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Cap and Trade Principles

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Agriculture has enormous potential to reduce GHG emissions and to sequester carbon in soils. As such, agriculture can play a significant role in any GHG reduction scheme. Any climate legislation must recognize this potential. Allowing agriculture to “offset” carbon emissions will reduce the costs of any legislation to consumers, as well as provide additional environmental benefits such as clean water and wildlife habitat.

The following issues must be addressed in any climate legislation.

1. No Carbon Tax. One approach being considered is to impose a specified tax on the right to emit a determined amount of GHG. This “carbon tax” is a punitive method for regulating entities that must emit GHG in order to produce the goods, services, food and energy that sustain us. It does not directly reduce GHG emissions, but accomplishes this indirectly by imposing financial burdens that are so high that a reduction of GHG emissions is the result. Legislation being considered would create a “cap and trade” approach that limits the amount of GHG that can be emitted every year on a declining scale. It creates a market under which entities that cannot meet their assigned cap can buy allowances from others that have excess credits. Excess GHG emissions thus would be “offset” through the purchase of credits from carbon-reducing or carbon-sequestering projects, such as the types of agricultural projects described above. AFBF is reviewing the economic impact of the various approaches that have been put forward.
2. Unilateral Action by the United States without Cooperation from Other Countries will Not be Beneficial. Unilateral GHG reductions by the United States will have little impact on climate change if other countries continue to emit as usual. It is essential that any legislation be contingent on GHG reduction commitments and actions by countries around the world, especially countries with high GHG emissions. We are also concerned that climate legislation will severely undercut the ability of agricultural producers to compete in world markets. GHG emissions are a global issue with global consequences. China is now the largest emitter of GHG in the world. Unilateral action that imposes cost increases on American producers without a corresponding and similar commitment from other countries such as China, India and Brazil, among others, will clearly put American producers at a competitive disadvantage and our agricultural sector at risk.
3. Legislation should not regulate agricultural practices or operations. Most legislation being considered would regulate GHG emissions from one or more sectors. There are a number of reasons why agriculture must not be included in the regulated sectors. Agriculture is comprised of tens of thousands of entities, many of them operated as small businesses, which would make tracking and enforcement of emission limits difficult. In fact, measuring emissions from any agricultural operation is extremely difficult in and of itself. Part of this is due to the fact that agricultural operations vary greatly across the country, and even from

county to county. Crops, soil types and weather conditions—all conditions that can affect GHG emissions—vary so much that uniform rules, farming or ranching management practices and protocols are impossible. Also, a regulatory regime will not give credit for the added benefits that agriculture can provide through soil sequestration that are above and beyond agricultural emissions. The better and more practical approach is to encourage producers to engage in GHG reduction or sequestration projects that fit their operational needs instead of trying to require such activities. In a “cap-and-trade” scheme, agriculture should not be “capped” but instead allowed to “trade” offsets to help other industries comply with their required emissions and also to cushion the economic impacts to consumers.

4. Any legislation should ensure that farmers and ranchers can continue producing the food and fiber that feeds our nation and the world. We are concerned that climate legislation will severely impact farmers and ranchers by raising fuel, fertilizer and energy costs – which already are at historic highs – to levels that will make it uneconomical to farm. The GHG mitigation opportunities already discussed are not available to all producers, such as those in western states that raise livestock on federal lands. Climate legislation needs to consider all of agriculture. Legislation considered by the Senate earlier this year provided a possible mechanism for such assistance to producers through allocation of a certain amount of allowances. It is critical that this concept remain intact and become more focused to address the needs of agriculture.
5. There Must be a Defined, Realistic, Affordable Source of Energy to “Plug the Hole” if the Use of Fossil Fuels are Reduced. Emissions reductions will result in reductions in the use of fossil fuel. Any energy source thus taken out of the system will have to be replaced in order to avoid restricting the economy. Before a carbon emissions reduction program takes effect, Congress must set out in clear, unequivocal provisions how the United States will “plug the hole” Congress will create in our energy supply. Such sources must be realistic, affordable and defined. We believe that provision must be made for expanded use and expedited consideration for new nuclear power plants as an integral part of plugging the energy hole. The increases in renewable energy sources are only expected to compensate for increased energy needs over the next several years. If natural gas alone must “plug the hole,” energy costs will skyrocket.
6. Implementation of the Renewable Electricity Standard (Title I of the Waxman-Markey Discussion Draft) and Energy Efficiency Standards (Title II of the Discussion Draft) Should be Enacted Before Cap and Trade Legislation. Titles I and II of the Waxman-Markey discussion draft contain emissions reductions which will go a long way toward meeting reduction targets. Achievement of these two goals will likely have a significant impact on the need for comprehensive cap and trade legislation, or at least will have an impact on the nature and scope such a program should take.
7. Any legislation that would establish a cap-and-trade system for the regulation of emissions should recognize the contributions that agriculture can make to carbon reduction and sequestration and must allow agriculture to help offset the reductions imposed on regulated industries. As carbon emissions become regulated through a cap that declines every year, those entities that are subject to emission allowances will incur costs to comply. Those costs will be passed on to consumers through higher energy, fuel and fertilizer costs. These costs can be partially offset by buying “offset credits” that involve carbon reductions or sequestration by non-regulated entities. Economic models show that, at least for the first several years, buying offsets will be cheaper for regulated entities, and thus will reduce the economic impacts to consumers who will ultimately bear those impacts. Use of offsets will ease the transition by regulated entities and consumers. Agricultural offsets should be included

in the range of offset projects available to regulated entities because they can be implemented easily. Many agricultural offset projects provide a number of other environmental benefits in addition to carbon reduction or sequestration. Using these domestic agricultural projects to offset the economic impacts of declining carbon emission allowances will provide wildlife habitat benefits or clean water or soil erosion reduction benefits as well.

8. Any cap-and-trade legislation should fully recognize the wide range of carbon reduction or sequestration benefits that agriculture can provide. Virtually every sector of agriculture has the potential to provide carbon reduction or sequestration benefits to help offset the costs of compliance with reducing carbon emission allowances. Many of these practices and methods are described above. Tillage practices can sequester carbon dioxide in soils and forestry practices can sequester carbon through planting trees and vegetation. Fertilizer and pesticide management can help reduce nitrous oxide and methane. Livestock manure management can reduce methane and nitrous oxide through practices such as covering manure lagoons or using anaerobic digesters. The only limits seem to be the creativity of farmers, ranchers and carbon project managers. Some manure management projects that capture methane from livestock operations use the captured methane as an energy, thus reducing fossil fuel use. These projects should also be “credited” and available as offsets. All of these practices reduce or sequester carbon or carbon equivalents, and all of these agricultural methods should receive “credit” for offsetting carbon emissions elsewhere in any cap and trade system that might be developed in the United States.
9. Climate legislation needs to reward producers who are already reducing or sequestering GHG’s. Many producers have already adopted management practices that reduce or sequester carbon. Instead of being recognized for their early actions, some legislative proposals do not permit early adopters to participate in the offset process. By limiting participation only to those who undertake reduction or sequestration after legislation is enacted, Congress would be creating a perverse incentive to encourage farmers and ranchers and others who want to help reduce GHG’s to wait until legislation has been enacted. Innovators should not be penalized simply because they saw the benefits of taking these actions before legislation was enacted.
10. Cap-and-trade legislation should not artificially limit the amount of credits available to offset carbon emissions. Previous proposals in the Senate had provided that regulated industries could not offset carbon emissions in order to meet yearly compliance obligations by more than 15 percent from domestic credits or 15 percent from international credits. Such an artificial cap would discourage agricultural producers from entering into carbon reduction or sequestration projects in a timely manner. Producers would be inclined to wait until offsets become available before advancing their projects. The cap creates a perverse incentive for project managers to wait until offsets become available for the market instead of undertaking the projects when they become available. An EPA economic analysis indicates that the economic impacts of such legislation to industry and consumers would be less if the caps on domestic and international offsets were removed.
11. Any legislation must give the Department of Agriculture a prominent role in administering agricultural offsets and other carbon reduction or sequestration projects. The Department of Agriculture (USDA) has both the institutional resources and technical expertise necessary to effectively administer any carbon offset allowance program. USDA has developed methods for measuring carbon in different types of soils. USDA also understands the needs of producers and can work effectively with them to develop projects that meet the needs of the cap and trade market as well as the needs of producers. Any legislation should provide that USDA certify and manage agricultural carbon reduction and sequestration projects in any “cap-and-trade” scheme.

12. Criteria for offsets should recognize the unique nature of agriculture. Current legislation requires that in order to qualify under a cap-and-trade system offsets for GHG reductions or increases in sequestration be real, verifiable, additional, permanent and enforceable. We have no dispute with any of these requirements, but flexibility is needed in interpreting what is “additional” and “permanent” in relation to agricultural GHG reduction or sequestration projects. Many agricultural projects also provide a number of environmental and economic corollary benefits as described above. Making a determination that the sole purpose of the project is reduction or sequestration of carbon, as required for additionality, is often difficult. Projects that reduce or sequester carbon should satisfy the requirement even if there are other co-benefits or other reasons for undertaking it. Similarly, what constitutes “permanence” for a sequestration project should be flexibly applied to account for the fact that soils become saturated with carbon after 20 to 30 years. If the goal of any legislation is to reduce GHG emissions, then any GHG reduced or sequestered should be given credit, regardless of motive or duration.

13. Legislation Must Pre-empt Greenhouse Gas Regulation under the Clean Air Act. The Advance Notice of Proposed Rulemaking published by EPA in July shows how pervasive the regulation of greenhouse gases would be for all sectors of the economy. Agriculture would for the first time be subject to direct regulation under the Clean Air Act, from the imposition of Title V permitting requirements that would result in burdensome fees for the livestock industry and other agricultural sectors to regulation under the New Source Review and Prevention of Significant Deterioration permit process. Any legislation should be in place of such regulation, not in addition to it.