corn cobs can be converted into liquid fuel. The federal government is actively

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working to support the growth of as many of these biomass crops as possible, in part to meet requirements under the 2007 energy bill: The country must produce 5.5 billion gallons of advanced biofuels annually in five years, and 21 billion gallons by 2022. Right now, almost no U.S. land is devoted to raising biomass crops; according to congressional estimates, by 2022 the country will need between 22.2 and 55.5 million acres for this purpose.

#### A struggling industry

The new subsidy provided a critical boost to an industry that took off in the late 1970s after the federal government mandated that utilities obtain part of their supply from independent power producers. Many of these contracts have now expired, leaving the industry struggling to compete in light of low natural gas prices and higher wood costs.

The future of the biomass program -- which will eventually include a subsidy to get farmers to grow crops such as switchgrass and an array of trees and shrubs -- could be determined by the Office of Management and Budget, which has been reviewing the federal rule for the program since September. In the meantime, federal money has started to flow: The administration sent \$23 million to the state offices of the Farm Service Agency in the fall, and is poised to distribute another \$514 million.

Biomass energy representatives, such as the Biomass Power Association president, Bob Cleaves, said those subsidies are critical to support a sector that currently supplies half of the nation's renewable energy (the other half coming from wind, solar and other sources). Seven of Maine's 10 biomass energy plants would have shut down without the new influx of funds, he said.

"The industry needs help," Cleaves said. "Is the country not prepared to spend half a billion dollars on half the country's renewable energy resources?"

The Agriculture Department, for its part, says it has no choice but to implement the subsidy the way Congress envisioned it under the 2008 farm bill. That legislation made no distinction between a waste product with little market value, such as corn husks, and the sawdust that sells for roughly \$45 a dry ton.

Farm Service Agency Administrator Jonathan Coppess said his agency is strictly adhering to the statute's language and intentions. "We understand that policymaking, legislation and rule making are perfecting processes, not perfect processes, and we look forward to providing the best regulation possible to implement an important program with significant potential to benefit our national energy and agricultural economies," Coppess said in a statement.

But at least one key senator, Tom Harkin (D-Iowa) -- who helped author the 2008 farm bill as Agriculture Committee chairman at the time-- now questions whether the program has gone awry.

"My bottom line is we have to examine those rules and make sure the payments incentivize the use of new, additional biomass for energy," Harkin said, "which is the objective Congress intends and wrote in the law."

'At what expense?'

In at least some cases, that's not happening. The federal government can provide up to \$45 a ton in matching payments to businesses that collect, harvest, store and transport biomass waste to an authorized energy facility. That means sawdust or wood shavings may be twice as valuable if a lumber mill sells them to a biomass energy company instead of to a traditional buyer.

This is bad news for the composite panel industry, which turns these materials into particleboard and medium-density fiberboard, and outranks the U.S. biomass industry in terms of employees and economic impact, with 21,000 employees and annual sales of \$7.9 billion, according to 2006 U.S. Census data.

The biomass subsidy program could "wipe us out," said T.J. Rosengarth, the vice president and chief operating officer of Flakeboard, the largest composite panel producer in North America. "You can say, 'I've made more alternative energy,' but at what expense?"

The much larger pulp, paper, packaging and wood products industry, which ranks among the top 10 manufacturing employers in 48 states, is just as worried. The American Forest and Paper Association sent a letter to OMB on Oct. 27 warning that the biomass program "could have the unintended consequence of jeopardizing the forest products industry and the many jobs it sustains, as well as the significant quantities of renewable energy it produces."

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But pellet mill owners such as the Rolf Anderson, chief executive of Bear Mountain Forest Products, said the program will eventually create an incentive for people to bring small pieces of wood left by loggers out of the forest, which will give companies like his a cheap and steady stream of raw materials.

"It opens up economic opportunities. It opens up healthier forests, and it helps companies and individuals save on their energy costs," said Anderson, whose company is based in Oregon.

**GRAPHIC: IMAGE;** Scott Terrell/associated Press; The Biomass Crop Assistance provision gives millions in federal dollars to mills and lumber wholesalers.

**LOAD-DATE:** January 10, 2010