Agriculture’s Role in the New Carbon Economy

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Cap-and-Trade: Is Federal Legislation Coming?

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Ag’s Role in the New C Economy: What Role Will Cap-and-Trade Bring?

Presentation Overview

- Yes, Cap-and-Trade is Coming
- Climate Legislation Update: U.S. House, U.S. Senate
- Cap-and-Trade: What Role for Agriculture?
- 2007 Farm Bill
Cap-and-Trade: Is Climate Legislation Coming?

Relevant US-CAP Principles:

- Congress should immediately enact cap-and-trade legislation to reduce emissions 60-80% below current levels by 2050
- Capped entities should be permitted to meet part of obligations through purchase of verified emissions offsets from a range of domestic sinks and emissions sources
Cap-and-Trade: Is Climate Legislation Coming?

- 110th Congress: 165 climate change bills, resolutions, amendments introduced by July, 2007*
- Some bills -- not all --would allow a role for agricultural sinks, other agricultural emissions reductions
- 11 major bills in Senate, 10 in House, would/might provide some credit to agriculture for emissions reductions activities

*Pew Center on Global Climate Change, www.pewclimate.org

Cap-and-Trade: What Role for Agriculture?

- Two major proposals for how agriculture will be rewarded in future cap-and-trade programs:
  - Offsets Scheme
  - Allowances Scheme
Cap-and-Trade: Is Climate Legislation Coming?

• House Energy and Commerce Committee, led by Chairman John D. Dingell, introduced the 1st white paper on Climate Change October 3, 2007, “…as we move towards development and eventual passage of comprehensive climate legislation.”

• Conclusions: “The US should reduce GHG emissions 60-80% by 2050.”

• “The central component of this program should be a cap-and-trade program.”

Cap-and-Trade: Is Climate Legislation Coming?

Dingell/Boucher White Paper:

• “The agricultural sector’s direct emissions generally should not be included in the cap-and-trade program because of difficulties monitoring emissions and the large number of sources each with low emissions.”

• “This sector may present opportunities for emission reductions that would be measurable and might then provide offset or credit opportunities.”
**Cap-and-Trade:**  
Is Climate Legislation Coming?

- Anticipated on Senate floor early Spring, 2008
  - Some Senators have vowed to prevent a vote

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**Cap-and-Trade:**  
What Role for Agriculture?


- 1990 levels by 2015
- 65% below 1990 levels by 2050
Cap-and-Trade: What Role for Agriculture?


- Managing and Containing Costs Effectively:
  - Trading, banking, borrowing, and offsets
  - International credits
  - Carbon market efficiency board
    - Authorized to increase borrowing, offsets, and even adjust cap if prices too high

Cap-and-Trade: What Role for Agriculture?


- **Offsets**: entities can meet up to 15% of annual obligations with offset credits
  - Ag and forestry sinks qualify as offsets
- **Allowances**: 5% of annual allowance pool given to USDA Secretary to award for emissions reductions for ag, forestry
Cap-and-Trade: What Role for Agriculture?


- Offset projects include ag and forestry sinks
- Rigorous project plans, incl. procedures to monitor, quantify and discount ag and forestry offset projects
- Discount protocols for MMV, leakage, additionality
- Ensure permanence by mitigating and compensating for reversals; annual certification
- Procedures for 3rd party verifiers/verification

Cap-and-Trade: What Role for Agriculture?


- Standardized monitoring and quantification tools developed by EPA and USDA
- Added “exaggerated proportional discount that increases relative to uncertainty…to encourage better measurement and accounting.”
Cap-and-Trade: What Role for Agriculture?

- A comparison of agriculture’s role in:
  - Offsets Scheme
  - Allowances Scheme

Offsets v. Allowances Schemes for Agricultural GHG Credits
### Offsets v. Allowances Schemes for Agricultural GHG Credits

<table>
<thead>
<tr>
<th></th>
<th>Offsets</th>
<th>Allowances</th>
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</thead>
<tbody>
<tr>
<td>Must create sinks/reduce emissions?</td>
<td>✧</td>
<td>✧</td>
</tr>
<tr>
<td>Reward/credit?</td>
<td>✧</td>
<td>✧</td>
</tr>
<tr>
<td>Measure, monitor, verify?</td>
<td>✧</td>
<td>✧</td>
</tr>
<tr>
<td>Society benefits?</td>
<td>✧</td>
<td>✧</td>
</tr>
<tr>
<td>3rd parties involved?</td>
<td>✧</td>
<td>✧</td>
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### Offsets v. Allowances Schemes for Agricultural GHG Credits

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<tr>
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<tbody>
<tr>
<td>Opposed by capped entities?</td>
<td></td>
<td>✧</td>
</tr>
<tr>
<td>Supported by capped entities?</td>
<td>✧</td>
<td></td>
</tr>
<tr>
<td>Cost-savings to society?</td>
<td></td>
<td>✧</td>
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<tr>
<td>Credits treated same?</td>
<td></td>
<td>✧</td>
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<tr>
<td>Free market approach?</td>
<td></td>
<td>✧</td>
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Offsets v. Allowances Schemes for Agricultural GHG Credits

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<tr>
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<th>ALLOWANCES</th>
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<tbody>
<tr>
<td>Impact to Cap</td>
<td>None/neutral</td>
<td>Reduces cap</td>
</tr>
<tr>
<td>Risk to buyers, cap?</td>
<td>No</td>
<td>No</td>
</tr>
<tr>
<td>Discounts for MMV, leakage, permanence?</td>
<td>Likely</td>
<td>Likely</td>
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<tr>
<td>More scrutiny?</td>
<td>Likely</td>
<td>Not likely</td>
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Cap-and-Trade: What Role for Agriculture?

**ISSUE:** If agricultural sinks are rewarded under the allowances provision, *instead of as offsets*, they:

- Have **no cost-savings value** to society or to capped sectors;
- Provide **no flexibility** to capped sectors or emitters to achieve emissions reductions obligations;
- Provide **no market liquidity**;
- Are **not a cost-containment** measure.
Cap-and-Trade: What Role for Agriculture?

**ISSUE:** In effect, the allowances scheme undermines the very reason for including agricultural sinks in a cap-and-trade policy; and treats them as “not real” emissions reductions, because they are redundant.

Cap-and-Trade: What Role for Agriculture?

**ISSUE:** Optimally, both an allowances scheme and an offsets scheme should be included, and allowances can then be used as a bonus provision:

- To reward early actors, who may not qualify for credits due to additionality requirements;
- By producers who desire a streamlined approach.

BUT both provisions must then be included and retained for agriculture and society to benefit.
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2007 Farm Bill: $286 Billion (2008-2012)
- Senate version: passed Fri., Dec. 14, 2007

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<thead>
<tr>
<th></th>
<th>HOUSE</th>
<th>SENATE</th>
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<tr>
<td>Conservation Programs</td>
<td>+2.8B</td>
<td>+4.4B</td>
</tr>
<tr>
<td>Renewable Energy Programs</td>
<td>+2.4B</td>
<td>+1.0B</td>
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2007 Senate Farm Bill: Conservation Title
- **Section 2406**: Conservation Programs in Environmental Service Markets
- Directs Secretary to create framework to facilitate participation of farmers in GHG and other environmental services markets
- Collaborative process to establish uniform standards, accounting procedures, reporting protocols, and verification processes
- Requires Secretary focus 1st on C markets
Agriculture’s Role in The New Carbon Economy

2007 Senate Farm Bill: Research Title

- **Section 7316:** Carbon Cycle Research
- Transfers authority for C Cycle Research to Farm Bill (from Agricultural Risk Protection Act of 2000)
- Identifies CASMGS as 1st priority for funding
- 2nd priority (subject to availability of appropriations) is cooperative research b/w USDA and U.S. Global Change Research Program
- Secretary may implement Extension Projects that combine MMV tools with on-farm emissions reduction projects
- Authorizes $15 Million/year (2008-2012)

Agriculture’s Role in The New Carbon Economy

2007 House Farm Bill: Research Title

- Reauthorizes CASMGS, with authorization for such sums as are necessary.