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## U.S. offers \$1.5 billion aid for biofuel production

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WASHINGTON (Reuters) - The government is offering more than \$1.5 billion in assistance, from field to filling station, to bring next-generation biofuels to market, Agriculture Secretary Tom Vilsack said on Thursday.

Vilsack said the aid would assure renewable fuel consumption reaches 36 billion gallons by 2022, with the bulk of it coming from non-food sources such as grass, algae or woody plants.

During a speech, Vilsack also urged Congress to revive a biodiesel tax credit and to extend, possibly at a lower rate, an ethanol tax credit due to expire on Dec 31. He said a 54-cent-a-gallon tariff on imported ethanol was likely to continue but eventually be phased out.

Biofuels are a favorite cause in the U.S. Midwest, where the ethanol industry is concentrated. Vilsack announced the biofuels aid less than two weeks before mid-term elections when Republicans are expected to gain seats. Two-thirds of the most competitive U.S. House races are in rural districts.

Ethanol makers will produce about 13 billion gallons of the renewable fuel this year, chiefly from corn. A 2007 law requires annual use of 36 billion gallons from 2022 and reserves 21 billion gallons of it for "advanced" biofuels.

"Production of 36 billion gallons of biofuels will require that biorefineries dot the rural landscape," said Vilsack, who linked biofuels with rural prosperity.

The number of biorefineries would have to double at a minimum to meet the biofuel goal. There are 204 plants in half of the U.S. states. The average plant employs 40-50 people and spends \$130 million a year on supplies, wages and transportation.

Vilsack listed four steps to expand biofuel production and usage:

--Launch of the Biomass Crop Assistance Program, which pays up to 75 percent of farmers' costs to grow and harvest biomass crops for use in nearby bioengineered or biopower plants. Forestland owners can qualify for payments on materials harvested from forest health or ecosystem restoration and used in bioplants. Cost is estimated at \$461 million over 15 years.

Eligible crops include switchgrass, miscanthus, woody poplar, jatropha, algae, "energy cane," and pongamia, said USDA.

--Selection within 60 days of five biorefinery or bioenergy projects around the nation for loan guarantees to assist construction. An Agriculture Department official said \$650 million in guarantees were available and half a dozen projects were under review. USDA awarded two guarantees in 2009.

--Action to make \$281 million available to defray the cost of feedstock to bioplants that increase production. Vilsack said USDA intends to issue a regulation by year's end to make the money available.

--Matching funds to retailers to install 10,000 "blender" pumps and storage systems within five years. Blender pumps can dispense fuel with various amounts of ethanol beyond the 10 percent mix that is standard. The pumps and storage tanks cost around \$25,000 or more. Total cost could be \$250 million.

The largest U.S. ethanol maker, privately owned POET, said the biomass crop program will help launch ethanol made from cellulose. POET is modifying an Emmetsburg, Iowa, plant to use corn cobs and stalks in making ethanol.

Corn growers and ethanol industry officials hailed Vilsack's plan and said the vital first step was extension of ethanol's fuel-tax break, now 45 cents a gallon. They are ready to consider a lower support rate and reforms. Vilsack called for a "fiscally responsible short-term extension" and declined to suggest what the rate should be.

Without the incentive, U.S. production will contract and plants will close -- "that's the reality," said Bob Dinneen of the Renewable Fuels Association.

The Air Transport Association of America, representing U.S. airlines, applauded Vilsack's announcement of a five-year agreement with the Federal Aviation Administration to develop aviation fuels from forest and crop residues and other "green" feedstocks. Fuel is a leading cost for airlines.



The Union of Concerned Scientists said ethanol tax incentives should be replaced with performance-based incentives keyed to lower pollution. Livestock groups, food makers, environmentalists and deficit hawks say ethanol incentives are wasteful and should end.

(Reporting by [Charles Abbott](#); Editing by [Alden Bentley](#))

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