

June 11, 2009

Congressman Collin C. Peterson  
Rayburn House Office Building  
Room #2211  
Independence Avenue & S. Capitol Street, SW  
Washington, D.C. 20515

Congressman Frank Lucas  
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Dear Chairman Peterson and Ranking Member Lucas:

Thank you for the continuing dialogue you have afforded our associations on the issue of climate change. Your continued outreach to the agricultural community remains our most important forum in which to participate in this monumental undertaking. We are writing to share our perspective on the potential implications of the legislation for the food supply chain and ultimately, American consumers. At this point, we frankly have more questions than answers regarding the impacts of this legislation.

As you probably know, many food industry companies, for sound business reasons, have already undertaken efforts to improve production and energy efficiency in their plants and throughout the supply chain. Many of our member companies have participated in contractually binding CO2 emission reduction programs. In addition, several of our member companies operate in countries that are subject to Kyoto Protocol reduction requirements, and some have even participated in the Clean Development Mechanism (CDM) projects under the Kyoto Protocol. Thus, our associations are familiar with the proposed scope and intent of many of the requirements included in the legislation. However, the details and specific policy implications are less clear.

Now that the Waxman-Markey bill has moved through the House Energy and Commerce Committee and the bill language is available, we finally have an opportunity to conduct a more thorough analysis of the legislation. At this point, however, because of the complexity involved, the vast majority of our member companies have not fully completed their assessment of the legislation. As we continue our analysis, we want to highlight for you some of the many and complex issues that appear to be the most significant for the food sector - including producers, processors, and consumers. Though many of the details of the legislation have only recently been provided, our limited analysis safely concludes that the legislation would have a significant impact on the entire food supply chain.

The direct cost of allowances for entities that emit more than 25,000 tons of CO2 will be directly added to the operating cost of each facility. One can safely assume that firms would seek to cover added costs by passing them forward or backward in the supply chain. This will inevitably

impact costs for consumers, returns for producers, or a mix of both. Without a reallocation of these costs, processing firms would not remain viable.

Numerous studies have predicted prices for future allowances. The CBO score for the Waxman-Markey bill places the cost at \$26 per ton in 2019, the 10<sup>th</sup> year of a 10 year budget scoring window. But the CBO budget scoring window does not cover the life of the bill, which is scheduled to require emission reductions until 2050—well beyond CBO's analysis. We believe an analysis through 2050 is critical in order for our industry to understand the costs in the out years when allowance supply is reduced to less than one-fifth the level at the beginning of the legislative mandate.

The allocation formula in the Waxman-Markey bill exempts through 2029 some of the most high intensity users of energy from needing to purchase a significant portion of their allowances. Meanwhile, food production facilities will have to purchase allowances. At the same time, they will be competing in energy markets with those that received a significant portion of their allowances for free. It is unclear how this imbalanced competition in the energy market will impact entities that must continue to pay full price for allowances. We are also focused on the downstream effect of this cost structure for the farm gate and at retail for consumers.

Not only is it important to understand the direct cost of allowances, it is equally important to understand the added indirect impact of higher energy costs on the food production chain. These costs would impact not only those above the reduction threshold, but those below it as well. Free allowances to the energy producing sectors will only cover a portion of their CO<sub>2</sub> emissions, so even though free allowances will not end until 2029, the impact of higher energy prices will begin to be felt immediately. The impact of higher energy costs on consumers, producers and processors is not yet well understood, but it will not be marginal.

It is surmised that the legislation would create incentives for the use of more efficient methods of production, resulting in the use of less energy. But as the Committee understands, our industry relies heavily on the use of heat for the sanitation of facilities and the protection of consumers from food-borne pathogens. We can safely project that the current legislation would make food safety interventions more expensive. Despite the demand created by the legislation to reduce energy usage, this is not a place where our companies can responsibly make energy reductions.

Agricultural offsets have been discussed as revenue opportunities for producers and as a means to help alleviate the cost of allowances for emitters. The legislation places several statutory requirements on the creation of offsets which may inhibit the creation of agricultural offsets. Additionally, the legislation places hurdles on the actual use of offsets by emitters. These provisions should be carefully evaluated to determine the degree to which agricultural offsets will be available, and the degree to which emitters could actually use offsets for compliance purposes. An ineffective offset program would not provide benefits to producers and would reduce opportunities for emitters to meet their compliance obligation. Understanding the impact of the statutory provisions on offsets is a critical piece of knowledge that is missing.

Many observers and indeed proponents of this legislation concede it will come with costs. We fear that efforts to help certain sectors minimize burdens will significantly impact the cost structure of one of the most critical sectors of the national economy: that sector which provides the most basic human necessity – food.

We believe the Agriculture Committee should carefully analyze the legislation to fully understand the concerns we have raised, and we applaud your efforts to review this pending legislation through the hearing process.

During these difficult economic times, we believe it is unwise to insert additional economic uncertainties into an already fragile marketplace. Given this and the issues raised in this letter, in the absence of a more thorough examination of this monumental bill and its economic consequences on the food supply chain and American consumers, we respectfully ask that Members not support passage at this time.

National Meat Association

American Meat Institute

National Chicken Council

National Turkey Federation

National Grain and Feed Association