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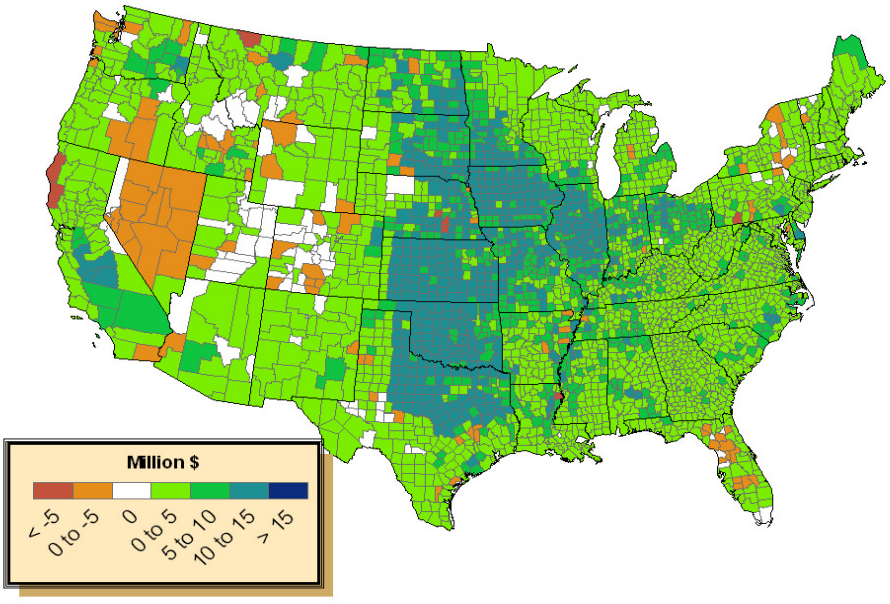
25x'25 report sees cap & trade boosting net farm income

By Jon H. Harsch

A University of Tennessee analysis released Wednesday by the non-profit 25x'25 Alliance shows an overall positive impact for both crop and livestock producers "under a properly constructed cap-and-trade program." For all the crops studied in the analysis, only rice is a loser and that loss is one tenth of one percent. The study carried out for 25x'25 by UT's Bio-Based Energy Analysis Group (BEAG) does identify significant regional disparities – a concern raised by cap-and-trade critics. But the mapping shows the chief critics' Midwest states coming out as the major winners.

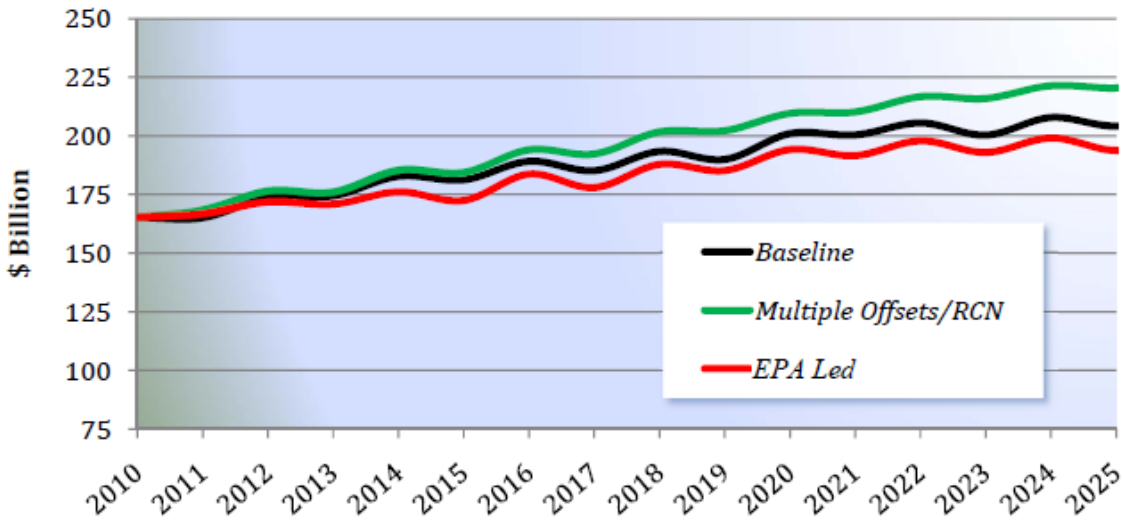


Regional Effects of the *Multiple Offsets/RCN Scenario* on Net Returns to Agriculture, with Forage Replacement: 2025. Source: BEAG Analysis, Nov. 2009

The report makes it clear that the positive outcome depends on Congress writing an "operationally efficient cap-and-trade program that allows multiple offsets, including those for bioenergy crop production, while restricting the removal of crop residues to acceptable, environmentally beneficial levels."

According to Bart Ruth, policy chair for the 25x'25 coalition of farm, energy and business groups, "The study has found that income from offsets and from market revenues is higher than any potential increase in input cost, including energy and fertilizer, if cap-and-trade is done right." The report itself concludes that a well-written cap-and-trade program "is projected to provide nearly $209 billion more in net returns by 2025 than the baseline. Such a policy also is projected to provide over $364 billion more net returns than a policy where EPA regulates carbon without the benefit of multiple offsets."

Former National Corn Growers Association President Fred Yoder explains that "Energy prices will very likely go up under any cap-and-trade scenario. But with a properly constructed system that maximizes the contributions agriculture can make to stemming climate change, farm revenues will grow as well, increasing by $13 billion per year." He says the study shows a $1.9-billion growth in annual returns over baseline projections for corn and another $600 million annually for soybeans. "This study indicates higher commodity prices, and it also shows farmers will have the opportunity to get paid for growing bioenergy crops, reducing their emissions by managing fertilizers and manure, and sequestering carbon in the soil."



Net Crop Returns by Selected Scenario: 2010-2025
Source: BEAG Analysis, Nov. 2009

National Farmers Union President Roger Johnson says "Farmers and ranchers want to be a part of the climate change solution and this study illustrates the significant role they can play. Failing to address climate change through legislation, and instead subjecting producers to EPA regulations, would be a huge mistake. This study illustrates this point and rejects the ill-conceived notion of massive movement from cropland into forests and grasslands under a cap-and-trade system." The report itself notes that "During consideration of climate legislation in the Congress, concerns have been raised that an agriculture offsets program could unintentionally drive afforestation on prime cropland. Our findings, which use EPA's carbon price projections for the cap-and-trade program of up to $27 per MtCO2, show that both crops and herbaceous perennial grasses outcompete afforestation at these prices. Therefore, the agricultural sector is able to achieve significant food and biomass production goals, resulting in positive income."

The BEAG report contrasts two scenarios – cap-&-trade vs EPA regulation:

"Under a properly constructed cap-and-trade program:

- Net returns to agriculture are projected to be positive – including up to $13 billion annually in additional revenues for agriculture and forestry – and exceed baseline projections for eight of nine crops analyzed;
- Income from offsets and from market revenues is higher than any potential increase in input cost including energy and fertilizer;
- At projected carbon prices of up to $27 per MtCO2e, afforestation of cropland will not occur;
- Major shifts in commodity cropland use does not occur;
- Demand for bioenergy feedstocks will cause significant shifts to hay and dedicated energy crop acreage from pasture conversion;
- Crop and beef prices are not disrupted; and
- Biomass feedstock production creates significant direct and indirect reduction in greenhouse gases (GHG). This includes a direct reduction of an accumulated 460 million metric tons CO2 equivalent."

"If emissions are regulated by EPA without the benefit of multiple offsets:

- Net farm income is projected to fall below baseline projections;
- Agriculture is subjected to higher input costs with no opportunity to be compensated for the GHG reduction services the sector provides;
- Impacts to beef production are uncertain; and
- If afforestation and grassland sequestration are the only offsets allowed, and carbon prices are as high as $160 per MtCO2e, sixty million acres of cropland could be converted to forests and grasslands."

To read the University of Tennessee report "Analysis of the Implications of Climate Change and Energy Legislation to the Agricultural Sector," go to: www.25x25.org.

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