



National
Corn Growers
Association
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**Committee on Agriculture, Nutrition and Forestry
United States Senate**

Hearing on

**Global Warming Legislation:
Carbon Markets and Producer Groups**

Testimony of

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Chairman Harkin, Ranking Member Chambliss and distinguished members of the Committee, thank you for the opportunity to testify today on behalf of the National Corn Growers Association (NCGA) regarding carbon markets. I applaud the committee's efforts to focus attention on the important role the agriculture industry has in the area of climate change and the issues facing rural America.

The National Corn Growers Association represents more than 35,000 corn farmers from 48 states as well as more than 300,000 farmers who contribute to corn check off programs and 26 affiliated state corn organizations across the country. The mission of NCGA is to create and increase opportunities for corn growers and to enhance corn's profitability and use.

My name is Fred Yoder, and I am a past president of NCGA. I grow corn, soybeans and wheat near Plain City, Ohio and have been an active participant in climate change discussions for many years. In December, I had the opportunity to attend and participate in the United Nations World Climate Conference in Poland where I was able to discuss the role of agriculture in reducing greenhouse gas emissions. In addition to being part of NCGA's efforts, I serve on the boards of numerous ad hoc groups, including the 25x25 Carbon Working Group and the Ag Carbon Market Working Group.

We are pleased that the Senate Agriculture Committee is actively involved in the climate change negotiations in Congress. Agriculture should be considered a significant part of the broader solution as we evaluate ways to reduce greenhouse gas emissions. Our nation's corn growers should have the opportunity to make significant contributions under a market based cap and trade system through sequestering carbon on agriculture lands. In fact, numerous economic analyses have indicated that a robust offset program will significantly reduce the costs of a cap and trade program for consumers.

In the near term, greenhouse gas reductions from livestock and agricultural conservation practices are the easiest and most readily available means of reducing greenhouse gas on a meaningful scale. The United States Environmental Protection Agency (EPA) estimates that agricultural and forestry lands can sequester at least 20% of all annual greenhouse gas emissions in the United States.

Further, agricultural producers have the potential to benefit from a properly crafted cap and trade program. Given these opportunities, it is critical that any climate change legislation seeks to maximize agriculture's participation and ensure greenhouse gas reductions while also sustaining a strong farm economy.

For years, corn growers along with the rest of the agriculture industry have adopted conservation practices such as no till or reduced tillage, which result in a net benefit of carbon stored in the soil. In fact, on my farm, I engage in both no till and reduced tillage. Also, for the past five years, I have worked with my state association, the Ohio Corn Growers, on a research project with Dr. Rattan Lal of Ohio State University on soil carbon sequestration. As part of our efforts, we have on-farm research plots at six different locations to study various soils and their carbon capture capabilities. I have

been actively engaged from the beginning in defining the research protocols. This is only one example of the groundbreaking work our industry is undertaking.

NCGA has identified several priorities which I believe are critical elements to the agricultural sector within cap-and-trade legislation. We have worked closely with others in the industry to identify key principles which have been embraced by a broad cross-section of the agriculture community. A number of these priorities were addressed in the final House passed version of H.R. 2454. NCGA currently has a neutral position on the legislation while we conduct an economic analysis of the House passed bill. We expect to have preliminary results of our study in the coming weeks, which will better explain the potential cost increases and income opportunities for corn production under a cap-and-trade system.

First, NCGA supports the decision by the House of Representatives to exclude agriculture from an emissions cap, and we urge the Senate to maintain this important exemption. Any efforts to regulate greenhouse gas emissions from America's two million farms and ranches would be costly and burdensome, resulting in limited reduction of greenhouse gas emissions. Our industry accounts for only 7% of emissions in the overall economy. Therefore, it would seem unreasonable to concentrate on regulations for such a small and diffuse industry.

However, tremendous environmental benefit can be achieved by allowing producers to provide low-cost, real and verifiable carbon offsets. Congress should fully recognize the wide range of carbon mitigation or sequestration benefits that agriculture can provide. This could include sequestration of carbon on agricultural lands, reduction of emissions from livestock through dietary improvements and manure management, introduction of nitrogen and other fertilizer efficiency technologies and a variety of other practices.

In addition, agricultural offsets have the ability to significantly lower the cost of a cap-and-trade system while achieving real greenhouse gas emissions. Corn growers and other producers can provide the offsets needed to allow changes in energy production technologies as well as investments in capital and infrastructure to occur, while providing market liquidity and low-cost emissions reductions to help the market function properly. Furthermore, agricultural offsets could also spur ancillary environmental benefits in the form of clean water, air and better wildlife habitat, while at the same time enhancing the fertility and productivity of the soil resource needed to provide food, feed, fuel and fiber. Farmers have always and will continue to respond enthusiastically to market incentives.

Of course, NCGA is closely monitoring the macro-economic impacts of cap-and-trade legislation to ensure that new policies do not create an unnecessary burden for the nation's agriculture sector. We fully anticipate that the cost of fertilizer, fuel, machinery and other inputs to increase under a cap-and-trade system. Corn growers are subject to the volatility of the commodity markets with little ability to recoup costs associated with escalated input prices. Therefore, to ensure a vibrant U.S. agricultural economy in the long-term and an abundant domestic food supply, Congress should structure a cap-and-

trade system that delivers an offsets program where the value exceeds the cost to farmers and ranchers.

We believe it is important to provide an initial list of project types that are considered eligible agricultural offsets. Both the regulated community and agricultural sector need assurances that agricultural offsets will be available. The regulated community should have confidence that a sufficient quantity of offsets will be available for purchase in order to comply with a mandatory cap. The agricultural sector also needs to have clear direction on project types Congress considers to be eligible in order to assess the full impact of cap-and-trade legislation on our industry. An initial, non-exhaustive list of project types in the legislation is critical to addressing these concerns. Shifting the burden of decision-making to an entity other than Congress generates uncertainty that should be avoided. The House version includes such a project list, and NCGA is generally supportive of these provisions even if some modification of the list is necessary in the Senate.

Another top priority of our industry under a cap-and-trade system includes the role of the U.S. Department of Agriculture (USDA). NCGA feels that USDA should play a prominent role in developing standards and administering the program for agricultural offsets. The Department has the institutional resources and technical expertise necessary to oversee a program that has the potential to be massive in scope. USDA has a proven record of working with farmers, in addition to studying, modeling and measuring conservation as well as production practices that sequester significant amounts of carbon. USDA should be given adequate flexibility to implement an offset program which allows them to account for new technologies and practices that emerge. This will in turn result in emission reductions from agricultural sources. NCGA is supportive of the respective roles for USDA and EPA as spelled out in the House version of the bill, which assigns all rulemaking and implementation authority to USDA and provides EPA with a limited administrative function in the program.

NCGA also believes that an important component of creating a successful cap-and-trade system is ensuring that domestic offsets are not artificially limited. H.R. 2454 calls for two billion tons of offsets, half of which are domestic. While the legislation establishes a fairly robust offset market, current estimates predict that agricultural and forestry lands can help to reduce at least 20% of greenhouse gas emissions in the U.S. on an annual basis. Therefore, we believe it is unwise and would distort the market if this one billion ton artificial cap on domestic offsets remains in the bill. The goal should be to remove as much greenhouse gas from the atmosphere as possible. Artificial caps could prevent legitimate carbon sequestration, livestock methane capture, and manure gasification projects from occurring.

Furthermore, NCGA feels that carbon sequestration and greenhouse gas mitigation rates should be based on sound science. There is a large body of scientific data which demonstrates that agricultural soils have the ability to sequester carbon, and technologies are available to effectively measure soil carbon content. In fact, the 2008 Farm Bill included a provision that directs the USDA to develop guidelines and protocols for farmers to participate in a greenhouse gas offsets market. USDA has begun developing a properly constructed, science based model that includes statistically relevant random field

measurements to help maximize agriculture's ability to participate in an offsets market. Any new policies should include provisions for the development of future offset standards and revision of existing standards to account for changing technology and information.

It is also important that USDA establish measurement rates for various offset practices at the national or regional level. NCGA believes in a standards-based approach rather than a project-based approach for measuring offsets. Real, verifiable credits can be achieved without direct measurement of each individual offset project; however, third-party auditing can be employed to ensure the credibility of the system. Meanwhile, a project-based approach would be cost-prohibitive, particularly for smaller farming operations and would prevent many producers from participating in the offsets market. We believe that an acceptable level of accuracy is achievable under a standards-based approach with pre-calculated values based on sound science. This should not preclude the development of new technologies or innovative practices that would require initial field testing or project measuring; however, even these new types of credits should eventually transition to standard protocols and values for ease of adoption.

Concerning the question of permanence, it is important to emphasize the concept of contract duration rather than a literal definition of "permanence." The value of the carbon credit would likely have a strong correlation to the length of the contract. For instance, longer contract periods imply more risk for the seller and should result in a higher price. H.R. 2454 allows for contract periods of five, ten and twenty years, which provide realistic, workable options for agricultural producers. Policies to address reversals, both intentional and unintentional, will also need to be established. Intentional reversals should be considered a breach of contract and the seller would be held responsible based on the terms of the contract. Unintentional reversals, such as instances of natural disasters or other unforeseen circumstances, could be handled through a reserve pool or perhaps a mechanism similar to crop insurance. The bottom line is that risk must be managed appropriately for both the offset buyer and seller, and in most cases, the emphasis should be placed on contract duration rather than permanence.

An issue that continues to be of utmost importance to NCGA is the treatment of early actors and additionality in a cap-and-trade system. The agriculture industry is constantly evolving. As technologies and practices improve, farmers are converting to alternative tillage practices such as no-till or ridge-till. They are reducing fertilizer application rates and enhancing crop uptake of fertilizer nutrients. Some livestock producers are able to use methane digesters and invest in covers for manure storage or treatment facilities while others are able to reduce enteric emissions with dietary modifications. Producers who have taken these steps should not be placed at a competitive disadvantage by being excluded from compensation for future offsets that occur as a result of these ongoing efforts. H.R. 2454 acknowledges this issue by allowing carbon credits for producers who initiated sequestration practices as early as 2001; however, NCGA does not believe this language is inclusive enough.

For example, some of our members have recently begun participated in the Chicago Climate Exchange (CCX) while others have been sequestering carbon through

conservation practices outside of a trading market for many years. These early actors should not be penalized for being pioneers in the area of no-till or low-till agriculture. Planting and tillage decisions are made each year, and there is no guarantee that a producer will decide to continue the same practice as the previous season. It is imprudent to eliminate these early actors from the offset market based on this flawed assumption. In fact, even continuous no-till farms, which represent a small percentage of all U.S. acreage, have the capacity to continue to sequester additional carbon for many years in a row. The bottom line is that each and every crop we grow sequesters additional carbon, and policies should recognize this fact. In addition, Congress should not establish policies that offer perverse incentives to producers that have heretofore been sequestering carbon in the soil. To that end, NCGA supports the development of an “avoided abandonment” offset credit so that no-till producers can receive compensation for their ongoing sequestration activities regardless of when that practice began. The treatment of early actors, particularly those who initiated their efforts prior to 2001, is one major deficiency in the House bill.

It is important to note that many practices undertaken to reduce greenhouse gas emissions will provide additional public benefits, such as clean water, wildlife habitat, and reduced soil erosion. Eligible projects in a greenhouse gas offset market should not be excluded from also participating in Farm Bill conservation programs other markets for environmental services that currently exist or may arise in the future. Allowing producers to “stack” credits will maximize the economic viability of carbon sequestration and manure management projects, ensuring more projects are undertaken and synergies with other environmental priorities are developed.

Lastly, the House passed version of H.R. 2454 also includes an important provision related to the Renewable Fuels Standards. The House bill prohibits EPA from considering indirect land use change when conducting their life cycle analysis for corn based ethanol until a peer reviewed study can be conducted to verify the scientific accuracy of the current modeling. NCGA has criticized recently published data that would suggest a direct correlation between domestic ethanol production and international deforestation. The language in the House bill is a step in the right direction towards sound science a more rational life cycle analysis. We would urge the Senate to include the same provision in its version of the climate bill.

In conclusion, it is our hope that we can continue to work with the Senate Agriculture Committee to ensure Congress chooses the best path for agriculture and rural America. Finally, corn growers will continue to meet the growing demands of food, feed and fuel in an economical and environmentally responsible manner.

I thank the Committee for its time and look forward to any questions you may have.