Written Statement Of
National Pork Producers Council

On

H.R. 2454, The American Clean Energy and Security Act of 2009

House Committee on Agriculture

June 11, 2009

INTRODUCTION

The National Pork Producers Council (NPPC) is an association of 43 state pork producer organizations and serves as the voice in Washington, D.C., of America's 67,000 pork producers. The U.S. pork industry represents a significant value-added activity in the agriculture economy and the overall U.S. economy. In 2008, it marketed more than 110 million hogs, and those animals provided total gross receipts of $15 billion. Overall, an estimated $21 billion of personal income from sales of more than $97 billion and $34.5 billion of gross national product are supported by the U.S. hog industry. Iowa State University economists estimate that the U.S. pork industry is directly responsible for the creation of nearly 35,000 full-time equivalent jobs and helps generate an additional 515,000 indirect, mostly rural, jobs. The U.S. pork industry today provides about 20 billion pounds of safe, wholesome and nutritious meat protein to consumers worldwide.

PORK PRODUCERS' COMMITMENT TO THE ENVIRONMENT

The pork industry is proud of the reputation it and its members have earned for initiating innovative environmental improvement programs. NPPC and its producer members take an active role in advocacy at both the federal and state levels for clean water environmental initiatives. Accordingly, the U.S. pork industry continues to treat as its top goal meeting worldwide consumer demand while simultaneously protecting water, air and other environmental resources that are in our care or potentially affected by our operations.

In this regard, pork producers take a broad view of what it means to be environmentally responsible farmers and business people, and we have fully embraced the fact that our pork producing operations must protect and conserve the environment and the resources we use and affect. We take this responsibility with the utmost seriousness and commitment, and it was in this spirit that our producer members made a major commitment to environmental conservation. NPPC played a leadership role in the establishment of Air Consent Agreements ("ACA") between the U.S. Environmental Protection Agency and approximately 2,700 swine operations. We are also a founding member of the Agricultural Air Research Council. NPPC has been instrumental in the establishment of the National Air Emissions Monitoring Study ("NAEMS"), and pork producers from across the country are providing the nearly $6 million in research funds that are being used by NAEMS to fund this air research, including tracking of greenhouse gas emissions, at six swine farms nationwide.

To promote confidence in what our producers do and how they do it, NPPC is working with producers to affirm their obligation to safeguard natural resources in all of their practices. To this end, pork producers are committing themselves to:

- Managing manure as a valuable resource and using it in a manner that safeguards air and water quality.
- Managing air quality from production facilities to minimize the impact on neighbors and the community.
- Managing operations to protect the quality of natural resources.

Similar commitments are being made by pork producers in the critical areas of food safety, animal well-being, public health, employee care and all aspects of our community responsibilities.

Finally, as an industry, pork producers have engaged in a voluntary effort to calculate their total carbon footprint, from farm to fork, and identify sources of climate emissions and ultimately opportunities for emissions reductions. The research, financed by pork producers and being conducted through the University of Arkansas Applied Sustainability Center together with an industry working group, is designed to help the industry better understand its role in the effort to address climate change.

PORK AND LIVESTOCK AGRICULTURE'S GHG PERFORMANCE

While pork producers are engaged in their effort to voluntarily determine the complete GHG footprint of the pork sector, the considerable information already available about pork's and animal agriculture's GHG performance allows a sound, preliminary picture to be formed.

Contrary to the preconceptions of many observers, the domestic animal agriculture industry is a considerable success with respect to its low and relatively constant GHG emissions and the dramatic trend toward lower emissions per unit of food. Some of the discrepancy between the conventional or perceived wisdom and the actual performance of U.S. animal agriculture stems from the misuse of the results from the analysis conducted in support of the U.N. Food and Agriculture Organization's 2006 report, "Livestock's Long Shadow".[1] That report said livestock agriculture worldwide was responsible for 18 percent of the world's GHG emissions. But approximately half of the emissions attributed to livestock in that report resulted from worldwide deforestation efforts, an activity not taking place in the U.S. Another large portion of the FAO figure comes from enteric emissions from ruminant species, an emissions source that is not included in this proposed registry, nor is it included in European programs. In fact, as can be seen in the report, modern animal feeding operation systems in the U.S. are shown to represent only about 5 percent of the world's emissions, and 4 percent if you do not include the deforestation element (see Table 3.12, page 113). This latter figure is considerably more consistent with the figure cited by EPA in its recent GHG Inventory, where modern U.S. livestock agriculture is reported to be responsible for approximately 2.5 percent of U.S. GHG emissions, about half of which are from enteric fermentation (1.7 percent of total).[2]

[1] UN Food and Agriculture Organization (FAO), 2006. "Livestock's Long Shadow; Environmental Issues and Options." FAO. Rome, Italy. See page 112, and table 3.12

[2] Environmental Protection Agency (EPA), 2008. "Inventory of U.S. Greenhouse Gas Emissions and Sinks: 1990-2006. EPA, Washington, DC. Calculated from statistics provided in tables ES-2 and 6-1.

As these statistics show, modern U.S. livestock agriculture is a very small portion of U.S. emissions. Manure methane emissions from all livestock, as reported in the EPA Inventory, are only 0.6 percent of total U.S. emissions of all GHGs on a CO2 equivalent basis.[3]

Modern U.S. livestock agriculture is a tremendous example of how the world can produce the goods and services people need, in this case the very nutritious, safe food we eat, while producing less GHGs per calorie of food. In our view, it makes far greater public-policy sense to consider total food needs, given the size of a population, its income levels and preferences and needs for food products, and then consider how well a particular food production system meets these needs in total while also conforming to other societal objectives, such as food safety, affordability and a minimal environmental footprint, including fossil fuel use and GHG emissions.

From this perspective, the critical question is how well will a particular food production system perform as a whole and in the context of the total amount of food that has been and will be needed to feed the U.S.'s and the world's growing population? The U.N. noted in its November 2008 report that there are "limitations to emissions reductions in the agriculture sector particularly because of … providing food for a global population that is expected to continue to grow" and that "it would be reasonable to expect emissions reductions in terms of improvements in efficiency rather than absolute reductions in GHG emissions."[4]

Some recent statistics indicate that there is great cause for hope in this regard:

- Animal agriculture's GHG emissions from 1990 to 2005 have remained nearly constant, increasing by only about 3.5 percent since 1990, while over the same period total U.S. meat production has increased 40 percent, milk production has increased almost 16 percent and egg production has increased about 33 percent.[5] This means almost 30 percent less in total livestock sector GHG emissions per pound of meat produced from 1990 to present.
- Between 1948 to the present, while the manure generated by U.S. meat producing animals has been reduced in total by 25 percent, the production of meat from the animal herd has increased 700 percent.[6]

Not surprisingly, and given the success of the U.S. meat sector in improving its efficiency and reducing its footprint, the same U.N. report noted that modern agriculture is key to meeting the GHG challenge of reducing or ending the conversion of forestland through the "intensification of agriculture … by producing more on land already in production."

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[3] The other .2 percent of emissions associated with livestock production comes from nitrous oxide.

[4] UNFCCC Technical Report #8, "Challenges and opportunities for mitigation in the agricultural sector", November 21, 2008. See pages 7-8.

[5] US Department of Agriculture (USDA), 2007. "U.S. Agriculture and Forestry Greenhouse Gas Inventory: 1990-2005." USDA. Washington, DC. See Table 1-2, Page 5.

[6] Calculated from various USDA-NASS data sources.

PORK INDUSTRY'S TOUGH ECONOMIC OUTLOOK

Like many other segments of the U.S. economy, the pork industry has suffered financially over the past 20 months and continues to suffer tough economic times. Last year, U.S. pork producers lost an average of $22 on each hog marketed, and it has been estimated that the industry, as a whole, has lost 35 percent of its equity since September 2007. Until recently, the industry's one bright spot had been exports. Exports helped temper U.S. pork producers' losses in 2008, when the United States exported 2.05 million metric tons, or 4.4 billion pounds, of pork valued at nearly $5 billion. Last year was the 17th consecutive year of record pork exports.

Unfortunately, much of this evaporated under the pressure created by the H1N1 flu outbreak. Before the flu outbreak, pork producers were losing money, but there was reason for some optimism. Exports were holding strong, and we were heading into the summer months, generally the strongest period for seasonal consumer demand. But the first day the flu outbreak received wide media coverage – April 24 – pork producers were losing $10.91 per pig. After two weeks of reporting on the "swine" flu, pork prices fell dramatically, with producers losing an average of $20.60 per pig, or nearly $8.4 million a day. Pork prices dropped because of a dip in domestic demand as well as import bans on U.S. pork imposed by a number of U.S. trading partners, including Russia and China. Fortunately, Russia's ban now applies only to 13 states, most of which are not major pork producers, and at least a dozen countries that banned, or indicated they would ban, U.S. pork now have reversed themselves. But we are in a deep hole, and it will be a long while before we can climb out—and pork farms are going out of business as a result.

It is against this grim economic backdrop and outlook that NPPC is considering the merits of and concerns with H.R. 2454, the American Clean Energy and Security Act of 2009.

SPECIFIC OBSERVATIONS ON H.R. 2454

1. Cap and trade is preferable to a carbon tax—Should Congress decide to pass climate change legislation, after looking closely at the challenges facing the domestic and world economies and the need for controlling greenhouse gas emissions, NPPC believes that a market-oriented cap-and-trade system of the type that H.R. 2454 advances is far preferable to either a simple command-and-control program or a carbon tax. A cap-and-trade system has the possibility of achieving greater – and more sustainable – emission reductions at a greatly reduced cost than a carbon tax on GHG emissions. This is because cap and trade provides covered entities the flexibility to choose the lowest-cost abatement method available while guaranteeing the required emissions reductions are made. Cap and trade also turns these least-cost alternatives into financial opportunities and will make all GHG capped emitters have a vested interest in finding further low-cost and innovative ways to reduce and offset emissions. This combination of flexibility and positive incentives means a cap-and-trade program meets the environmental goal at the lowest cost to the economy as a whole.

2. Not treating agriculture as a capped sector is the right policy—H.R. 2454 has adopted the correct approach with respect to not treating agriculture as a capped sector but rather as a sector eligible for the offsets provisions in the bill. NPPC believes that greater environmental benefits can be achieved by not regulating agriculture under an emissions cap. With regard to the agricultural sector as a whole, attempts to cap the 2 million farms and ranches in this country would be costly and burdensome and result in greater costs for society than the benefits that would be derived from the resulting GHG emissions reductions.

3. Increased costs remain a serious concern for pork producers—Among our top concerns with any piece of climate change legislation, given the economic conditions of our industry, are the increased costs of electricity, diesel fuel, propane, fertilizer, chemicals and building materials such as steel and concrete that our operations will incur. While we do not yet have good estimates of exactly how large these will be, we anticipate increases in the 20 percent range or greater. We are already losing money today for every pig sold, and any additional costs will simply drive us deeper and more firmly into the hole. To the extent that some of our producers can reduce some of these losses with additional income from the sale of carbon offset credits, that is a good thing. But we do not believe that these revenues will outweigh the costs. And many of our producers will have no opportunity to generate credits. Most of our producers able to generate credits, they will need to make a sizable capital investment, and such capital is nearly impossible to come by today given the underlying economic weakness in the industry. There is no question that meeting the challenges laid out for the country and our sector by climate change legislation will never be easy, and our members do not take these challenges lightly, but meeting the climate change challenges in the least economically detrimental manner is critical to the survival of pork producers.

4. Maintaining international trade opportunities and a level playing field remain top concerns for pork producers—On the other side of these added costs, of course, are our concerns about access to markets and a level playing field with our competitors overseas. We are heavily dependent on the export of pork to consumers worldwide for a large portion of our revenues, and without these export opportunities, our chances of sustaining our farms and industry simply do not exist. Cap-and-trade legislation concerns us in two regards in this area. First, we are deeply concerned about having to bear the costs of GHG emissions controls while our competitors overseas are not. Loss of market share both domestically and in foreign markets will result, and this is a major issue. If the U.S. is to adopt such legislation, it is critical that the countries where our competitors operate bear similar responsibilities. Second, H.R. 2454 as passed out of committee raises concerns among many trade experts that some of the measures to transfer income from capped emitters to affected industrial sectors will result in trade disputes and outright cases being brought before the WTO against U.S. companies. Aside from the obvious loss of further momentum toward opening the world to greater trade and its attendant benefits, trade disputes commonly end up involving food and meat products. We are very concerned that

pork producers will be hurt by the collateral damage of such trade disputes and further straining of the relationships needed in general to expand trade opportunities. Great care must be taken on these measures to avoid possible WTO disputes and to eliminate them or minimize them to the fullest extent possible. We would urge that going forward, both USDA and EPA work in close consultation with the United States Trade Representative regarding the impacts on trade of any domestic or international GHG action.

5. The final bill must identify USDA as the lead agency on the design and implementation of the agricultural offsets program—NPPC believes it is critical that the final bill explicitly identify USDA as the lead agency for the agricultural offsets program. USDA should promulgate the detailed rules and guidance pertaining to the program, as well as oversee its day-to-day implementation. USDA has the institutional resources as well as the technical expertise necessary to carry out this function, while EPA does not. Furthermore, USDA has a track record of working with farmers on verification of agricultural practices as well as studying, modeling and measuring carbon sequestration and other GHG emissions reductions by the agricultural sector. EPA, in consultation with the relevant Cabinet agencies, can have responsibility for setting broad offsets program objectives and standards and tracking allowances and offsets in a GHG registry. USDA has the statutory authority provided in the 2008 Farm Bill, the institutional resources and the technical expertise necessary to create and administer an agricultural offset program that works for production agriculture. USDA should be given adequate flexibility in implementing the offsets program to allow it to account for new technologies and practices that result in emissions reductions from agricultural sources.

6. Early actors providing additional offsets must be allowed into the program—Pork producers previously have initiated projects and practices such as the use of a methane digester with the flaring of gas or electricity generation that have led to GHG reductions. Such systems are expensive to maintain and operate, and it is not uncommon for their operation to cease as economic pressures rise, as the USDA-NRCS reported in 2007 in its study of the economics of methane digesters. Yet if the digesters continue to be operated, methane is captured and destroyed, providing additional GHG benefits. These producers and others in comparable circumstances should not be disadvantaged by being excluded from compensation for future offsets that occur as a result of the future operation of their digesters or similar projects. We believe it is both fair and appropriate to push the allowed initiation date for such projects as far back as possible, and we cannot support the 2006 date in H.R. 2454 as currently drafted. We appreciate the amendment adopted in the markup of the bill that would give the EPA Administrator discretion to allow earlier dates on a project-by-project basis, but we find that measure both unnecessary and too uncertain in its effect and therefore not good policy. We suggest, instead, January 1, 1999, as a starting point for eligible reduction projects.

7. Verification of agricultural offsets must rely on the power of strong research, statistical sampling and spot checks to keep the cost of this important administrative cost down—The final bill must allow and direct the program administrator to devise protocols,

methodologies, procedures, registry requirements, verification requirements and any other relevant process issues to be as operationally lean as possible and to reduce overhead costs of compliance.

8. Give farmers certainty whenever possible as to what types of projects will most likely qualify for credits—The final bill must include a list of the types of agricultural offset activities that are known to qualify for the offsets program immediately and must direct and allow the program administrator to update and revise this list quickly as new types of sound projects and practices become established and verifiable.

9. Deal with the issues of the permanence and reversals of offsets in the simplest manner possible by allowing the offset prices paid to vary according to the degree of permanence —H.R. 2454 fails to define the term permanence in the context of offsets, and it is critical that the final bill do so in a manner that allows the program to be as operationally lean as possible and to reduce overhead costs of compliance. Rather than select an arbitrary time frame for offsets to be permanent, the price paid for offsets should be allowed to vary according to the permanence of the offsets, with top premiums being paid for those that are literally permanent. The risks of unintentional reversals and leakage must be fully managed at a program level, not at a project level. (At the same time, offset providers must be held accountable for any and all intentional reversals, and such responsibilities should be spelled out in the contract.) Biological sequestration offsets must be credited at a discounted rate so that the difference between the value of the full offset and a discounted offset is the source of funds to manage all risks of reversal.

America's pork producers have been and will continue to be good environmental stewards. Many of them have adopted practices that have lessened their environmental footprint and cut greenhouse gases. But they are very concerned about the added costs – particularly given the pork industry's current economic crisis – they will incur because of climate change legislation.

NPPC shares those concerns and will work to ease the impact on U.S. pork producers of any climate change legislation. The organization will continue to monitor H.R. 2454, the American Clean Energy and Security Act of 2009, as it moves through the legislative process.

[If you have questions or need additional information, contact Kirk Ferrell or Michael Formica at (202) 347-3600.]