



Statement of the American Farm Bureau Federation

To: Senate Committee on Environment and Public Works

Regarding: Clean Energy Jobs and American Power Act

**Presented By:
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President**

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My name is Bob Stallman. I am President of the American Farm Bureau Federation and a rice and cattle producer from Columbus, Texas. Farm Bureau is the nation's largest general farm organization, representing producers of every commodity, in every state of the nation as well as Puerto Rico, with more than 6 million member families. I appreciate the invitation to address the committee this morning on an issue that has generated tremendous debate.

Earlier this year, in July, I testified before this committee, outlining the concerns that America's farmers and ranchers had with H.R. 2454, which passed the House in June. Not only do those concerns remain, but S. 1733 raises new questions and concerns that I will address in my testimony.

We opposed H.R. 2454 as it passed the House, and we are similarly opposed to S. 1733. But the impacts of the legislation go far beyond just the farm and ranch community. Families will be hit hard with higher energy costs under any cap-and-trade program, an amount that could total up to \$200 billion a year for American taxpayers. That will put enormous strain on family budgets.

Increased input costs will put our farmers and ranchers at a competitive disadvantage with producers in other countries that do not have similar Greenhouse Gas (GHG) restrictions. Any loss of international markets or resulting loss of production in the United States will encourage production overseas in countries where production methods may be less efficient than in the United States.

Increased production costs and lost competitiveness will result in reduced food production and higher food costs domestically and abroad. Almost a third of U.S. production is exported. At a time world population is expected to increase from over 6 billion people to more than 9 billion and the U.N. says farmers will have to produce 70 percent more food, the U.S. will actually be producing less.

Now let me deal with some of the specifics of S. 1733.

I. S. 1733 Fails to Provide a Transition to a Clean Energy Economy.

As we indicated in July, one of the major failings of H.R. 2454 was that the measure failed to provide a cost-effective blueprint to transition to a clean energy economy. S. 1733 exhibits the same shortcoming.

There are two essential components to any policy that seeks to transition from one source of energy to new sources of energy—a mechanism that removes the old source, but also a means to “plug the hole” that is left when that energy source is removed with a readily available, cost-effective new source of energy. The principal bills in the House and Senate would accomplish the first element by capping emissions of GHGs; by limiting the use of fossil fuels, such a system would necessarily result in higher prices for all consumers of fossil fuel-based energy.

However, the second essential element is lacking in both of the bills. There is little in either bill that would provide an alternative source of energy to the fossil fuels that will be lost. Americans are being asked to forego the use of coal, of which the United States has tremendous reserves,

yet we are being offered nothing in its place. Each of the potential replacement sources of energy has significant problems and issues, and none of these issues is addressed in the bills.

Energy experts indicate, and advocates of cap-and-trade acknowledge, that renewable sources of energy are not sufficiently available to “plug this hole.” These energy sources are in their relative infancy. In fact, there are such significant issues with regard to siting and transmission of these sources that they may do little more than be able to meet the increase in energy demand of our nation for several years. There have been well-publicized objections to the siting of wind turbines in certain areas. More recently, we have seen stories of conflicts between wind turbines and the impact on endangered species, thus underscoring the competing interests between energy production and natural resource protection. There seems little prospect that these sources of power can actually replace fossil fuels. In the case of wind power, for instance, there is general recognition that it does not have the capacity to replace base load power on the grid due to its intermittent nature.

Nuclear energy would be a logical candidate to “plug the hole” left by the removal of fossil fuels. With respect to air emissions, nuclear energy is a clean energy source and it already supplies nearly a fifth of our electric generating power nationwide. S. 1733 does nothing, however, to promote the development or use of this energy source as a replacement for fossil fuels, and that is a critical failing. Our newest nuclear generating plants are decades old. Some experts estimate that our nation will need to build 4-5 nuclear plants every year for the next 40 years to make up the energy shortfall. Yet, just earlier this week, the Nuclear Energy Institute said its best-case scenario between now and 2030 is barely half that – 45 new plants by 2030. They have called on Congress for \$100 billion in incentives to support more rapid development of the industry. We must acknowledge, too, that many of the obstacles that have been raised to stall the deployment of nuclear energy over the past several decades—costly and burdensome application and licensing procedures, lawsuits and other issues—remain. They could be streamlined and addressed in the bill, yet they are not.

In that regard, we were pleased that the Senate Energy and Natural Resources Committee included some modest language (Sections 312 and 313) in the legislation it approved this spring related to nuclear power. We hope that the Majority Leader will seek to combine the Energy Committee bill with legislation produced by your committee, but we believe that a true commitment to nuclear power goes well beyond a Sense of the Senate resolution. Congress should make an unequivocal commitment to fostering and promoting an aggressive nuclear program and ensure that cap-and-trade emissions limits are not imposed in the absence of a robust nuclear program.

In the absence of such a program, the default alternative will almost certainly be natural gas, particularly because carbon capture and storage seems unlikely to be commercially available in the near-term. The bill does nothing to promote the development and use of natural gas. There are vast untapped natural gas reserves that have thus far been off limits to development, and those reserves will be essential if natural gas will be the substitute for fossil fuel. If this is the direction that the committee wants to take our clean energy policy, then it must promote and streamline the development of those reserves.

Such an approach, however, does not come without a cost. Reliance on natural gas as the source of our energy creates particular problems for farmers and ranchers. Natural gas is the main ingredient in the production of nitrogen fertilizers, which all farmers need to grow their crops. Switching to natural gas as our primary energy source will either drive up the cost of fertilizer significantly, or worse, dry up the supply of natural gas for domestic fertilizer production to the extent that we would have to rely exclusively on imports of fertilizer in order to stay in business.

Advocates for cap-and-trade are strident in their objections to coal and the use of other fossil fuels. Clearly, they are entitled to their opinions. But it's not enough simply to be against something – you must be for something as well. A cap-and-trade program will effectively create a hole in our energy supply. It's Congress's job to "plug that hole" not simply create it. Any legislation taken up and voted upon must be realistic, straightforward and set out a cost-effective, pragmatic path for our economy and our energy future. Unfortunately, S. 1733 fails to do this.

II. S. 1733 Does Not Make Economic Sense for Agriculture.

According to the latest EPA "*Inventory of U.S. Greenhouse Gas Emissions and Sinks: 1990-2005*" updated in 2008, agriculture and forestry emit between 6 percent and 7 percent of the total GHG emitted in the United States. The same EPA report also indicates that agriculture and forestry have the potential to sequester between 15 percent and 20 percent of total U.S. emissions. The USDA says that currently these two sectors sequester about 11 percent of total emissions, so these sectors are responsible for reducing more GHG emissions than they emit. It stands to reason that any climate change policy should seek to maximize these contributions from agriculture.

Any legislation will also impose additional costs on all sectors of the economy and will result in higher fuel, fertilizer and energy costs to farmers and ranchers. Cost increases incurred by utilities and other providers resulting from climate change/energy legislation will ultimately be borne by consumers, including farmers and ranchers. Electricity costs are expected to be one-third higher than would otherwise be the case by 2040. EPA's own estimates suggest coal costs could rise by more than 100 percent by 2020. Unlike other manufacturers in the economy, agricultural producers have a limited ability to pass along increased costs of production to consumers. It is extremely important that those costs be minimized to the greatest extent possible. Farmers are heavily dependent on the price and availability of inputs such as fertilizer and crop protection products. A productive agriculture sector requires viable fertilizer and chemical industries. The fertilizer industry has already gone through major restructuring due to higher natural gas prices and the closure of many U.S. production facilities. More than half of the nitrogen fertilizer used in the United States is imported. Another rise in natural gas prices as EPA projects would likely result from this legislation could threaten the remaining fertilizer manufacturing facilities in the United States. This would make us even more dependent on fertilizer imports.

A report released last week by Senators Kay Bailey Hutchison (R-Texas) and Christopher Bond (R-Mo.) entitled "Climate Change Legislation: A \$3.6 Trillion Gas Tax" found that over the life of the House and Senate legislation, gasoline costs would increase by approximately \$2 trillion and diesel costs for farmers, ranchers and others would increase by over \$1.3 trillion as a result

of the legislation. Producers use gas and diesel to run their farm machinery, power their operations, transport goods to market and drive their cars.

All of these additional costs will be borne by farmers, ranchers and consumers as a result of this legislation.

a. S. 1733 Fails to Provide A Role for Agriculture and Forestry in its Offsets Program.

Offsets are an important part of any cap-and-trade program. Because they are only useful to the extent they are cheaper than installing new technology, they serve as a cost-containment mechanism for entities trying to meet cap obligations. That means that fewer costs will be passed on to consumers, thus lowering the cost of compliance of a cap-and-trade program.

Agriculture and forestry are particularly well-suited to provide offsets to capped entities. Agriculture and forestry are not capped sectors under the bill, and would therefore be eligible to provide such offsets. There are a number of identified agricultural and livestock practices that have been proven to reduce or sequester GHG. These range from shifts out of conventional to conservation tillage, forest management, nutrition management, even afforestation. In order to achieve the full potential for GHG reductions and sequestration, climate policy should allow farmers and ranchers to adopt these practices to provide offset credits to capped entities. Adoption of these practices also provides other environmental benefits besides carbon reduction or sequestration. These other benefits may include reduced soil erosion, improved wildlife habitat or increased water quality, to name a few.

Unlike the House bill, S. 1733 does not specifically provide a place for agriculture and forestry in its offsets program. While the bill provides a pool of 1.5 billion tons of domestic offsets that might be available to capped entities to use in meeting their cap obligations, the bill does not specify who is eligible to provide those offsets. Rather, the bill establishes an advisory board to make recommendations to the president as to which types of offsets would be eligible under the program. While certain types of agricultural and forestry practices are included on a list from which the president may choose, the final decision is up to the president.

This uncertainty creates a number of problems both for farmers and ranchers and the offsets program itself.

Unlike the House bill, where some farmers and ranchers might recoup some of the increased fuel, fertilizer and energy costs that they will incur as a result of such legislation, S. 1733 contains no such assurances. S. 1733 places the entire offsets program in the complete discretion of the president, with no sector being assured that any of the offset opportunities they might provide will even be eligible to participate in the program. In this regard, S. 1733 takes a step backward from the House bill.

Without any assurances that they will be able to provide offsets to any market created under the bill, farmers and ranchers have no mechanism to shield them from the cost increases they will incur, and the bill wastes an opportunity to provide cost containment and environmental benefits that farmers and ranchers can supply.

The uncertainty created by not establishing an initial list of eligible offset types also adversely affects the operation of the offsets program by delaying its implementation. Providing the president with one year to determine an initial list of eligible offsets, the bill on its face delays implementation of the program by a year. But the potential delay could be much longer, because the bill creates uncertainty with investors seeking to fund offset projects. Without knowing what offset projects will be eligible for the program, investors must also wait for that determination. Instead of having a supply of offsets in the pipeline for the start of the program, offsets will not be available for at least a year.

The bill must specify that agriculture and forestry will qualify as eligible offsets. Uncertainty is not acceptable.

b. The Supplemental Program Created for Agricultural and Forestry Greenhouse Gas Reductions is Limited.

The substitute bill would create a new program to be administered by the Secretaries of Agriculture and Interior to provide financial assistance to owners and operators of agricultural lands and forestry lands for projects and activities that measurably increase carbon sequestration or reduce carbon emissions. The program would include activities on public and private grazing lands.

The program would allocate revenues from 1 percent of emission allowances in 2012 and 2013 to fund this program. Funding priority is to be given to projects that provide environmental co-benefits, and which recognize greenhouse gas reductions in operations where there are limited opportunities to achieve such reductions. Eligible projects include those that would qualify as offsets were it not for federal or state laws that preclude them from qualifying, projects that reward early adopters, provide incentives for reductions on private forest lands, prevent conversion of land that would increase emissions, and projects on federal, state or tribal lands. The program would provide for projects on federal grazing lands.

Our testimony in July indicated that certain types of agricultural producers would not be able to participate in an offsets program due to the nature of their operations and their practices, including specialty crop producers and livestock producers who graze livestock on federal lands. We are pleased to see that these two categories are specifically mentioned in this section of the bill.

This program may help some farmers and ranchers who may not otherwise qualify to provide offsets (if agricultural and forestry offsets were allowed under the bill). Livestock producers who graze livestock on federal lands would not qualify to produce offsets, but this provision might enable them to qualify for payments for carbon reduction or sequestration practices carried out in conjunction with their grazing permits or leases. Qualification for participation in this supplemental program is contingent on a number of other federal provisions that affect their ability to conduct reduction or sequestration projects on federal lands. For example, forest plans (on Forest Service land) and resource management plans (on Bureau of Land Management lands) provide the use to which land may be put and the types of activities that can be conducted on

such lands. Livestock producers are also constrained by the terms and conditions of their grazing permits or leases. Current agency practice requires compliance with the provisions of the National Environmental Policy Act (NEPA) before terms and conditions of a permit or lease can be amended. Removing those obstacles could enable these producers to participate in the program.

It is unclear whether funds made available for this program will have to pay for the increased administrative costs incurred by the Department of Agriculture and the Department of the Interior to administer the program. If so, that will limit the scope of the program even further.

The program may be a step in the right direction, assuming that these producers will be able to participate. The program, however, is very limited and will not cover all of those producers who might not otherwise be eligible to participate in an offsets program. Yet, all producers will incur greater fuel, fertilizer and energy costs.

c. The Bill Fails to Reduce the Significant Economic Harm that will be Caused by Regulation of Greenhouse Gases Under the Clean Air Act by the Environmental Protection Agency.

Of particular interest and concern to us is a parallel effort being conducted by the EPA to regulate greenhouse gases under the Clean Air Act. EPA has proposed a Finding of Endangerment and has proposed regulation of new motor vehicle emissions. Once such regulations have become final, a number of programs within the Clean Air Act automatically become applicable, many of which will severely and significantly impact agriculture.

The very low statutory threshold levels for several of these programs will result in a number of unintended consequences for all sectors of the economy, including agriculture. For example, once standards are issued under the scenario, there are a number of potentially devastating impacts that will result from application of Title V permit requirements, Prevention of Significant Deterioration (PSD) permits, and the establishment of National Ambient Air Quality Standards (NAAQS), to name a few. It is these impacts that will be felt most severely by farmers and ranchers and other small businesses.

Title V of the Clean Air Act (43 U.S.C. 7661 et seq.) requires entities that emit, or have the potential to emit, 100 tons per year of a regulated pollutant to obtain a permit for such emissions. The requirement for a permit is mandatory and always results in the imposition of a fee by the government.

Against this backdrop, USDA)stated in comments to the Office of Management and Budget:

If GHG emissions from agricultural sources are regulated under the Clean Air Act, numerous farming operations that currently not subject to the costly and time-consuming Title V permitting process would, for the first time, become covered entities. Even very small agricultural operations would meet a 100-tons-per-year emissions threshold. For example, dairy facilities with over 25 cows, beef cattle operations over 50 cattle, swine operations with over 200 hogs, and farms with over 500 acres of corn may need to

get a Title V permit. It is neither efficient nor practical to require permitting and reporting of GHG emissions from farms of this size.¹

By all standards, these are “very small agricultural operations” and will include most of the farms or ranches in the particular category. USDA statistics for 2007 indicate that these thresholds would cover about 99 percent of total dairy production, more than 90 percent of beef production, and more than 95 percent of all hog production in the United States. The resulting Title V fee structure would be significantly felt on the dairy, beef and pork sectors. While some have disputed that such an outcome would inevitably result, we have seen to date no credible evidence that it could be avoided, despite protestations from some agency officials and other policymakers. Indeed, the threat is perceived as sufficiently real that legislation has been introduced in Congress to forestall such an outcome. But the issue remains that, as a result of litigation aimed at regulating automobile emissions, the EPA may well wind up imposing fees on dairy and beef cows, as well as hogs.

These are hardly the “large emitters” that proponents of the rule say they intend to target. Title V is administered by the states, and permit fees, while technically not a “tax,” for all practical purposes have the same economic impact as a tax on the regulated entity. While the fee varies from state to state, EPA sets a “presumptive minimum rate” for these fees, and that rate is \$43.75 per ton for 2008-2009. The Clean Air Act sets a maximum figure of 4,000 tons per year for the per ton fee, so that emissions over 4,000 tons per year will pay the same total amount. For states charging the presumptive minimum rate, the fee for dairy would be \$175 per cow per year, for beef \$87.50 per head per year, and for hogs would be a little more than \$20 per head per year.

This one example illustrates that application of the Clean Air Act would devastate the livestock industry in the United States.

Unlike the House bill, S. 1733 does not pre-empt or limit regulation of greenhouse gases under the Clean Air Act by EPA. Thus, farmers and ranchers will be impacted much more severely by the double whammy of cap-and-trade legislation and regulation under the Clean Air Act. Livestock producers will not only incur higher fuel and energy costs, but will also have to contend with onerous and burdensome Title V permit requirements and fees every year.

III. S. 1733 Fails to Alleviate the Competitive Disadvantage that Agricultural Producers will Experience as a Result of this Bill.

Agricultural producers rely on foreign markets as sources for their products. Similarly, the international marketplace relies to a large extent on us to produce the food and fiber necessary to feed and clothe the world. The United States exported more than \$100 billion of agricultural products in 2007, approximately 30 percent of production, and only the global recession reduced that number in 2008.

¹ Letter to Susan E. Dudley, OMB from the Secretaries of Agriculture, Transportation, Commerce and Energy, July 2008.

The increased fuel, fertilizer and energy costs that will result from H.R. 2454 and S. 1733 will greatly impact the relationship of American producers with the rest of the world. U.S. agriculture is an energy-intensive industry that relies to a large extent on international markets.

These increased input costs will put our farmers and ranchers at a competitive disadvantage with producers in other countries that do not have similar GHG restrictions. Any loss of international markets or resulting loss of production in the United States will encourage production overseas in countries where production methods may be less efficient than in the United States.

The production of food and fiber in the United States is important both to the U.S. and to the world and must ensure that our producers are not put at a competitive disadvantage. As much as our producers rely on exports for their markets, the rest of the world relies on the United States for the production of their food. Increased production costs in the United States resulting from this bill will likely raise world food prices at a time when most countries cannot afford it.

Trade issues become more complicated, because any trade equalization measures seeking to “level the playing field” for our producers must also comply with our World Trade Organization commitments. Provisions such as those contained in the House bill effectively imposing border tariffs on goods from countries that do not have similar GHG restrictions will almost certainly be challenged in the WTO and are in serious jeopardy of being found to be non-compliant with our obligations. Moreover, such actions could very likely lead to retaliation.

Absent a carefully constructed global agreement that includes developed and developing economies alike, no amount of punitive domestic regulation will either affect global climate or prevent severe repercussions for the U.S. economy.

The U.S. cannot unilaterally commit to GHG reductions absent reciprocal actions by all nations. Only through such commitments can we reduce the competitive disadvantage that will beset American agricultural producers and have an impact on global climate. We believe that any bill should contain a provision that makes implementation of our legislation contingent on commitments by all nations to reduce GHG emissions. Without such a provision, we will be only hurting ourselves.

IV. Biomass Definition

In addition, we believe any legislation dealing with the energy issues and biofuels must rectify an existing failure stemming from language included in earlier legislation.

America’s farmers and farm communities have been at the forefront of the biofuels revolution and have invested in growing the crops and building the facilities to turn plants into fuel. Our farmers have grown this industry while protecting the land and increasing crop yields.

In this connection, we believe legislation should be as inclusive as possible regarding energy and methods of production. Unfortunately, the Renewable Fuel Standard (RFS) included in the Energy Independence and Security Act of 2007 did not include all forms of forest biomass.

Under the standard, the only forest biomass considered renewable is that from “actively managed tree plantations.”

The reason for such a narrow definition is unclear, but the result is that many family farm forest owners would be precluded from active participation. If the purpose of the standard is to increase the use of forest biomass, the definition should be as broad as possible to encourage its use.

Farm Bureau strongly objects to giving the Administrator of the EPA the authority to define sustainable practices for the production of renewable biomass. USDA is the trusted expert on issues such as soil quality and productivity, conservation issues, animal health, rural job creation and commodity pricing. The authority to define sustainable biomass production practices should reside solely with the Secretary of Agriculture.

a. Indirect Land Use Changes (ILUC)

Biofuels like ethanol and biodiesel are clean-burning transportation fuels that reduce our dependence on foreign oil and revitalize rural America. However, there are on-going efforts by some to impose stricter standards for determining the GHGs of home-grown biofuels than those of imported petroleum products. These nay-sayers base their beliefs on controversial and uncertain economic models.

The controversy stems from EPA’s decision to include modeled, projected indirect land use impacts in its scoring of the GHG emissions from biofuel production and use in the proposed rule for the RFS. Essentially, the EPA has determined that the production of ethanol in the U.S. is forcing land use changes in foreign countries that destroy valuable rain forests to produce farm commodities to make up for reduced exports of these commodities from the United States. There is no credible evidence that this is happening.

Our members have serious concerns about the terms “indirect land use change” and “lifecycle carbon emissions” and how these concepts would be measured and implemented. We do not believe there is a reliable way to measure or accurately predict how the production of biofuels will affect land use change in other countries. EPA Administrator Jackson echoed that belief in her September 23, 2009, letter to Senator Tom Harkin (D-Iowa). In the letter Administrator Jackson states: “However, it is also clear that there are significant uncertainties associated with these estimates [of indirect emissions from biofuels] and in particular, with the estimate of indirect land use change.” The biofuels industry cannot be expected to thrive in such an uncertain environment.

We are also concerned that American biofuels are the only transportation fuel being measured for GHG reduction. If we are going to accurately measure GHG reductions we need to accurately measure the land use change for petroleum products. This will allow us to fairly compare GHG emissions from all transportation fuels.

Farm Bureau supports language included in H.R. 2454, The American Clean Energy and Security Act, that prevents EPA from implementing the ILUC rule for six years, until the

National Academy of Sciences thoroughly and fairly determine if land use changes can be corroborated by actual scientific evidence.

Improved plant varieties, new technologies, and more efficient agricultural practices have produced greater crop yields of higher quality. It is unrealistic to think that anyone can predict how agriculture and land use will evolve in the future based on the single variable of biofuels utilization.

In conclusion, we believe agriculture and forestry can play a key role in any future national energy policy. S. 1733 fails to recognize this role and would in fact penalize the very sectors that have the best opportunity to reduce greenhouse emissions in the most cost-effective manner for all.

Thank you for the opportunity to testify, and I look forward to answering any questions.

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