



Cap and trade: The numbers behind those USDA numbers

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Imagine developing a strategic plan for U.S. agriculture that involves taking almost 60 million acres out of food production, significantly cutting exports, increasing reliance on food imports and forces more consolidation and exodus from the livestock industry. How would you accomplish that---if you wanted to?

That scenario was one of the potential outcomes spelled out by USDA Chief Economist Joe Glauber during two days of House Ag Subcommittee hearings last week---part of USDA's economic analysis on the Waxman-Markey Cap and Trade bill, H.R. 2454. While noting that there is a lot of uncertainty in any analysis that projects out to 2050, Glauber emphasized that there would likely be very modest impacts from higher energy priced during the first 10-15 years under cap and trade legislation. However, depending on how offsets are structured and how carbon is priced, USDA's projections on the offset portions of the bill raised new eyebrows about how U.S. agriculture can continue to be a global powerhouse when it comes to food production, especially of energy intensive crops like fruits and vegetables.

U.S. Senators Saxby Chambliss (R-GA) and Mike Johanns (R-NE.) said Glauber's testimony confirmed initial concerns raised in July when Agriculture Secretary Tom Vilsack first testified in front of the Senate Agriculture Committee on H.R. 2454. .At that time, Vilsack pointed to the historical ability of U.S. farmers to adapt and embrace new technologies, capturing new revenue streams in the process. During a press conference last week, **Vilsack emphasized that agriculture will be a net winner under cap and trade legislation, generating "between 10 and \$20 billion in additional revenue."**

Indeed, many farm gate prices will increase under USDA's projections, but a closer look at the numbers reveals why: As landowners respond to higher and higher carbon offset prices by planting trees, fewer acres are left in pasture and cropland. Potentially, 59 million acres will be taken out of food production as landowners embrace carbon markets. The result is higher crop prices, liquidation in the livestock sector and ultimately, higher food prices.

The beef sector will see a 10% decline, while the hog and dairy sector will see reductions of 23% and 17% respectively. The food consumer price index (Food CPI) is projected to increase by nearly 5% above the rate of inflation by 2050, potentially requiring billions more to fund USDA's Food and Nutrition programs.

"Based on USDA's own analysis, cap and trade will not benefit U.S. agriculture," said Sen. Chambliss, Ranking Republican Member of the Senate Agriculture Committee. "I do not know how anyone can come to any other conclusion. Our farmers and ranchers need to be producing more food, fiber and fuel in the future, not less. The current cap and trade plan will only push our agriculture production overseas, just as it does manufacturing jobs."

"This is not a vision for American agriculture, it's a death sentence," said Sen. Mike Johanns (R-NE). The USDA data states that the U.S. will reduce exports by one billion bushels of corn, almost 430 million bushels of soybeans and two million bales of cotton. That is approximately 50% of current corn exports, 30% of current soybean exports and 20% of cotton exports.

Forest and Agriculture Sector Optimization Model

<i>Exports (millions), Change from FASOM Baseline</i>			
	2030	2040	2050
Corn (bu)	-519	-639	-980
Soybeans (bu)	-248	-354	-428
Wheat (bu)	-1	-46	-88
Cotton (bales)	-0.3	-0.9	-2.2
Rice (cwt)	-84	-124	-156

Even though the impact on ag exports was not included in Glauber's testimony before a House Agriculture Subcommittee last week, congressional sources used the numbers to calculate the potential impacts from higher commodity prices on exports. Higher prices bring reduced levels of production, and exports drop for all major commodities. Corn exports drop 980 million bushels, soybeans 428 million bushels, wheat 88 million bushels, cotton 2.2 million bales and rice 156 million cwt. In 2008, corn exports totaled 2.3 billion bushels, soybeans totaled 1.3 billion bushels and wheat 1.1 billion bushels. Cotton exports were 13 million bales and rice exports 82 million cwt.