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USDA 'Preliminary Analysis' sees climate bill as good for ag, but leaves many questions unanswered

By Jon H. Harsch and Sara Wyant

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In its 13-page "Preliminary Analysis of the Effects of HR 2454 on U.S. Agriculture" released at a Senate Agriculture Committee hearing Wednesday, the Agriculture Department forecasts that the Waxman-Markey climate change bill that was recently passed by the U. S. House of Representatives would provide a generally positive outcome for U.S. agriculture. But under questioning from both Republicans and Democrats, Administration officials declined to provide several specifics about the projections, including how much commodity or food prices would rise as a result of crop acres switching to forestry. The analysis also does not include implications for specialty crops.

"The removal of cropland and pastureland for afforestation would place upward pressure on crop prices, benefiting producers of livestock feed, but leading to higher livestock inputs costs and higher producer prices for livestock and milk. We have not yet integrated these factors into our estimates of changes in net farm income," notes the preliminary analysis.

Pressed by former Secretary of Agriculture and now Sen. Mike Johanns (R-NE) to detail how many crop acres would be converted to forestland under this cap and trade plan, USDA Secretary Tom Vilsack and Environmental Protection Agency Administrator Lisa Jackson repeatedly declined to provide any specifics.

Vilsack said the problem with the question is that he is not willing to assume that there will be no increase in productivity or the potential to plant trees on Conservation Reserve Program (CRP) acres, which are already idled.

"We are creating options. And what we need in rural America more than ever is options," Vilsack emphasized.

Johanns suggested that Vilsack will have a tough time convincing farmers without specific projections for different crops and regions of the country.

“Unless you can quantify this, you can’t sell this plan. It’s only a hope and a prayer,” Johanns emphasized. “It is no conciliation to stand with one foot in the campfire, one in the ice bucket and say on average, I’m in good shape.”

During additional questioning, Democrat Blanche Lincoln also pressed Vilsack for more information on the number of acres that will likely be converted to forestry and the impact on food prices, especially in light of “these difficult economic times.”

Highlights of the preliminary analysis include.

- Short-term 2012-2018 costs to agriculture as a result of the House-passed Waxman/Markey climate change bill “remain low in part because of provisions in HR 2454 that reduce the impacts of the bill on fertilizer costs. In fact, the impact on net farm income is less than a 1% decrease. In the short run, agricultural offset markets may cover these costs.” Fertilizer manufacturing would be unaffected by the bill until 2025, according to the report.
- Medium-term 2027-2033 and long-term 2042-2048 “costs to agriculture rise but remain modest (3.5% and 7.2% decreases in net farm income, respectively). However, benefits to agriculture from an offsets market rise over time and will likely overtake costs in the medium and long term.”

The brief USDA report notes that its upbeat forecast is conservative and “overestimates the impact of the climate legislation on agriculture costs” because it “assumes no technological change, no alteration of inputs in agriculture, and no increase in demand for bio-energy as a result of higher energy prices.” The report adds that “Other studies that account for the impact of higher energy prices on input substitution and demand for bio-energy find that HR 2454 leads to higher agricultural incomes, even without offsets. In summary, USDA’s analysis shows that the agricultural sector will have modest costs in the short-term and net benefits – perhaps significant net benefits – over the long term.”

The report comes at a time when skeptical Democrats as well as Republican members of Congress have charged that the Waxman/Markey bill should not have been passed before there had been thorough economic analysis of potential impacts on agriculture and other sectors.

The long-awaited and still “preliminary” USDA report parallels some of the conclusions reached in a study released last week by the University of Missouri’s Food and Agricultural Policy Research Institute (FAPRI). That report focused only on climate bill impacts on Missouri farmers. It forecast relatively modest impacts such as an 8.8% cost increase for irrigated corn in Missouri by the year 2050. In contrast, the American Farm Bureau Federation has forecast a 9% jump in corn production costs by 2020. AFBF also assumes that 40 million acres of crop or pastureland could be converted to forestry.

Looking long-term, for the 2042-2048 period, USDA projects that “assuming no change in production practices, corn production costs could rise by \$25.19 per acre, on average, in real 2005 dollars or 9.6 percent. In comparison, soybean production costs rise by only about \$5.19 per acre, on average, in real 2005 dollars or 4.6 percent.”

On the revenue side, USDA’s long-term forecast is that “Fuel, oil and electricity expenses are estimated to rise, on average, 22 percent above baseline levels in the long

term while fertilizer and lime expenses are estimated to rise, on average, by almost 20 percent. While total receipts increase marginally – due to higher crop and livestock prices – they are not sufficient to offset the increase in farm expenses. As a result, net farm income is estimated to decline by as much as 7.2 percent [\$4.9 billion] from baseline levels” for the 2042-2048 period. USDA then points to other reports which calculate changes in production management practices and switching to bioenergy crops. Even without adding income from selling offsets, other reports estimate “that annual net farm income would increase in 2030 by about \$0.6 billion or less than 1 percent. By 2045, annual net farm income is estimated to increase by more than \$2 billion or 2.9%.”

Based on EPA reports, USDA states that selling carbon offsets “could generate gross domestic agricultural and forestry offset revenues of \$2 billion per year in real 2005 dollars in the near term, rising to about \$28 billion per year in real 2005 dollars in the long term.”

The USDA report includes the gross revenue USDA expects farmers to earn from selling carbon offsets but “does not consider the potential effects of the offsets markets on commodity prices” or “assess the change in farm income due to the Renewable Electricity Standard and other provisions in HR 2454 that increase the demand for biomass and could provide additional sources of income for the agricultural sector.”

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