Testimony
House Committee on Rules
February 21, 2020
Oregon Farm Bureau Opposes HB 4167

Thank you for the opportunity to provide comments in response to HB 4167. As a reference, the Oregon Farm Bureau Federation (OFB) is the state's largest general agriculture association. OFB represents nearly 6,500 farm and ranch families actively engaged in agriculture.

Oregon agriculture is committed to natural resources stewardship and sustainability; our growers sequester enormous amounts of carbon annually and are already are part of the solution. However, 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. These policies have layered added costs that farmers and ranchers are already absorbing through the purchase of fuel and use of electricity. Currently, the Low Carbon Fuel Standard (LCFS) is adding a minimum $0.08/ gallon to the price of fuel in Oregon and that will increase to an added $0.23/ gallon in 2025.

Although not directly regulated by the proposed carbon cap, Oregon farmers and ranchers will bear very significant indirect costs of the policy. It will negatively impact our farmers' bottom lines, particularly on inputs like fuel, propane, and natural gas. Anything that leaves the farm, such as through commercial transportation, will bear the extra downstream costs of the cap. This policy is particularly bad for farmers and ranchers, whose survival depends on the ability to efficiently produce and deliver their products year over year. These families will be on the hook for additional costs for an aspirational program that will not decrease global greenhouse gas emissions. For many farmers, HB 4167 represents a cost that they simply cannot afford.

Over the last four legislative sessions, Oregon Farm Bureau has raised concerns about the financial impact of cap-and-trade to working families and the unworkable requirements applied to agricultural offset generation. We have reviewed carbon pricing policies in other states and jurisdictions and provided the Oregon legislature with feedback about the pitfalls and potential opportunities associated with these policies. For our farm and ranch families, HB 4167 still represents significantly more harm than opportunity.

OFB respectfully submits the following concerns with HB 4167:

1. The fuels program arbitrarily creates winners and losers.

HB 4167 arbitrarily creates winners and losers among farm and ranch families based on the county or city in which they reside. This urban-rural divide indiscriminately chooses communities deserving of extra fuel costs. Families in rural areas on the west side of Oregon do not have any greater ability to pay for added fuel costs than those on the east side of Oregon. OFB doesn't believe that any family should face fuel cost increases of $0.22-$3.00/ gallon, particularly based on where they live. It's unfair and creates a competitive disadvantage for farmers and ranchers located in the below counties and cities:

- Fuels distributed in the Portland Metro counties (Multnomah, Clackamas, and Washington) are taxed in 2022;
- Fuels distributed in Benton, Clatsop, Columbia, Douglas, Hood River, Jackson, Josephine, Lane, Lincoln, Linn, Marion, Polk, Tillamook, and Yamhill Counties are taxed in 2025; and
- Fuels distributed in Coos County, Curry County, the City of Bend, and the City of Klamath Falls are taxed in 2028.

Not only does the bill put producers on the west side at a competitive disadvantage compared to their neighbors on the east side of the state, but it puts growers in the counties subject to fuels regulation at a competitive disadvantage in the domestic and international market. Additionally, HB 4167 stacks fuels cost increases on top of those mandated under the LCFS. 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. HB 4167 will reduce our competitiveness by levying a new layer of costs on Oregon producers that our counterparts in other states and parts of the world don't have.

Additionally, our members have heard from their fuel distributors that the regionalization proposals in HB 4167 are unlikely to protect their operations from added fuel costs. Many farm families living in Crook, Jefferson, Wasco or other counties purchase fuel from distribution centers in Portland or Eugene. Even if HB 4167 excludes their county from the carbon cap, these growers are likely to be subject to cost increases based on where they purchase fuel from.

Finally, even for farmers on the east side of the state, HB 4167 would pull them into the program after four additional counties chooses to opt in to the program, which is not a meaningful layer of protection against statewide fuel impacts from cap-and-trade that our farmers and ranchers cannot afford.

2. Farm families bear the full cost of propane increases due to cap-and-trade.
Food and fiber production is energy intensive, and HB 4167 is projected to immediately drive up the cost of propane by a minimum of $0.16 per gallon. That increase is staggering for many farm and ranch families who rely on propane to heat their

greenhouses, operate forklifts, keep frost out of their orchards, and/ or dry commodities. Propane customers must be provided with relief in order to remain viable. Please don't leave rural Oregonians behind.

3. Protections are weakened for trade-exposed natural gas users, like farmers.
HB 4167 weakens natural gas rate protections provided to farmers to offset the steep rate increases anticipated under HB 4167. HB 4167 rolls back the promised protections in HB 4167 and gives the PUC the ultimate authority to decide what percent of rate relief farmers are eligible to receive. Relief is unlikely to equal 100% with the new nonvolumetric bill credit formula outlined in the amendment, and it creates regulatory uncertainty for family farmers.

These changes were made **without input** from designated trade-exposed natural gas users, including farmers, and are likely to result in leakage and hardship to home grown agribusinesses. Commitments made in December are broken in HB 4167. We urge the committee to reconsider this approach.

4. Greenhouse Gas Reduction Board lacks representation from agriculture.
The board tasked with advising the Department of Environmental Quality (DEQ) on rulemaking and protocol development lacks representation from the agriculture community. Natural resources stakeholders must have equal representation to other interests involved in advising policy decisions, particularly those related to their industries.

Additionally, the requirement that board members *"be residents of this state well informed on energy and climate issues,"* creates a subjective threshold that will leave many impacted Oregonians behind. Please remove the subjective requirement that board members be "well-informed on energy and climate issues." It allows the executive branch to disregard the input of impacted stakeholders on the Greenhouse Gas Reduction Board and is unfair to the working families who are most impacted by HB 4167.

5. Offset programs in HB 4167 are inaccessible to family operations.
We remain concerned with the structure of agriculture offset programs in HB 4167. We've worked with our counterparts in other jurisdictions with carbon pricing policies, and HB 4167 fails to address challenges with offset development that those governments and stakeholders have encountered. The bill still includes requirements that agricultural offsets be additional, permanent, and verifiable. These requirements are nearly impossible for a farmer to manage for on a dynamic landscape. With over 225 commodities grown in Oregon, rigid requirements in an agricultural offset program will not work for all commodity types and practices, leaving the vast majority of Oregon's diversified agricultural landscape behind.

These requirements, coupled with higher fuel, propane, and natural gas costs, will make it more difficult to maintain the family farm for the next generation. The unfortunate outcome of HB 4167 will be less take-home pay for farm and ranch families, and consequentially, fewer resources to upgrade equipment or invest in efficiencies on the farm or ranch. This seems counter to the goals of HB 4167.

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. Further, 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'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, let alone the increased costs farmers face as a consequence of the indirect costs of the program.

V. 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 diversified farms like we have in Oregon with 225+ commodities. 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.

As a final point, Senator Lee Beyer has introduced SB 1578 to provide farmers and loggers with a full rebate for the purchase of fuels needed to operate equipment. SB 1578 acknowledges that farmers and loggers cannot absorb the fuels cost increases anticipated under HB 4167 or SB 1530. We encourage the Committee to incorporate the protections in SB 1051 (2019) and proposed in SB 1578 as an amendment to HB 4167 to provide farm families with certainty that the legislature does not intend to add costs to their fuels. Relying on a bill that may not pass does not provide any comfort to our farmers and ranchers who are terrified of surviving the increased costs associated with this program.

Oregon Farm Bureau respectfully urges your opposition to HB 4167.

Please contact Mary Anne Cooper with Oregon Farm Bureau with any questions regarding these comments.