Cellulosic biofuels from high yielding energy crops, such as miscanthus and switchgrass, have significant potential to mitigate greenhouse gas emissions and contribute to energy security. Energy crops can be grown productively on marginal land and thereby reduce the food vs. fuel competition for land.

High costs of production, low and risky returns and a long establishment period with upfront costs can limit incentives for risk averse and credit constrained farmers to grow these crops.

Programs such as the Biomass Crop Assistance Program (BCAP) that provide a cost share for establishment and a matching payment per ton of biomass are critical to offset barriers to investment in energy crops.

However, BCAP does not offset the yield and revenue risks associated with energy crop production. Its current design with a cap on payments for establishment can also reduce incentives for producing high yielding energy crops with high establishment costs. Funding for BCAP would need to increase substantially to incentivize production of the first billion gallons of cellulosic biofuel.

Additionally, supplementing BCAP with policies that provide low interest credit for covering establishment costs and insurance coverage for yield risks of energy crop production are likely to increase its cost-effectiveness in inducing cellulosic biofuel production.
Prof. Madhu Khanna, is an agricultural economist in the Department of Agricultural and Consumer Economics, University of Illinois, Urbana-Champaign. She is leading a research program on the economic, land use and environmental implications of biofuels at the Energy Biosciences Institute (EBI), University of Illinois: She has co-authored more than 100 papers and book chapters and has co-edited the *Handbook of Bioenergy Economics and Policy*. Her research is funded by NIFA/USDA, NSF and the EBI.

khanna1@illinois.edu; (217) 333-5176.

The **Energy Biosciences Institute (EBI)**, a partnership between University of California- Berkeley, University of Illinois, and Lawrence Berkeley Lab with over 300 researchers and $500 million in funding from BP is currently the largest investment in technology and policy research to advance commercialization of cellulosic biofuels.

The **Council on Food, Agricultural and Resource Economics (C-FARE)** is a non-profit organization based in Washington, DC. C-FARE promotes the work of applied economists and serves as a catalyst for incorporating economic thinking into the analysis of food, agricultural and resource decisions. We serve as a conduit between the academic research and extension community and Washington, DC policymakers and agency personnel, matching expertise to public needs.

**National C-FAR** is a nonprofit, nonpartisan, consensus-based and customer-led coalition that brings food, agriculture, nutrition, conservation and natural resource stakeholders together with the food and agriculture research community, serving as a forum and a unified voice in support of sustaining and increasing public investment at the national level in food and agricultural research, extension and education.