

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?

- Dec. 5, 2007: Senate Environment and Public Works Committee passed the [Lieberman-Warner Climate Security Act of 2007](#)
- Anticipated on Senate floor early Spring, 2008
 - Some Senators have vowed to prevent a vote

Cap-and-Trade: What Role for Agriculture?

[S.2191 – The Lieberman-Warner Climate Security Act of 2007](#)

- 1990 levels by 2015
- 65% below 1990 levels by 2050

Cap-and-Trade: What Role for Agriculture?

S.2191 – The Lieberman-Warner Climate Security Act of 2007

- 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?

S.2191 – The Lieberman-Warner Climate Security Act of 2007

- **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?

S.2191 – The Lieberman-Warner Climate Security Act of 2007

- 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?

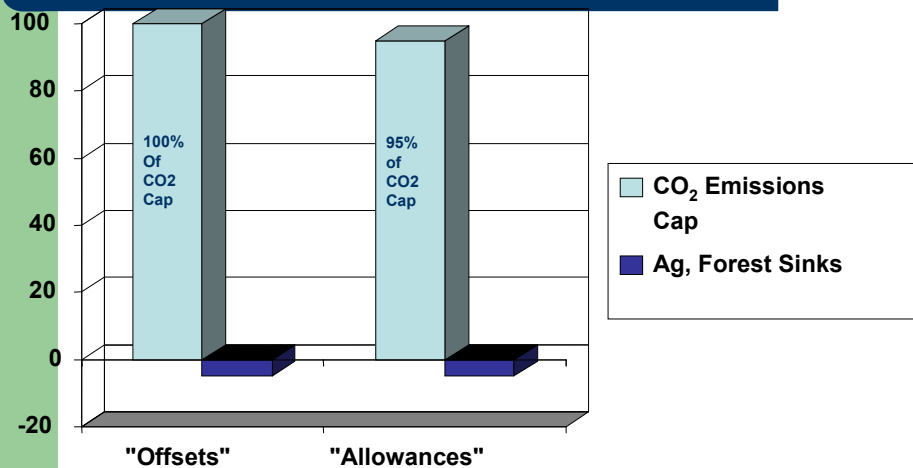
S.2191 – The Lieberman-Warner Climate Security Act of 2007

- 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

	OFFSETS	ALLOWANCES
Must create sinks/reduce emissions?	♦	♦
Reward/credit?	♦	♦
Measure, monitor, verify?	♦	♦
Society benefits?	♦	♦
3 rd parties involved?	♦	♦

Offsets v. Allowances Schemes for Agricultural GHG Credits

	OFFSETS	ALLOWANCES
Opposed by capped entities?		♦
Supported by capped entities?	♦	
Cost-savings to society?	♦	
Credits treated same?	♦	
Free market approach?	♦	

Offsets v. Allowances Schemes for Agricultural GHG Credits

	OFFSETS	ALLOWANCES
Impact to Cap	None/neutral	Reduces cap
Risk to buyers, cap?	No	No
Discounts for MMV, leakage, permanence?	Likely	Likely
More scrutiny?	Likely	Not likely

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.

Agriculture's Role in The New Carbon Economy

2007 Farm Bill: \$286 Billion (2008-2012)

- Senate version: passed Fri., Dec. 14, 2007

	<u>HOUSE</u>	<u>SENATE</u>
Conservation Programs	+2.8B	+4.4B
Renewable Energy Programs	+2.4B	+1.0B

Agriculture's Role in The New Carbon Economy

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.