



Testimony

House Committee on Energy & Environment Senate Committee on Environment & Natural Resources

February 12, 2018

Oregon Farm Bureau Opposes HB 4001 & SB 1507

Thank you for the opportunity to provide comments in response to HB 4001 and SB 1507. As a reference, the Oregon Farm Bureau Federation (OFB) is the state's largest general agriculture association. OFB represents 7,000 farm and ranch families actively engaged in agriculture.

Oregon agriculture is committed to natural resources stewardship and sustainability; we are part of the solution. However, we also believe that in recent years with the adoption of major policy changes (Low Carbon Fuel Standard, Renewable Portfolio Standard, and Coal-to-Clean), Oregon is already a leader in building one of the cleanest economies in the country. Importing California's cap-and-trade program to Oregon will not decrease global greenhouse gas emissions. Instead, it is likely to reduce the viability of Oregon's homegrown businesses and levy downstream financial impacts on farm and ranch families.

OFB respectfully submits the following concerns with HB 4001 and SB 1507:

1. Downstream impacts squeeze farmers and rural families.

Although not directly regulated by the proposed carbon cap, farmers and ranchers will bear the *indirect* costs of a California-like cap-and-trade policy. It negatively impacts our bottom lines, particularly on inputs like fuel, electricity, and natural gas. Anything that leaves the farm, such as through commercial transportation, will bear the extra downstream costs of the cap. This is particularly bad for the farmers and ranchers whose survival depends on the ability to efficiently produce and deliver their products year over year.

Food and fiber production is energy intensive, and HB 4001 and SB 1507 are projected to immediately drive up the cost of gas by \$0.16 per gallon. That is staggering for many farm and ranch families. OFB conducted an informal poll of our members to discern the potential costs of the program on their operations:

- Small- to mid-sized farms and ranches face a projected fuel tax increase of \$3,000 to \$5,000 annually.
- Custom farming operations face a projected increase of \$11,000 to \$16,000 annually.
- Combination farm and transportation businesses could see a tax burden of nearly \$100,000 annually.

2. It makes Oregon agriculture *less* competitive.

With 80% of commodities leaving the state, it is critical that Oregon agriculture maintain a competitive edge in the global marketplace. As price takers, farmers have a limited ability to recoup added production costs. Cap-and-trade will reduce our competitiveness by levying a new layer of costs onto Oregon producers that our counterparts in other states and parts of the world don't have.

3. Young and beginning farmers are hit hard.

Young and beginning farmers and ranchers must be profitable almost immediately to bear the costs involved in establishing a new operation. They have little to no equity in their operations. Policies, such as cap-and-trade, will impact their chances of success. It could be devastating to those just starting out, especially in times of very low commodity prices, like right now.

4. It hurts value-added businesses.

The proposed bill taxes important value-added businesses, such as food processing facilities and sawmills, that are critical to farm operators and forest landowners. If any of these associated manufacturing businesses are lost or move out of Oregon, farmers and ranchers will have to transport their products farther. To compound this impact, whether transportation is by truck, rail, barge or ship, the fuel will cost more due to proposed legislation.

5. Potential benefits are eclipsed by challenges.

i. Additionality

Additionality is a killer for farmers and ranchers. California's offset program only allows credits or payments for agricultural sequestration activities that are 'additional'. This policy is intended to drive new carbon sequestration activities, but it has the unfortunate consequence of discouraging adoption of new and innovative agricultural practices.

Many farmers in Oregon are already using better management practices to minimize their carbon footprints, such as no-till seeding and using trees as windbreaks. However, under California's offset protocols, early adopters are unable to access offsets or incentives for the good work that they have already taken on the landscape. This is not only unfair to those who have invested in innovative production methods or energy efficient technologies, but it discourages future adoption of those practices. Furthermore, it puts the state in the difficult position of picking winners and losers among production methods and commodity types—a policy that OFB strongly opposes.

ii. Accessibility

California is not a starting point for Oregon agriculture. California's offset and incentive programs require agricultural operations to dedicate considerable *time* and *resources* to the application process. Oregon's farms and ranches are 97% family owned and operated, and the scale of agriculture in Oregon is distinctly smaller than California. Many farmers and ranchers in Oregon also directly manage human resources (HR) and finances for the farm. They lack the resources to navigate the paperwork necessary to apply for incentives or offsets.

iii. Permanence

Permanence is a complex issue that has discouraged participation in California's offset market. Permanence requires that sequestered biomass *not be removed* so that stored carbon is not re-released into the environment. Permanence ignores the fact that real farming operations must constantly adapt to changing environmental and market conditions, innovation, and allow for succession. At the end of the day, a farm or ranch must remain viable, and volatile market conditions limit the willingness of growers to participate in perpetuity.

iv. Price

Price is a significant barrier to participation by landowners, and transaction costs cannot be ignored. These costs include planning; measuring, reporting, and verifying; market brokering and assembling; and insuring risks. Transaction costs can be substantial and, require additional compensation before undertaking an offset or incentive project. The price for "carbon" has never been adequate to make programs for natural resources attractive or come close to offsetting the cost of verification and administration.

v. Project Verification

Offset verification, especially to the standard of precision demanded by the currently available carbon exchanges, has been a challenge across the U.S., particularly for agricultural projects. Sequestration on the farm is difficult to measure, report, and verify, particularly within dynamic ecosystems. And direct measurement is often cost prohibitive. Project verification is often an issue at the end of a project, leaving producers vulnerable to potential legal ramifications if offset efforts don't meet initial estimates.

6. Investing in bureaucracy ≠ agricultural benefits.

Increasing state bureaucracy does not reduce carbon emissions or produce agricultural or rural economic benefits. Our members oppose bill language that would grow state agency programs through cap-and-trade revenues, especially when many of the costs will be passed to farmers and ranchers.

7. DEQ is the inappropriate agency to develop agricultural or timber protocols.

DEQ does not have a role in regulating agricultural activities and is ill-equipped to take up agricultural protocols. OFB does not support provisions that give DEQ rulemaking authority over proposed offset protocols and incentive programs for the agricultural sector.

8. Proposed advisory committee is out-of-balance.

The proposed 21-member advisory committee lacks balance. The body tasked with advising DEQ on rulemaking and protocol development includes representation from only one agricultural interest. Our members are uncertain about the benefits to their communities, and agricultural stakeholders must have equal representation to other interests involved in advising policy decisions.

Thank you for the opportunity to provide comments today.