Idaho Barley Commission
821 W. State Street
Boise, ID 83702
208-334-2090; www.idahobarley.org

Volume 2, Issue 5

May 12, 2009

IDAHO BARLEY NEWSBRIEF

Inside this issue:

Marketing Year 2010 Grain Market Outlook

- U.S. and world grain supplies are projected to trend slightly lower in MY 2010, with the exception of world wheat stocks which are estimated to continue rebuilding.
- World barley production is forecast to be 5% lower, with U.S. production down 6%, causing ending stocks to fall again. U.S. exports are projected to recover from low levels this year.

U.S. Grain Supply & Demand

USDA, May 12, 2009 (million bu)

	BARLEY		CORN		WHEAT	
	2008-09	2009-10	2008-09	2009-10	2008-09	2009-10
Harvested Acres (mln)	3.8	3.4	78.6	79.3	55.7	77.8
Carryin	68	89	1,624	1,600	306	669
Production	239	225	12,101	12,090	2,500	2,026
Imports	30	25	15	15	125	115
Total Supply	338	339	13,740	13,705	2,930	2,810
Food, seed & industrial	170	170	5,040	5,410	1,001	1,033
Ethanol			3,750	4,100		
Feed	65	70	5,350	5,250	250	240
Exports	14	20	1,750	1,900	1,010	900
Total usage	235	240	12,140	12,560	2,261	2,173
End stocks	89	79	1,600	1,145	669	637

- World coarse grain production is pegged 2% lower, with U.S. production down 1%. World ending stocks are down 6%. U.S. corn production is expected to decline slightly, but ending stocks are estimated to fall 28%, due to strong feed and ethanol demand.
- World wheat production is projected to decline 4%, while U.S. production falls 19%. World ending stocks are estimated to increase 9%, but U.S. stocks are projected to fall 5%. U.S. exports are pegged down 7%.

Climate change legislation may be on its way - we look at what's at stake for agriculture

Dick Wittman, an Idaho grain producer from Culdesac and a member of a national Agricultural Carbon Market Working Group, shares his perspective on pending federal efforts to regulate the emission of greenhouse gases and create a carbon offset market. Under such a market, farmers and foresters are paid for land management practices that capture and store carbon.

Q.1. You are a member of the Agricultural Carbon Market Working Group (ACMWG). What is the mission of this group and how are you involved in shaping the carbon cap-and-trade debate?

***Wittman*:** The Agricultural Carbon Market Working Group is comprised of leaders from national farm organizations, the biofuels industry, and other key agricultural stakeholders. Our focus is on education and leading national debate on a how to develop a proper framework for ag policy related to climate change issues. The ACMWG works cooperatively with other entities interested in seeing carbon markets for agriculture such as the Consortium for Agricultural Soil Mitigation of Greenhouse Gases (CASMGS), the Dole Daschle 21st Century Farm Policy Initiative, the Clark Group and the Environmental Defense Fund. We have spent the past four years studying potential impacts on agriculture of proposed climate change solutions and have focused intensely on how carbon offset markets should work for agriculture. We want to ensure that our "collective" ag voice is at the table in policy debates and find ways to make an expected carbon cap-and-trade system work for, rather than against agriculture.

Background: On April 17, EPA issued a finding that greenhouse gases (GHGs) pose a threat to public health and welfare under the Clean Air Act. This action has triggered a 60 day comment period before rules are implemented to crack down on GHGs. President Obama prefers that Congress pass legislation to reduce GHGs rather than resorting to EPA regulations which are expected to be more restrictive. Congress is now on notice to legislate a solution or acquiesce to EPA .

A congressional approach is expected to include increased energy efficiency standards and some form of carbon emission cap-and-trade system. Under cap-and-trade mandatory carbon emission allowances are established for the electric power, transportation and manufacturing sectors, coupled with emission trading provisions that will help companies meet their caps at the lowest cost.

The Senate is likely to take an approach similar to the 2007 Lieberman-Warner bill, which set a target of reducing six greenhouse gases (primarily CO_2) by 70% from 2005 levels by the year 2050 (15% reduction by year 2020). The bill set emission caps for regulated industries and allowed capped entities to reduce their carbon emissions by employing new technologies, trading carbon allowances and/or paying others for carbon offsets. A comparable bill has not yet been introduced in the 111th Congress.

House Energy and Commerce Committee Chairman Henry Waxman (D-Calif) and Energy and Environment Subcommittee Chairman Ed Markey (D-Mass) have introduced their version in recent weeks - the American Clean Energy and Security Act of 2009. They expect to move on this legislation before the summer recess. This bill takes a three-pronged approach: 1- establishes an Energy Efficiency Resources Standard that would reduce electricity usage by at least 15% and natural gas usage by at least 10% by 2020; 2- establishes a Renewable Electricity Standard that would increase renewable energy production by at least 20% by 2020; and 3- establishes a cap and trade system that would reduce GHG emissions by at least 35% below current levels by 2020 and at least 80% by 2050.

Last year some of our members visited Europe to see how their carbon emission trading system worked and how it could be improved to maximize benefits for U.S. farmers. European carbon credits were trading at modest levels for simple supply and demand reasons - there were too many emission allowances established initially and there was a surplus supply of offsets being offered by enterprising landowners. Creators of the European model underestimated the innovative creativity of offset providers who were eager to be paid for practices they were employing on their land. I believe naysayers of a cap-in-trade system in the U.S. will find the same thing. Necessity is the motherhood of invention. And if you create a financial incentive in the marketplace to craft solutions to emissions problems, the solutions will come much quicker and more economically than in an EPA-driven punitive regulatory approach.

The key will be to effectively position U.S. agriculture to be a central part of the solution for reducing GHGs at the lowest possible cost to the U.S. economy. We need to look at this as an opportunity, rather than a threat. We seek to minimize impacts on agriculture while maximizing our opportunities to capture value from "carbon offset commodities" we generate by certain land and production management practices that we employ.

I will be joining another ACMWG team in an exchange visit with Brazilian farmers this July – we will look at their climate change strategies; then their farmers will visit the Midwest to see our offset strategies related to alternative energy, grassland management projects and methane digesters.

Q.2. Is it your position that agriculture should be exempt from an emissions cap? Why?

Wittman: Agriculture and forestry should NOT be considered a capped sector in a cap-and-trade system. There are too many small sources of GHG emissions within the agricultural and forestry sectors to be tracked efficiently and effectively. The most effective way to address these types of emissions is through voluntary incentive programs. Ag and Forestry sectors should be allowed to produce and sell offsets to capped entities, which will lower the overall cost of compliance to the economy. This will also allow farmers and foresters the opportunity to contribute to climate improvement and take part in new economic growth.

Q.3. There are concerns that agriculture will be hurt by higher energy costs that will outweigh potential benefits accrued from carbon offset payments. Is it possible to craft cap-and-trade legislation that will be beneficial to U.S. agriculture?

Wittman: In last year's Lieberman-Warner bill, revenue generated by the sale of allowances would be distributed to communities and other stakeholders (like farmers) that could be negatively impacted as a result of this policy. The allowance framework will be key in helping protect potentially vulnerable stakeholders. A study from Bruce McCarl of Texas A&M showed that an unlimited offsets market created a net positive income for farmers even considering higher input costs, The real question to consider is if climate legislation passes without an offset market, what will be the vulnerabilities of the economy at large (since compliance costs could be significantly higher) and to the rural and agricultural sectors specifically. An offset market allows both protection for the larger economy and especially for rural areas that could be affected by increases in energy costs.

Q.4. Can you explain how individual farmers can participate in a carbon offset market and who will likely regulate this market so that there are verifiable environmental benefits?

Wittman: Individual land owners will likely participate through a carbon offset pool administered by one or more aggregators across the country. While much publicity is given to carbon offsets traded on the Chicago Climate Exchange, the majority of offsets are likely to be traded privately between offset originators, aggregators and regulated companies that need to find a cost effective way to reduce their carbon emissions The carbon offsets trades we have done through the PNW Direct Seed Association have all been direct sales, also known as an Over the Counter (OTC) trade. Many other

ag entities, such as local conservation districts and the National Association of Wheat Growers, are investigating opportunities to provide similar aggregation services to their constituents.

Q.5. Who should oversee or regulate carbon trading?

Wittman: There is a strong lobbying push to allow EPA to oversee a carbon trading program. We see this as a shared responsibility with USDA. USDA should be designated as the lead agency for developing protocols for eligible practices and verifying that quality offsets are being created and sold. Offset programs need to be designed to incentivize farmers to meet performance standards instead of implementing regulations that may restrict innovation in offset development, and thereby limit GHG reductions. USDA has the most logical resources and relationship with ag and forestry to assist with research and educate growers on the economic and environmental benefits that can be derived from improved land management practices.

Q. 6. Why is climate change legislation preferable to EPA regulations?

Wittman: We can expect a more reasonable public debate and outcome if Congress is involved, than leaving this issue exclusively in the hands of EPA. EPA has already stated it prefers a much lower emission level to trigger enforcement action – ranging from 25 to1,000 tons of carbon dioxide equivalence. These levels would ensnare many U.S. farms and livestock feeding operations. By contrast, the Lieberman-Warner bill applies to combustion based industries only and uses a trigger of 20,000 tons for existing and 10,000 tons of CO_2 equivalence for new emitters. Moreover, we have a better opportunity to be at the table with Congress to ensure that agriculture is NOT a capped industry and that there is a robust offset mechanism to help reduce GHG emissions in the most cost effective manner.

For more information on the cap-and-trade debate and ag carbon markets, visit www.agcarbonmarkets.com

IGPA report -

The 1st session of the 60th Idaho Legislature adjourned on Friday, May 8. Here are some highlights...

CROP DEPREDATION FUND

HB 333, a bill providing funding for the Idaho Department of Fish and Game, included a significant boost to a fund compensating grain producers sustaining crop damage due to wildlife. Signed into law May 7, HB 333 authorizes a transfer of $200,000 to the crop depredation account from a big game winter feeding program. The additional funds will increase the depredation account from the $406,000 previously authorized level to $600,000 available for damage claims beginning in Fiscal Year 2010.

BEER TAX

HB 140, providing for increased state taxation on the wholesale price of beer, was defeated by the Idaho House Committee on Revenue and Taxation. HB 140 sought to triple the tax on beer products from the current rate of fifteen cents (15¢) per gallon to a percentage of the wholesale price equivalent to fifty-two cents (52¢) per gallon to raise an additional $19.2 million in revenues divided between the Idaho substance abuse treatment fund and the state general fund. IGPA opposed this bill because of its potential detrimental effects on beer demand and need for Idaho malting barley purchases

COMMODITY INDEMNITY FUND

HB 34 and HB 37, dealing with the Commodity Indemnity Fund (CIF) program and regulation of Idaho grain dealers, were signed by Governor Otter on March 23. HB 34 requires commodity dealers carry peril insurance on the full market price of commodities they have received and for which they still owe a producer. HB 37 limits producer and CIF liability to no more than three years of annual assessments for claims exceeding the balance of the fund, and would exempt the CIF of liability for claims caused by uninsurable perils such as natural disasters.