

# Ready For New Carbon Markets And Greenhouse Gas Regulations?

*If Climate Change Legislation Becomes Law, It Will Likely Have More Impact On Farmers and Ranchers Than Any Previous Farm Bill*



SARA WYANT

WASHINGTON, D.C.

Watching the U.S. House of Representatives narrowly approve sweeping climate change legislation proved once again that Otto von Bismark was right when he said:

"Laws are like sausages, it is better not to see them being made."

The 219-212 vote, which called for the nation's first-ever limits on pollution believed to be linked to global warming, represented an incredible victory for President Barack Obama and especially for House Speaker Nancy Pelosi (D-CA). She described the American Clean Energy and Security Act, HR. 2454, as one of her signature issues and pulled out all of the stops to swing enough undecided Democrats into endorsing the bill, along with eight Republicans.

Just a week earlier, one of her biggest obstacles was House Agriculture Committee Chairman Collin Peterson. The Minnesota Democrat served as a champion for farmers and ranchers by insisting that agriculture should be exempt from emission reduction requirements and be eligible to generate additional income by supplying offsets.

Under the original cap-and-trade bill, many power plants, factories and other major emitters would be "capped" at a certain level of emissions and need to invest in "offsets" in order to stay in business. It aims to cut fossil fuel emissions from power plants, factories, oil refineries and vehicles 17 percent below 2005 levels by 2020.

Peterson wanted to ensure that practices such as no-till crops or planting new trees, which reduce carbon dioxide in the atmosphere, would qualify as offsets, building a potential new revenue stream for farmers and ranchers. The Chairman offered an amendment that establishes an agricultural and forestry offset program at USDA, rather than the Environmental Protection Agency, that will work with owners to design and implement plans that reduce or avoid greenhouse gas emissions and sequester carbon on their operations. Farmers, ranchers and forestland owners will earn offsets for these actions, and they can sell the credits to utilities, refiners, or other firms subject to limitations on greenhouse gas emissions.

Peterson also won a significant concession from the bill's authors, Reps. Henry Waxman (D-CA) and Ed Markey (D-MA) for the renewable fuels industry. The bill eliminated a regulatory requirement, known as the indirect land use calculation, which could have severely restricted U.S. renewable energy production. It prevents the Environmental Protection Agency from holding U.S. biofuels producers responsible for deforestation or other land use changes in other countries, and it expands the availability of biomass for energy production by improving the definition of what qualifies as renewable biomass. It also includes a program that will help fund the installation of blender pumps, making clean-burning renewable fuels available to more Americans.

"This bill promotes homegrown, clean burning renewable fuels, which is one of the best things we can do for the economy and the environment," Peterson said.

#### More deals

But for some lawmakers, Peterson's handiwork wasn't enough. They negotiated even more provisions with the House leadership that you won't find written in any formal amendment.

Rep. Frank Kratovil (D-MD) wanted to ensure that farmers in his Maryland district weren't penalized for the conservation investments they have already made. So he drafted yet another agreement that sets aside a percentage of allowances (.28 percent or approximately \$1 billion) to go to farmers ineligible for the offset market to make greenhouse gas reductions.

The final 1,201-page package contains hundreds of goodies for lawmakers like Kratovil, but 44 Democrats, including Rep. Stephanie Herseth-Sandlin (D-SD), still opposed the measure.

#### Costs and competitiveness

The primary reasons several Democrats and almost all Republicans opposed the bill have to do with costs and competitiveness. Rep. Frank Lucas, the ranking Republican on the House Agriculture Committee, described the bill as "the single, largest economic threat to our farmers and ranchers in decades.

"We have more than 115 agriculture and food groups publicly opposing this bill still today. Do you know why? The greatest threat to our agricultural producers is ignored. Under H.R. 2454, input costs will escalate as a direct result of this energy tax.

"Meanwhile, the markets for their crops will shrink because foreign competitors, whose governments will not place these burdens on their farmers, will be able to undersell them," emphasized Lucas.

Although almost all major farm and ranch organizations supported Chairman Peterson's amendment, only three supported the actual bill, as amended: the National Farmers Union, the National Association of Wheat Growers and the American Farmland Trust.

#### Focus on the Senate

But now that the deal-making and arm-twisting is over in the House, speculation turns to the Senate where crafting a bill that can win a majority of votes could be even more difficult.

## Highlights of H.R. 2454, the American Clean Energy and Security Act

- Require electric utilities to meet 20 percent of their electricity demand through renewable energy sources and energy efficiency by 2020.
- Invest in new clean energy technologies and energy efficiency, including energy efficiency and renewable energy (\$90 billion in new investments by 2025), carbon capture and sequestration (\$60 billion), electric and other advanced technology vehicles (\$20 billion), and basic scientific research and development (\$20 billion).
- Mandate new energy-saving standards for buildings and appliances, and promote energy efficiency in industry.
- Reduce carbon emissions from major U.S. sources by 17 percent by 2020 and over 80 percent by 2050 compared to 2005 levels. Complementary measures in the legislation, such as investments in preventing tropical deforestation, will achieve significant additional reductions in carbon emissions.
- Protect consumers from energy price increases. According to estimates from the Environmental Protection Agency, the reductions in carbon pollution required by the legislation will cost American families less than a postage stamp per day. CBO calculates that the legislation will cost the average household less than 50 cents per day.

### Here's the House Agriculture Committee's summary of the key ag provisions:

- The agriculture and forestry sectors will be exempt from the bill's greenhouse gas emission reduction requirements.
- USDA will be exclusively in charge of implementing and operating the agriculture and forestry offset program.
- Any producer or forestland owner who is interested in participating in the offset program will be required to have an approved plan of practices that will sequester carbon or avoid or reduce greenhouse gas emissions. Once that plan is approved, implemented, and verified the producer will be able receive an offset credit from USDA to sell in the market place to utilities, refiners, or other firms subject to limitations on greenhouse gas emissions.

## Who Is Eligible?

- Participating producers will carry out practices that sequester or avoid greenhouse gas emissions.
- Producers who have previously participated in voluntary offset programs will be eligible to participate and earn offset credits for activities with continuing benefits.
- Practices, such as no-till farming and avoided deforestation, will be available to earn offset credits under the new program, as long as they were started after 2001 and result in additional greenhouse gas reduction.
- Producers who have chosen to participate in USDA conservation programs will not be penalized or barred from the offset program.
- Producers living in regions with strict regulatory controls will not be automatically disqualified from the offset program and will be granted flexibility to carry out further practices that address water, soil, and air quality.

And given the relatively short time frame to consider both massive health care reform and climate change legislation, Senators will have to move fairly quickly. Passing a climate-change bill is a top priority of President Barack Obama, who has asked Congress to approve a bill before December's United Nations climate talks in Copenhagen.

California Democrat Barbara Boxer, who chairs the Committee on Environment and Public Works, is expected to roll out her version of a climate change bill in July and work with five other committees to produce a final package. Majority Leader Harry Reid (D-NV) set a Sept. 18th deadline for all committee chairs to get the bill written and ready for floor debate.

Who will be the champion for agriculture this time around? Keep an eye on several Midwestern Democrats who are watching out for both agriculture and their home-state manufacturing base, including Sen. Debbie Stabenow (D-MI), Sen. Sherrod Brown (D-OH), Sen. Claire McCaskill (D-MO) and Sen. Ben Nelson (D-NE) are likely to be key.

Senate Agriculture Committee Chairman Tom Harkin (D-IA) has already been invited to consult with Boxer and other committee chairs on climate change, but even he acknowledges that it will be an uphill climb to pass similar legislation in the Senate.

"This legislation begins to address the critical and pressing issues of energy and global warming, however it is not a perfect bill," said Harkin.

SARA WYANT: *Publisher weekly e-newsletter, Agri Pulse.*



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