

**Committee on Agriculture
U.S. House of Representatives
Biographical Form**

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If you are responding on behalf of an organization, please list the capacity in which you are representing that organization, including any office or elected position you hold or if you are a volunteer.

President & CEO, National Milk Producers Federation

Part I: Carbon Reduction Program Design

- 1) Members of Congress have introduced numerous bills to address the wide spectrum of climate change issues. Do you think Congress should enact a program that uses carbon taxes/fees, a cap-and-trade program, or a hybrid of these two approaches? Why? *Please respond in 600 words or less.*

NMPF believes that when considering the pending climate change legislation, the best approach would be a cap-and-trade program where agriculture is not a capped sector. We feel this is the most effective way to reduce emissions of greenhouse gases (GHG), while minimizing the cost to taxpayers and the economy. This type of a cap-and-trade program would also provide an economic incentive for large and small producers to reduce their GHG emissions. NMPF also feels that there would be no potential benefit for the dairy industry in a carbon tax system.

The dairy industry has already taken significant steps to identify where emissions come from and what is the best way to reduce those emissions. NMPF and Dairy Management Inc, (the dairy checkoff program) along with other industry partners, are working with the

University of Arkansas to conduct the first comprehensive survey, and life cycle analysis, of the GHG emissions for the US fluid milk value chain. In June of 2008, the Dairy Sustainability Summit was held to identify opportunities to reduce emissions while creating business value for the industry.

Progress will continue to be made through the development and application of new and innovative research, and associated on-farm testing by dairy farmers. NMPF believes an offsets program under a cap and trade system would offer the best set of incentives for dairy farmers to continue to pursue these innovations and gain the market benefits as a result.

NMPF does not feel that a carbon tax is the best approach to reduce GHG emissions. While a carbon tax controls the price of emissions, the actual quantity of emissions that will occur under a tax is less certain. Unlike a cap, a tax does not guarantee that targeted emission reductions will be achieved. Setting a tax rate in order to reduce emissions by a certain amount would involve a lot of guesswork, which would need to be updated as economic conditions change. Also, a cap-and-trade program can readily be linked to a comparable global carbon market, where a carbon tax program cannot.

- 2) Should the agriculture and forestry sectors be covered under a carbon reduction program? Why or why not? *Please respond in 300 words or less.*

No, agriculture must not be capped. According to EPA, only 6.4% of emissions come from agriculture with animal agriculture being directly responsible for about 2.5% of total US emissions in 2006. Also, agriculture should not be included in the capped sector because farms represent too many, small or minor sources of GHG emissions. There are more than 60,000 US dairy farms in the U.S. and it would be highly impractical and cost prohibitive to try to regulate all of these farms. The same is true for the rest of agriculture's nearly 2 million operations. The most effective way to address non-point source pollution is through a voluntary system.

Allowing the uncapped agriculture sector to participate would serve as valuable cost containment for the sectors that were required to reduce their emissions by providing lower cost options to reducing GHG.

Dairy farmers can achieve significant amounts of real, verifiable, additional and low cost or cost effective reductions or avoidance of GHG emissions through:

- Capture and destruction of the methane production by animal manure;
- Reductions in enteric emissions through changes in dietary strategies; and
- Substitution of manure for commercial fertilizers as the source of crop nutrients, avoiding the emissions associated with the production and transport of commercial fertilizers.

- 3) If a cap-and-trade program is chosen, how should emission allowances be distributed? For example, should they be at no cost, auctioned, or a combination of both? How should Congress prioritize the distribution of available allowances? Should allowances for the agricultural and forestry sectors be allocated at no cost, if so, should there be a limit on the number of no-cost allowances?

Please respond in 600 words or less.

NMPF feels that allowances should be allocated at no cost for the agriculture sector. Allowances will be an important piece of the cap-and-trade legislation for this sector. Allowances could go toward rewarding the leaders or early actors of the industry to reward those practices that have been reducing GHG emissions for years. It could also be used for new research of GHG reduction techniques that have not been developed or still need additional research to qualify for the offset market. These agricultural allowances should be distributed to USDA to support these efforts.

- 4) Should a cap-and-trade program or a carbon tax/fee program be linked to existing or emerging U.S. regional or other carbon reduction programs (i.e. RGGI or individual state programs)? If so, which programs and why? *Please respond in 600 words or less.*

The existing voluntary programs provide a valuable framework for the US system to learn from. However, they currently lack the environmental accountability that will be necessary in the US system. Current voluntary programs do not provide protocols that are strict enough to ensure real GHG reductions. NMPF feels the US climate change legislation must include a robust offset program which can provide a high value of environmental integrity. Offsets that are measurable, verifiable and additional should receive the full value for their GHG reduction. In the current voluntary market large discount rates are applied to account for uncertainty. NMPF feels a stricter offset program would result in a tiered offset system that rewards proven offset technologies.

NMPF does not believe that any current mandatory program has developed enough of a comprehensive offset program to model the US system after.

- 5) If a cap-and-trade program is established, should an existing government agency regulate it or should a new agency be created? Please explain. *Please respond in 300 words or less.*

NMPF feels that USDA should be running the climate change programs for agriculture. USDA can provide the technical oversight necessary for the agriculture offset program and they also have a high level of credibility with producers.

The 2008 Farm Bill gave USDA the authority to create technical standards for facilitating landowner participation in emerging markets for carbon sequestration, water quality and other ecosystem services. Section 2709 of the conservation title requires the Secretary of

Agriculture, in consultation with other agencies and interests, to "establish technical guidelines that measure the environmental services benefits from conservation and land management activities." USDA also has staff around the country that could help to verify and implement these programs.

USDA should be in consultation with the relevant Cabinet agencies, and should have responsibility for setting agricultural offset program objectives and standards.

- 6) If a derivatives or futures market in carbon reduction arises in the wake of the creation of a cap-and-trade program, should the Commodity Futures Trading Commission (CFTC) continue its role as the regulator of this derivative carbon market, or should there be a different regulator? Please explain. *Please respond in 300 words or less.*

The CFTC currently has the authority to regulate the derivative carbon market and should continue. The carbon market will closely mirror the trading of other agriculture commodities that CFTC currently regulates.

- 7) Currently, derivatives of energy-based commodities can be traded through: a) highly structured instruments on regulated, transparent futures markets accessible to anybody and anyone; b) flexible instruments on lightly regulated, transparent derivative markets accessible to only major market participants, or; c) flexible instruments on unregulated, opaque over-the-counter markets accessible only to major market participants.

Should derivatives markets in carbon reduction arising in the wake of the creation of a cap-and-trade program also be permitted to develop under similar options as for energy-based commodities?

Please respond in 600 words or less.

Yes, this system should provide the necessary flexibility and transparency to ensure confidence among market participants, agricultural producers and consumers. The system allow for verifiable carbon reductions and economic growth.

- 8) Will enactment of a carbon reduction program have negative impacts for regions or populations whose welfare is of special interest to the agriculture community? Such groups could include: residents of rural areas; populations served by USDA nutrition programs; agricultural producers and forest landowners; or input, transportation, and processing sectors of agriculture and forest products. *Please respond in 600 words or less*

NMPF believes that energy costs will increase in the effort to reduce GHG emission as part of climate change legislation. As a result, transportation, electricity, petroleum etc. will increase. A major concern for the dairy industry is dealing with those increases, which will directly impact all producers bottom line because they do not have the ability to pass along any cost increases. NMPF believes that no one industry should be unduly harmed by climate change legislation. Some dairy farmers will see higher increases in energy costs relative to dairy farmers in other parts of the country. Also, not all dairy farmers will be able to benefit

to the same degree from carbon offset trading opportunities. NMPF feels that producers who are unable to take advantage of the offset market should be rewarded through the allowance market.

NMPF believes it is fair and appropriate for a substantial portion of the revenues created through the auction of GHG allocations to be used to reduce the level of increases from those less able to bear it. Large sectors or regional portions of agriculture itself may be found to be bearing their own disproportionate share needed to achieve national GHG reductions and these portions of agriculture should receive a share of the assistance provided from the revenues generated by the auctioning of allowances.

- 9) How might revenue generated under a carbon reduction program be best used to offset any negative impacts? *Please respond in 300 words or less.*

The best way to reduce impacts of the climate change legislation is to have a robust carbon market. Revenue from that market should be provided to sectors and sources that can provide the lowest cost reductions of GHG emissions and/or have the highest potential to be negatively affected by increases and energy and input costs. This can be done through the provisions of revenue to the agricultural sectors from the sale of allowances and offsets.

- 10) Should businesses that are affected (either indirectly or directly) by higher overall costs due to a carbon reduction program receive transitional assistance? *Please respond in 300 words or less.*

Yes, businesses that are affected by overall costs should receive transitional assistance. A robust and flexible carbon market is the most effective tool for keeping these potential costs low.

- 11) What role should public lands play in helping to sequester carbon and/or reduce greenhouse gas emissions? *Please respond in 300 words or less.*

All available GHG reduction opportunities should be utilized. As such, the vast amount of public land acres could be managed to increase carbon stocks through various practices that can sequester carbon as part of a balanced set of uses for that land. Such sequestration could be used to further help reduce compliance costs.

- 12) Should carbon prices be determined exclusively by market forces or should limits on carbon prices be established? Please explain. *Please respond in 600 words or less.*

NMPF believes that carbon prices should be set by market forces in the offset trading program. As is consistent with other commodity exchanges, it is appropriate to set daily price change limits to ensure orderly functioning.

- 13) What, if any, lessons can be learned from the European Union's Emission Trading System (ETS) or any other carbon reduction program already underway or being developed? Do any international carbon reduction programs currently exist for agriculture and forestry? Ask Clark Group

NMPF believes lessons can be learned from the EU system. The EU only allowed limited opportunities for low-cost GHG reductions from agriculture, they did not allow soil sequestration and required methane projects to go through tedious verification processes that left many valid offset projects unable to assist in the climate reduction goal. The US system should allow all types of agricultural projects to participate in the offset market.

Also, the EU system uses the Clean Development Mechanism (CDM) and approves projects on a case by case basis. This has created an inefficient system with tremendous backlogs in approving valuable GHG reduction projects. The US system should create standards for project types and stay away from the project-by-project system the EU is currently operating under in order to create a more comprehensive and expeditious process for appropriate offset projects.

Part II: Carbon Reduction Program Administration and Implementation

The administration and implementation of an offset or allowance program will be a major topic during any potential climate change discussion. Please answer the following questions regarding the scale, scope, and limitations of any program as part of the larger carbon reduction debate.

- 14) What options or combination of options would be most effective for agriculture and forestry sectors in a carbon reduction program: a voluntary offset program, bonus allowances for selected agriculture and forestry activities, or agreed upon performance standards for segments of the agriculture and forestry sectors? *Please respond in 600 words or less.*

A voluntary market should provide as many real offsets as the market can bear. While bonus allowances for selected GHG emission reduction activities could be included as a companion and work in parallel to the offsets market, we believe that the first and most important need that should be addressed with any revenues generated by allowances allocated to USDA would be for research and development of further low cost GHG reducing or mitigating practices in agriculture.

- 15) Should the total number of offsets issued annually by the government be limited? If so, how much?
Please respond in 300 words or less.

As long as the offsets program can establish that the offsets being purchased are real, verifiable and additional, there should not be a limit on the number of offsets. Modeling on

bills considered by the US Senate last year showed dramatically lower compliance costs as more offsets are allowed. NMPF also believes that a tiered system should be used to assign a higher price for those offsets with a lower degree of uncertainty as to the exact value of GHG reductions being achieved.

16) How should Congress prioritize the distribution of available offsets (who gets them and how much)? *Please respond in 600 words or less.*

The distribution of the offsets, assuming they are real, verifiable and additional will be determined by the market. However, methane reduction credits are a proven, measurable, verifiable and permanent credit that is ready for the market now. Reduction credits that are in the same place should be fast-tracked so those reductions can assist with cost containment as soon as the program is enacted.

17) What should the criteria be for measuring (quantification, verification, and monitoring) and accounting for the legitimacy of offsets under the program? *Please respond in 600 words or less.*

Offsets should be measurable, verifiable, additional and enforceable. Where measurement uncertainties exist, discount rates should be applied. Where immediate measurable, verifiable, permanent and additional offsets exist, fast-tracking of those offsets should occur.

Also, national standards should be established to determine measure rates for offset types. These standards should be consistently updated according to science, protocols should undergo peer review and they should be established by public notice and comment rulemaking. In addition they need to be real and achievable for the conditions at hand at the locations where the offsets are being generated. USDA should be in charge of setting these project type standards and include a combination of modeling along with actual testing of ongoing projects.

18) What should be the criteria for assessing offset projects? *Please respond in 300 words or less.*

NMPF believes a verification process must allow for third party audits. This would allow those offset providers to bear the higher audit costs in order to ensure a higher degree of certainty of the amount of GHG reductions being achieved. This would also allow these providers eligible to receive a higher price for these “higher quality credits” in the offset credit market.

19) How should Congress design a system for verifying offset projects? *Please respond in 300 words or less.*

Criteria should be established by USDA for agricultural project types, not on a project-by-project basis. A project-by-project, CDM type of system would increase the transactions cost of the program without giving a sufficient degree of certainty across the system. Agencies within USDA have been working on measurement and verification processes for years. NMPF feels agencies with the technical expertise and the necessary staff across the country should have the responsibility to verify these offsets.

- 20) Should Congress establish a standards-based approach with pre-calculated values or a project-based approach that measures field results for establishing eligible offsets under the program?

Please respond in 600 words or less.

Congress should establish a standards-based approach. Project specific data can be used to improve the standards. USDA can establish these standards and perform random audits of the program to ensure actual GHG reductions are being made.

- 21) What should be the relationship between offsets and allowances? *Please respond in 600 words or less.*

The offsets and allowances should be separate markets. And there should be an allowance market for the agriculture industry. The offset market is a proven GHG reduction program. The allowance market for the capped sector should allow for transitional assistance to prevent undo harm to industries and the allowance market for the agriculture or uncapped sector could assist early actors and develop new technology and research for unproven GHG reductions.

- 22) Describe the most important factors in establishing the permanence and duration of offsets under the program, including contract length and flexibility? *Please respond in 300 words or less.*

For methane destruction, permanence is not a factor, methane will be destroyed through a digester or dietary change. However, NMPF feels that contracts should determine the permanence of an offset.

Insurance should also be utilized for offset projects in addition to a reserve pool to account for natural disasters.

- 23) How should Congress address existing offset projects or credits established through a voluntary market or system (e.g., the Chicago Climate Exchange or an emission registry)? *Please respond in 600 words or less.*

NMPF believes that any credits that are currently being sold on the Chicago Climate Exchange (CCX) must demonstrate that the credits are measurable, verifiable and additional

and as such should be eligible for the new offset market. We do believe that a new climate change standards should fall somewhere in between the current CCX market and the inconsistent CDM system.

- 24) The terms "additionality" and "stackability" are often used when discussing the details of an offset program. How should producers and forest landowners who may have been early-actors and already undertaken activities that sequester carbon or reduce greenhouse gas emissions be treated? Should activities undertaken to reduce carbon emissions also be allowed to count towards other environmental market activities, such as water quality or wildlife habitat creation, therefore allowing landowners to "stack" credits?

Please respond in 600 words or less.

The majority of early actors should be able to participate in the climate change legislation through the allowances market. However, in the case of the dairy industry, there are currently under 100 methane digesters in the country out of more than 60,000 farms. These producers will continue to make real, verifiable, measurable and additional GHG reductions. These producers must be able to participate in the offset market due to the valuable GHG reductions they can provide.

Also methane digesters provide other valuable environmental benefits, including water and air, and should not be excluded from also receiving those benefits. The same is true if there is an environmental credit market (as distinct from a federal financial assistance program) that trades in these other non-GHG benefits. More farmers will be able to generate more offset credits than would otherwise occur, helping the climate and other aspects of the environment.

It is clear that in the methane capture market, additional incentives are needed in order to expand this technology across the industry. Without stackable credits this may not be possible.

- 25) How should activities that may have been paid for in part by assistance from Federal or state government programs (i.e. cost share, technical assistance) be treated? How should those activities be treated if the practice was not specifically implemented to address carbon sequestration or greenhouse gas emission reduction? *Please respond in 300 words or less.*

NMPF believes that the goal of a climate change bill should be to reduce GHG emissions and any project that is reducing GHG emissions should be rewarded in order to meet that goal. Currently, in the case of methane digesters, industry incentives are needed to expand the current number of digesters being used today to provide a substantial GHG reduction. Producers who reduce GHG should be awarded payment for reducing those emissions regardless of the original intent of the activity.

Although some digester projects have received assistance from the government, the assistance has been meager when compared to the overall cost of the project. These

projects cost on an average of \$3 million, the average USDA grant is around \$500,000. The capital investment these producers are putting forth is substantial and it is necessary that producers are eligible for additional incentives to increase wide spread use of digesters.

- 26) Should a producer be required to return revenue or be held liable if an offset project does not sequester carbon or reduce greenhouse gas emissions? How about in the event of a natural disaster or another event uncontrolled by the producer and/or landowner? *Please respond in 300 words or less.*

NMPF feels that there could be several ways to deal with natural disasters or other uncontrolled events, including but not limited to: establishing a reserve pool, creating an insurance system for GHG reductions, establishing a discount rate for risky offsets, establish a federal risk management tools such as currently exists with crop insurance.

- 27) Should the protocols and procedures for the offset program be detailed in legislation, or should authority be delegated to the appropriate government agency to develop regulations? If so, which agency or agencies should be responsible for devising protocols and procedures? *Please respond in 300 words or less.*

Rather than setting detailed protocols in the legislation, NMPF feels that the majority of those details should be left to proper notice and comment rulemaking, provided there is continual and effective oversight from the correct agencies of jurisdiction. USDA should develop these protocols.

- 28) What are the obstacles faced by agricultural producers and landowners to implement practices and technologies? *Please respond in 600 words or less.*

The primary obstacle at this point in time is that carbon credits are undervalued relative to the costs of many of these sound practices that reduce GHG and additional incentives do not currently exist in order to make these projects viable. The creation of hard caps for the emitting sectors to achieve the GHG objectives set should increase the carbon market. In addition, the cap-and-trade program will need to establish well-defined credit trading markets with all parties obligations clearly defined including the risks of failure to meet contractual obligations due to circumstances under and beyond the contracting parties' control. The transaction and verification costs must be kept to the lowest level possible while still providing for sound trades of real value. Also, further education and access to information are need by producers in order to fully participate in this market.

- 29) Do existing conservation and forestry programs provide sufficient incentives to encourage the adoption and implementation of practices that mitigate climate change impacts, sequester carbon and/or reduce greenhouse gas emissions? If not, what might Congress consider offering as additional financial incentives and technical assistance to speed up adoption/implementation? *Please respond in 300 words or less.*

No, currently there are fewer than 100 methane digesters in the US. A tremendous amount of research, technology and incentives are needed to bring us the success that countries like Germany are currently experiencing with their digester program. There are digesters on small and large farms because the proper incentives have been established. Agriculture is filled with examples of programs that have the ability to significantly reduce GHG emissions at a low cost.

The California climate standard however, demonstrates a different problem in that they have created standards that prevent the utilization of digesters due to the NO₂ emissions that are released off of the digester motor. It is a shame that this technology that provides so many additional benefits to the environment have been regulated out of use because of some unintended consequences.

Fair levels of compensation for these practices are needed before producers will increase their adoption. Congress could increase the financial incentives in these programs to achieve these ends. Alternatively, allowing for the stacking credits onto the GHG offset market will also lead to more widespread adoption and greater long term certainty as to the size of offset being created. Furthermore, using this market-based system for GHG offset credit trading will do a better job of ensuring that the level of GHG reductions actually taking place match that level needed to achieve the program's objectives.

Part III: Carbon Reduction Program Additional Thoughts

Please use the next 1000 words to provide additional comments on subjects which may not be covered by the questionnaire, such as a low-carbon fuel standard, life-cycle analysis, leakage, or biofuel incentives.

The National Milk Producers Federation together with Dairy Management Inc. and the International Dairy Foods Association in an effort to accelerate innovation, increase and protect sales, and build public trust in the industry's commitment to responsible practices created the Innovation Center in 2008. Part of the Innovation Center includes a sustainability initiative, where the entire dairy industry – from farm to retail – is working together to be leaders in sustainability and enhance the health and well-being of our planet, communities, consumers, and the industry.

The initiative helps ensure the continued viability of the U.S. dairy industry by providing opportunities— economic, environmental, and social—to:

- **Create business value** by developing new business practices that benefit the industry through operational efficiencies, reduced energy costs, new revenue opportunities, and the mitigation of adverse regulation.
- **Preserve our environment** for future generations by minimizing material waste and maximizing efficient use of energy, water and chemicals.

- **Tell our story** by highlighting the industry’s commitment to nutrient-rich foods and responsible practices – past, present, and future.

The sustainability initiative is identifying practical and effective methods to reduce our carbon footprint *and* increase business value. Some of these opportunities are short-term in nature and take advantage of existing practices; others will require longer time frames for research and development.

We are pursuing a range of solutions for operations large and small across each segment of the industry—from farm to retail. Following are some real life solutions endorsed by the Innovation Center:

- Energy audit programs that give farmers and processors information and resources to help reduce energy consumption
- Research for methods to reduce enteric methane through nutrition, immunology and genetics
- A pilot project tackling barriers to widespread adoption of methane digesters, spurring innovations in technology, reliability and cost structures
- A pilot project working to demonstrate the commercial viability of non-thermal UV processing technology as an alternative method for producing high-quality, safe milk products with significantly reduced energy outputs
- Many organizations are exploring carbon reduction opportunities through crop production, packaging, refrigeration, and transportation

NMPF is also looking at various other solutions to make environmental practices make economic sense for producers to implement. The renewable electric standard would create a demand for the renewable energy digesters can produce. Currently there is a wide variation in the rate paid for energy production. If producers can get a fair rate for the energy produced, more producers may be encouraged to install this technology.

In addition, NMPF is supportive of a biogas tax credit that would create an incentive to create biogas. Currently this is a very costly activity and there are very few producers that can afford to make the investment even though it would displace a fossil fuel.

The industry is taking significant steps to reduce its carbon footprint but more work can be done. NMPF is certain that with proper incentives, the dairy industry can be a substantial source of renewable energy and assist in valuable GHG reductions.

Please list specific types of *forestry practices* that should be available as offsets, and then use the terms provided to evaluate the practices.

Type of Practice	Effectiveness at sequestering carbon or reducing GHG emissions (<i>Excellent, Good, Moderate</i>)	Ability to verify carbon sequestration or GHG emission reductions (<i>Excellent, Good, Moderate</i>)	Cost for agricultural producers and private forestland owners to implement (<i>High, Medium, Low</i>)	Capacity of agricultural producers and private forestland owners to implement immediately (<i>High, Medium, Low</i>)
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Please list specific types of *practices associated with livestock operations (e.g. manure management, grazing/pastureland practices)* that should be available as offsets, and then use the terms provided to evaluate the practices.

Type of Practice	Effectiveness at sequestering carbon or reducing GHG emissions (<i>Excellent, Good, Moderate</i>)	Ability to verify carbon sequestration or GHG emission reductions (<i>Excellent, Good, Moderate</i>)	Cost for agricultural producers and private forestland owners to implement (<i>High, Medium, Low</i>)	Capacity of agricultural producers and private forestland owners to implement immediately (<i>High, Medium, Low</i>)
Anaerobic digestion	Excellent	Excellent	High	High
Improved handling of manure	Good	Good	Medium	High
Improved feeding practices	Excellent	Good	Medium	High
Feed additives	Good	Excellent	Low	High

Please list specific types of *crop production practices* that should be available as offsets, and then use the terms provided to evaluate the practices.

Type of Practice	Effectiveness at sequestering carbon or reducing GHG emissions (<i>Excellent, Good, Moderate</i>)	Ability to verify carbon sequestration or GHG emission reductions (<i>Excellent, Good, Moderate</i>)	Cost for agricultural producers and private forestland owners to implement (<i>High, Medium, Low</i>)	Capacity of agricultural producers and private forestland owners to implement immediately (<i>High, Medium, Low</i>)
No-till/Carbon soil sequestration	Excellent	Excellent	Medium	High
Precision agriculture	Good	Good	High	High
Pasture Management	Good	Good	Medium	High