Statement of the

Iowa Farm Bureau Federation

To the Senate Committee on Agriculture, Nutrition & Forestry

Full Committee Hearing

Global Warming Legislation: Agricultural Producer Perspectives and Trading Regulation Under a Cap and Trade System

Presented by

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216 Hart Senate Office Building

Thank you very much for this opportunity to present testimony and discuss issues regarding market structure and market performance as it pertains to carbon markets. My name is David Miller and I am the director of research and commodity services for the Iowa Farm Bureau and the Chief Science officer for AgraGate Climate Credits Corporation, an affiliated company of the Iowa Farm Bureau. AgraGate is one of the leading aggregators of carbon credits from U.S. agricultural and forestry lands under the existing protocols of the Chicago Climate Exchange. We provide the means for thousands of farmers and landowners across more than 30 states to access the existing voluntary carbon markets. We help them enroll, quantify and verify their potential carbon offset credits so that they can be registered and marketed to entities that have a need for such.

I also farm. On our 400 acre farm in southern Iowa we converted to continuous no-till in order to qualify to earn carbon credits under CCX rules. I am one of thousands of U.S farmers, forester and ranchers, who work more than 16 million acres, that have been paid for providing environmental services through the CCX enrollment, verification and carbon credit sales process. (See Figure 1) Our credits can be sold to any of the 400 plus legally-approved members of CCX, including companies, governments and universities that legally commit to reduce their emissions, as well as investors and others. While I have served for over six years on various governing committees at CCX (There have been more than 300 committee/subcommittee meetings in the past 6 years – the CCX system is not "set it and forget it."), I am speaking today on behalf of AgraGate and Iowa Farm Bureau.

Occasionally, we have been asked why all of the credit registrations we have done have been on the Chicago Climate Exchange. The simple answer to that is that CCX has the only protocols that are "workable" for production agriculture and private forest lands. Various aspects of the protocols of other registries have design elements that limit their acceptance by offset providers.

Market design and structure matter and are critical to market performance. Some of the items that I would like to discuss today include market transparency, offset protocol standards and the critical need for fungibility of compliance offsets.

Pricing Transparency

Market transparency is critical to smooth operation of a carbon market. Transparency means that not only must there be a clear enumeration of what criteria are used to define offsets, but that there must be mechanisms in place so that prices (bids, offers and sales transactions) are publically reported and readily available. The only market that currently offers that transparency is the Chicago Climate Exchange. The electronic trading platform was very transparent about bids, offers and actual transaction prices. On the exchange, all of the compliance instruments were equal and fully fungible. Under that condition, the members of the CCX that needed compliance credits could buy excess allowances or any type of offset that was registered with the exchange and know that their compliance commitment would be met. Unfortunately, that pricing transparency has been sharply curtailed. Under the provisions of H.R. 2454 (The American Clean Energy Act of 2009), there is language that suggests that domestic offsets from current registries may be exchanged or recognized in the federal regulatory program, but it does not provide specific indication that allowances from CCX will be recognized. This

differentiation has resulted in all offset transactions moving to bi-lateral, privately negotiated trades where the buyer can be assured that they will receive offsets rather than any CCX compliance instrument as might be the case on the electronic platform.

To improve transparency, CCX rules have been updated to require that all privately negotiated trades be reported to the exchange and they post these trades daily. But, the bid-ask spread has widened significantly and the market has fragmented such that the offsets from soil are valued differently than the offsets from forestry which are valued differently that the offsets from methane destruction, etc. In fact, there is even differentiation of value based on the geographic location of the offset project. This has increased the transaction costs associated with marketing carbon offsets and has reduced the net returns to the actual offset project owner.

Regulatory uncertainty is now harming the thousands of U.S. farmers and companies who have taken the lead in building rules-based carbon markets. It is extremely important to provide a smooth transition for those who are making emissions reductions in CCX and other verified programs so that continued progress on their part can be made to reduce emissions.

Other carbon registries have little or no pricing transparency. There is no public record of the bids, offers or transaction values of offsets registered and retired on the Climate Action Reserve, the APX-Voluntary Carbon Standard or CDM projects. The lack of market pricing transparency means there is much less information available to market participants and tends to shift undue market power to large traders to the detriment of project owners and smaller participants.

Fungibility of Compliance Offsets

Fungibility of compliance offsets, where a registered offset credit equals a registered offset credit regardless of the source of the credit, is a market design characteristic that is essential if the transaction costs of the carbon market are to be minimized. Fungibility of offsets will foster efficient market operations and enables transparency since it is conducive to trading of the compliance instruments on electronic exchanges with full pricing transparency.

“Term Credits” as delineated in H.R. 2454 are not fungible compliance instruments. They only delay compliance obligations. They do not satisfy compliance obligations. They are an inferior product and based on the experience of temporary credits under the European trading system, they will have little or no value. It is extremely problematic that H.R. 2454 has relegated all soil sequestration offsets, by design, to the class of term credits. It is neither necessary nor desirable from a market design perspective to address the issue of permanence in this manner. There are better ways to address that issue and a discussion of a better approach is contained in our written comments. In our analysis, we believe term credits will be highly discounted by the marketplace, especially if the expectation is that credit prices in the future will be higher. Relegating soil offsets to term credits will minimize the participation of working farmlands in carbon offset markets.

Offset Design Criteria

According to the EPA analysis, biological sequestration represents upwards of 90 percent of the expected total offsets during all timeframes outlined in the ACES legislation. Thus from a macro perspective, biological sequestration is the linchpin of an effective domestic offsets program for the agriculture and forestry sections. Bio-sequestration offsets are the only means by which domestic offsets can deliver low cost, near term and high volume GHG reductions, all critical requirements in allowing the uncapped sectors of the economy to facilitate the capped sectors' transition to a low-carbon future.

Offset sources need clear, simple, protocols, or rules, which define eligible practices and associated record keeping. The cost of perfect information is usually too high. So, reasonable compromises, including conservative carbon accumulation rules, must be employed

Design criteria for offset protocols can "make or break" the viability of agricultural and forestry offsets as real tools in the effort to reduce atmospheric carbon. To be viable, offsets must be designed for "working lands." It is the active growing of crops, grass, and trees that will take the carbon from the atmosphere in the first place. The income from these production activities is essential to the sustainability of the carbon-sequestering activity. Private farmlands and forests are not preserves – and we don't want them to be if we want to have affordable food, fiber and fuel. Income from carbon offset credits is quite likely to be the incremental incentive that will entice participants to take on the costs and liabilities that compliance with multi-year offset protocols will require. But the carbon offset income in highly unlikely to be sufficient, by itself, to sustain the dedication of the land to these carbon sequestering activities. No-tilling crops like corn, soybeans, barley or wheat will not only sequester carbon in the soil, enhancing that resource for generations to come, but also helps the world by producing food on the most productive lands in the world rather than having fragile lands degraded by subsistence agriculture.

But, to be a workable part of the solution, carbon offset protocols must work within the framework of existing agricultural markets. Length of contract matters. In Iowa, more than 60 percent of the farmland is rented by the operator with the vast majority of that land on one-year renewable leases. In our experience of working with farmers on carbon offsets, the number one reason why a farmer would NOT participate in a carbon offset program is the length of contract. Even the 5-year contract that we use in connection with the CCX protocol is long enough that many farmers believe it adds enough liability that they cannot participate. It is difficult to commit to being fully liable for reversals that can create backward looking liability for 5 years when the lease agreement that governs control of the land is for a shorter period of time. And it is unlikely that the emergence of a carbon market will result in a wholesale change in landlord-tenant relationships and the structure of land leases. We have looked at the proposed protocols of some other registries. Some of these protocols have single term length of commitment from 20 years to 199 years. Our experience is that farmers and private forestry landowners are very reluctant to sign contracts that extend that long. We believe that 5-year contracts for soil sequestration (with the option of renewing the contracts) are workable, but even minimum contract length of 5-years will significantly reduce participation by active farmers.

The 15-year contract length for managed forests is of sufficient length that it is a major deterrent to participation by private landowners. Sure there are some forest preserves and special cases

where 100-year contracts can be entered into. But our experience is that very few private landowners are willing to do so -- and the vast majority of the carbon-sequestering opportunities are on private lands. We have looked at the proposed protocols of some other registries. Some of these protocols have single term length of commitment from 20 years to 100 years. Our experience is that farmers and private forestry landowners are very reluctant to sign contracts that extend that long. We believe that 5-year contracts for soil sequestration (with the option of renewing the contracts) are workable, but even minimum contract length of 5-years will significantly reduce participation by active farmers.

Generalized quantification methodologies are a very effective and low-cost way to quantify soil sequestration offsets. (This is the methodology contained in the CCX soil and rangeland protocols.) Soil sequestration results from the carrying out of specific practices in conjunction with crop production. While the exact quantity of carbon that is sequestered varies across the landscape due to variations in soil characteristics, plant growth, climatic conditions, etc., across a large number of acres the actual amount of carbon sequestered will be the average of the area times the number of acres carrying out the appropriate practices. There is substantial data from a number of highly controlled research plots that provide great insight into what the average rate of sequestration is for land resource regions. Granting offsets at the average rate for a defined region (adjusted for the permanence reserve) guarantees statistically that the number of credits granted were a true representation of the actual sequestration that has occurred. Under this approach, any individual acre may actually sequester more or less carbon than the rate that is used in the generalized approach. In fact, it is quite likely that the distribution of a large number of acres will have the characteristics of a normal distribution with equal likelihood of actual sequestration rates that are above and below the average.

Don't be fooled by the "illusion of accuracy" that exists when credits are granted based on site-specific soil sampling. Generalization of site-specific soil samples and granting credits based on the results of such samples introduces much error and variation into the crediting process. The reality is that there is likely to be as much variation within an 80 acre field as there may be across a region. Using a generalized quantification approach with wide-spread participation eliminates the potential for selective sampling and skewing of the results based on sampling procedure. Plus, the use of a generalized quantification approach allows for use of satellite technology for compliance verification which can greatly reduce the costs of verifying compliance. Is there a role for soil sampling? Yes, for general monitoring of the overall effectiveness of the soil protocol, but not for granting of individual offset credits. USDA should do systematic soil sampling to monitor the progress of the soil offset protocol and to periodically adjust the generalized crediting rate. Over time, the more data points that exist, the more localized the differentiation of the crediting rate that can be established with statistical confidence.

Permanence versus Duration

While biological processes are not permanent, they do have substantial duration and the lack of permanence should not be used as a reason to restrict or limit the use of biological sequestration as carbon offsets. Attached in our written testimony is a briefing document about how an implicit "permanence reserve" can be incorporated into sequestration offset design which allows

the registered credits from sequestration activities to have the characteristics of permanence and be fully fungible with other offsets.

Credit Integrity and Offset Reversals

In order to maintain market integrity, it is essential that registered, serially-numbered offsets not be subject to de-listing due to a reversal event of a specific project. A buyer of a registered offset credit must be assured that the credit, once registered, represents a viable compliance unit and will not be disqualified after registered or purchased.

Offset providers should be fully accountable for reversals during the period of active crediting. We support the concept of a compliance reserve for biological sequestration offsets in which a specified percentage of the registered credits are held in a not-available for trading compliance reserve until the term of the crediting period is completed. The credits held in this reserve should be used to cover any reversals that may occur under a sequestration project. However, a reversal should not result in a de-listing of a registered credit. A reversal during the active crediting period should result in a requirement that the reserve account be reduced by the amount of any reversal. Once the active crediting period is completed, reserve credits should be released as available for sale. Any reversal that might occur after the active crediting period would be covered by the implicit permanence reserve that was deducted at the time of credit quantification. This assures that all registered credits have met the permanence criteria.

Market Regulatory Framework

Farm Bureau policy states, "The integrity of all U.S. commodity futures and options exchanges as a pricing mechanism must be maintained by the members of the exchanges and their overseeing governing bodies. Commodity futures and options trading serves a useful purpose for a number of commodities by providing a means to transfer certain types of risk. Other commodities should be included where need exists and research shows futures and options trading would be beneficial. We urge that regulatory laws be strictly enforced. We support the use of off-exchange agricultural trade option contracts in commodity marketing, which would include complete risk disclosure, vendor integrity and the opportunity for cash settlement of the option."

As is being demonstrated by the early action programs, carbon can and is becoming a commodity that can and will be traded just as other commodities. The experience of the Chicago Climate Exchange is proving that markets for carbon can and do work. (See Figures 2 & 3) While the CCX market is currently operating as an Exempt Commercial Market under the Commodity Exchange Act, its regulatory status may change as the CFTC is now assessing whether CCX performs a "Significant Price Discovery Function".[1] Based on the requirements of the regulated carbon market, contracts and services are being developed to supply projects and products that

[1] CCX also operates the Chicago Climate Futures exchange, a CFTC-regulated Designated Contract Market that is the only active marketplace for futures and options contracts on USEPA SO2, and NOx allowances, as well as carbon dioxide emission allowances in Regional Greenhouse Gas Initiative.

meet market requirements. However, the actual registry and retirement of allowances and offsets should be done on regulated, open, transparent markets with specified standards for price reporting that would include date of transaction, vintage, quantity and pricing information.

CFTC Regulation

The CFTC should continue in its role as the regulator of derivatives, futures and options contracts associated with carbon trading. Farm Bureau opposes efforts to combine CFTC and the Securities Exchange Commission and supports regulation of the commodity futures business by CFTC. Derivatives, futures and options on carbon contracts are not fundamentally different than other derivatives, futures or options contracts. The oversight and regulation provided by the CFTC is adequate for these markets. However, we urge CFTC to be diligent in its oversight of futures exchanges and floor traders to ensure that integrity of these markets is maintained and to curb practices that could result in manipulation or artificial price swings.

The CFTC should establish speculative position limits for carbon futures and option market with appropriate exemptions for bona fide hedgers and end-users of carbon credits. Investment and index funds should be subject to speculative position limits. To minimize the potential market distortions and/or manipulations, carbon market derivatives should be required to clear on regulated, public exchanges with full price reporting.

Similar to corn, soybeans and other agricultural commodities, the cash market transactions between farmers, ranchers, forest landowners and project developers and aggregators should be exempt from direct regulation by the CFTC. There is sufficient state contract and business law to govern these transactions.

Capital and Margin Requirements

Leverage is an issue in the financial markets. One of the major contributors to defaults of credit default swaps and mortgage-backed securities was leverage, particularly in the derivatives of these products. High degrees of leverage set the stage for small swings in market conditions to cause financial stress. It is important to note that throughout the stress in the financial markets of the past year, no defaults occurred on the regulated futures exchanges. The market structure and discipline that is imposed on these markets helped them perform while the over-the-counter market was at times in a state of disarray. Farm Bureau policy supports the governing body of the commodity exchanges to continue to establish predetermined, publicized limits for margins at various market price levels for each commodity. We believe the leverage levels of derivatives traded by major market participants should be examined and brought under greater regulatory scrutiny by the appropriate regulatory agency. Margin and capital requirements that create a strong incentive for dealers and users of derivatives to trade them on regulated exchanges or regulated electronic platforms should be developed.

USDA Administration of Offsets

As part of the regulatory structure for carbon, USDA should be charged with unique responsibilities regarding offsets. USDA should develop a set of agency-approved offset

standards and protocols for biological sequestration from agriculture and forestry and methane destruction that would be used the mandatory carbon market and could be used by voluntary carbon markets. USDA should provide the administrative support and oversight of offset standards development, review, and update and should be actively engaged in coordinating the linkage of U.S. domestic offsets with international offset markets. The agency oversees standards for grains, livestock and other agricultural markets and should be the agency in charge of setting standards for carbon market offsets.

Thank you for the opportunity to provide input and information to the Committee.

Included as part of our written comments is a summary of Farm Bureau policy regarding carbon regulation, carbon markets and commodity futures and options markets.

How Chicago Climate Exchange Contracts Create Carbon Offsets that Represent "Permanent Reductions"

1) At the Chicago Climate Exchange (CCX), contracts for offset credits cover a 5-year period for cropping practices and a 15-year period for forestry practices.

2) Under a CCX contract, an offset provider agrees to initiate and maintain a set of practice(s) that, for the contract period, reduces CO2 equivalent emissions by a specified amount. CCX utilized a scientific panel to inform the CCX offset committee regarding the appropriate rate of carbon sequestration that would occur under various practices. The actual crediting rates utilized by CCX represent a 20% reduction from the "scientific" rate recommended by the scientific panel.

3) Once offset practices have been implemented and verified, the first year's tradable offset credits are issued to the provider. Additional offset credits are issued annually for each year of the contract; under a five-year contract, a producer would receive five years of offset credits. The credits are considered to be "permanent" reductions in CO2 equivalent emissions.[2] (How this works, in practice, is explained below.)

4) At the end of the contract period, the producer is under no further obligation to maintain the offset practices. Using a crop example, the producer has provided five years of offset services and, in return, has received five years of tradable offset credits. How then, can five years of offset practices and offset credits be considered permanent reductions?

5) The mechanism which causes offsets to be considered permanent reductions is that producers receive only 80% of the CO2 equivalent reductions that the CCX calculates they have actually made. This 20% discount, in effect, provides a "Permanence Reserve" of actual offsets that have occurred but have not been credited. As long as the amount of any reduction leakage caused by producers who discontinue offset practices after their contracts expire is, in aggregate, less than the offsets in the Permanence Reserve, then, in practice, the reductions can be considered to be permanent. In other words, CCX considers that the offset reductions are permanent <u>for the system</u> but not for each individual contract.

6) The Permanence Reserve only applies to "reversals" after the end of the contract period. All offset providers are responsible for meeting the contract provisions on which their soil sequestration credits are based during their contract period. Any actions taken by an offset provider that results in a reversal while "under contract" would require a complete recovery or replacement by the offset provider of the "reversed" offsets covered by the contract. Therefore, there is full accountability by individual offset providers during the period of

[2] Consider a five-year CCX contract whereby a producer agrees to use no-till practices to grow his corn and soybeans beginning with the 2009 crop year. If the "actual" CO2 equivalent reduction as determined by the CCX is one metric ton per acre per year, the producer receives an offset credit of 0.8 tons for 2009, an offset credit of 0.8 tons for 2010, an offset credit of 0.8 tons for 2011, an offset credit of 0.8 tons for 2012, and an offset credit of 0.8 tons for 2013. Over the five-year contract period, the "actual" reduction is 5 tons but the credited reduction is 4 tons.

active contracting and the systemic accountability by the Permanence Reserve for reversals that may occur after the contract period.

7) Note that the Permanence Reserve operates, in a sense, through a sort of "invisible hand." Individual contracts are not tracked for permanence and offset credits are not deposited into or withdrawn from the reserve. A key question is how big does the invisible hand need to be? We believe that USDA could conduct periodic surveys to inform the system about how large of a reserve is really needed. Based on survey results of actual reversals, the discount rate could be adjusted every 5 years to reflect the true risk of post-contract reversals. In addition, incentives for contract renewal, which maintains full accountability for reversals, could be incorporated to further reduce potential post-contract reversals.

8) CCX believes that the 20% discount reserve is more that sufficient to offset permanently the leakage that occurs if some producers discontinue offset practices after their contracts expire. First, producers can renew a contract, continue the practices, and continue to receive credits. [3] Second, if some producers stopped contracted practices after the end of the contract, the most likely practices that would replace them likely would be carbon neutral[4]—i.e., not sequestering additional carbon but not, on net, emitting additional carbon, either. Third, practices such as no-till have a propensity for continuance for many producers once they have gotten over the initial hurdles of adoption and the producer becomes comfortable with all aspects of the practice. Continuation of the practice is further enhanced because of the capital commitments already made in implementing the practice, and because of potential future savings associated with the reduction in energy use from fewer trips across fields and reduced labor requirements associated with continuing the practice.

9) The CCX originally used a 30% discount from calculated actual reductions in determining the number of offset credits to issue but eventually concluded that 30% was too high. Some analysts believe that the discount percentage needed for the Permanence Reserve to work is in the 2% to 3% range. Annual USDA surveys of tillage practices to determine the levels of reversal activity on previously no-tilled lands would provide a good indicator of whether the Permanence Reserve provided by a 20% discount factor is too high or too low.

10) Approaching the permanence issue indirectly in a systemic way—rather than requiring permanence for individual contracts—is needed because of the structure of U.S. farming. Much land is rented out and farms are sold. Producers of particular tracts change over time. Dave Miller of the Iowa Farm Bureau, an expert on the CCX, notes that five-year contracts are about as far as contracts can be stretched and still get participation by farmers. "We need to trust the system to, on average, establish permanence for offsets. Without some approach like the CCX discounted credits and the 'Permanence Reserve' they create, a broader offset system for agriculture will never get off the ground."

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[3] While there is a saturation point where no additional carbon can be sequestered so additional contracts would not work, the two following points indicate reasons why already sequestered carbon will not necessarily be released in large amounts—which is the condition that must be met for the CCX offset structure to be considered as providing permanent offsets.

[4] Research by Drs. Alan Franzluebber, Jerry Hatfield, Charles Rice, etc.

11) All soil sequestration credits "share the burden" of potential loss of permanence. This method actively recognizes that there is a positive probability that some sequestration reversal activity could take place after the end date of the contract and that some portion of the sequestered carbon could be released to the atmosphere. However, it also recognizes that the exact timing, intensity and location of that reversal or carbon releasing activity is not known at the time of crediting for any soil sequestration activity, therefore all soil sequestration credits share the risk of a post-contract reversal by having a portion of their credits from current sequestration activities reduced by committing some pre-determined fraction of the actual sequestration rate to the implicit Permanence Reserve, thus reducing the actual amount of credits to that which now have the characteristics of "permanence". This approach removes the significant administrative burden of post-contract tracking of offsets and allows credited offsets to be fully fungible within the compliance regime. Post contract monitoring can be achieved by the survey methods previously listed and ongoing adjustments to the program and crediting rates, as appropriate.

12) Across a large landscape (such as production agriculture) the law of large numbers applies and the laws of probability apply. If all of the offsets from that class of offsets share the probability of loss of permanence and have that probability of loss quantified into the crediting rate, then the resulting "credited" offsets will only reflect the portion of offsets that are permanent.

Figure 1. U.S. Farmer and Landowner Participation in CCX Offset Programs
9,008 producers enrolled, 16,632,284 acres, 37 States

State	Number of Producers	Acres Enrolled	State	Number of Producers	Acres Enrolled
AL	133	600,122	MT	484	1,701,004
AR	56	61,886	NC	10	4,000
CO	260	631,058	ND	1,381	1,804,845
FL	35	90,000	NE	1,553	3,754,961
GA	22	90,532	NJ	1	19
IA	671	386,534	NM	31	731,169
ID	8	40,846	NY	2	581
IL	942	200,443	OH	116	58,723
IN	133	94,947	OK	12	23,833
KS	402	505,790	OR	7	28,003
KY	133	75,580	PA	13	5,982
LA	42	32,858	SC	17	80,245
MD	10	5,155	SD	956	3,145,518
MI	395	186,016	TN	14	11,454
MN	247	70,899	TX	305	594,006
MO	92	45,663	VA	40	10,211
MS	182	50,337	WA	7	39,957
MT	484	1,701,004	WI	221	69,686
			WY	75	1,399,422

Figure 2. Emission Reductions and Project-based Offsets in CCX Years 2003 through 2007* (metric tons CO2) – As of 02/20/2009 since a portion of new member emission reductions are currently undergoing verification.

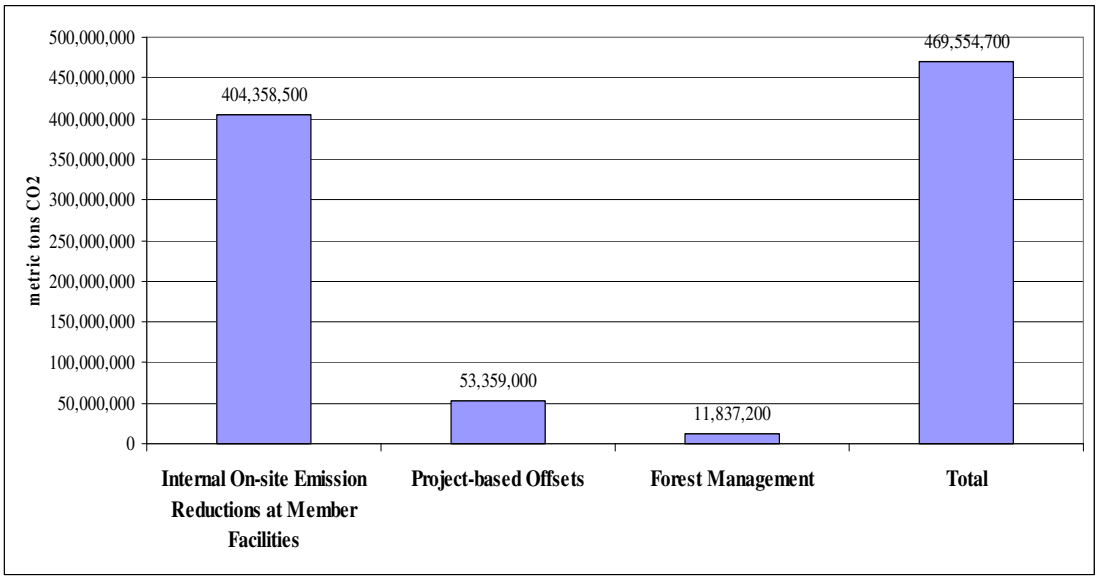


Figure 3. Chicago Climate Exchange Carbon Financial Instrument Spot and Derivatives volume 2004-2008

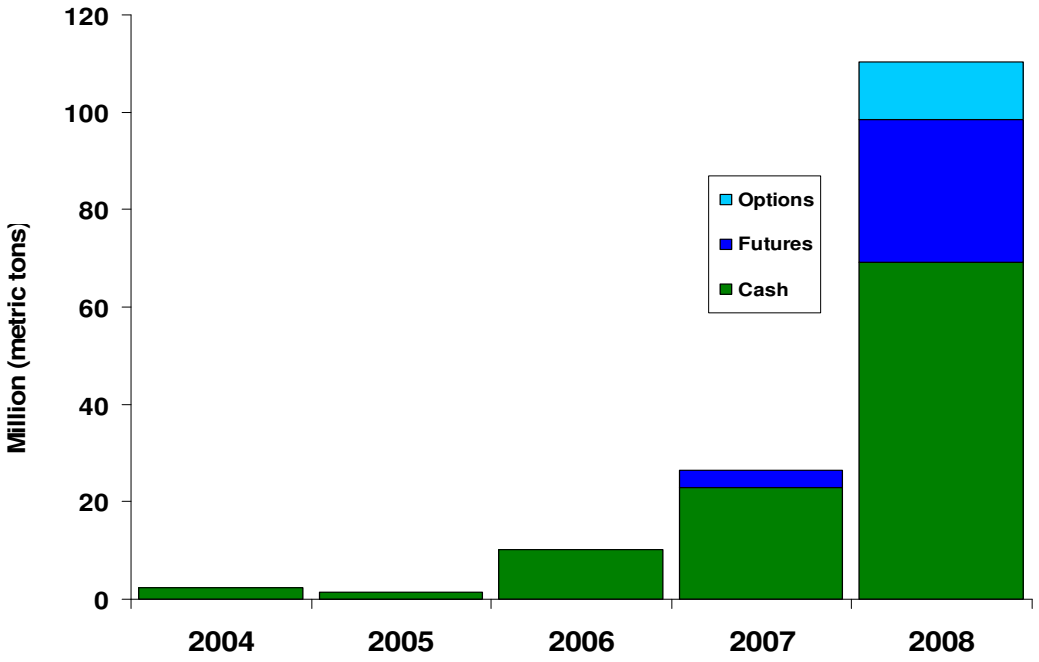
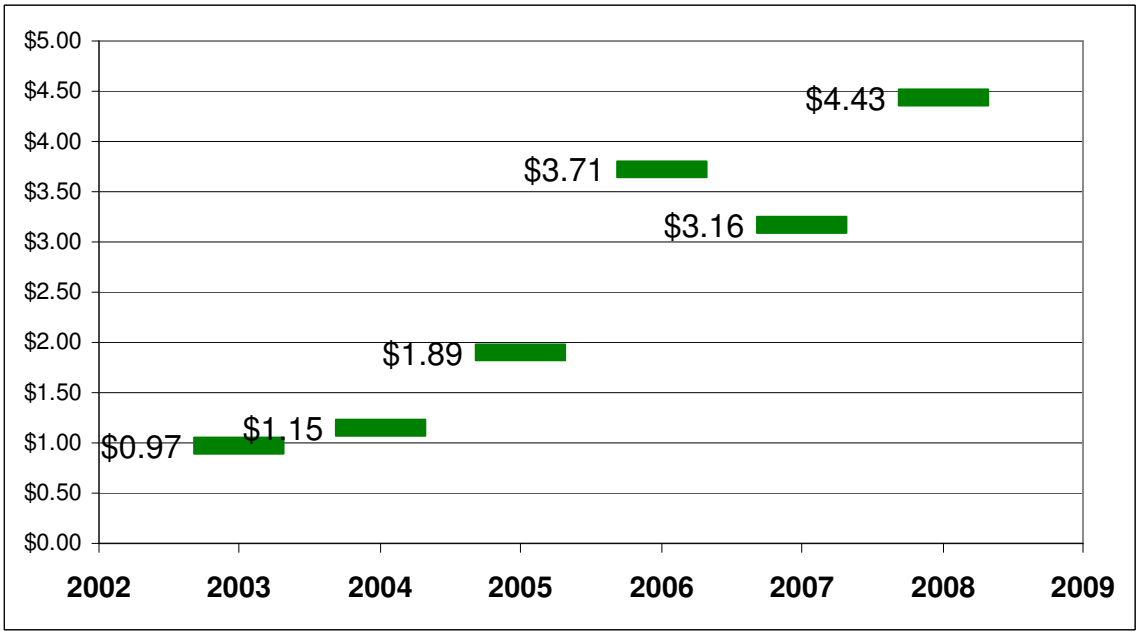


Figure 4 . Annual Average* Price for CCX Carbon Financial Instruments 2003-2008



American Farm Bureau Federation policy on Carbon and Environmental Credit Incentives

We oppose the imposition of carbon emission related taxes or fees on horsepower of vehicles and equipment used for agricultural production.

We support research that identifies the advantages and disadvantages of carbon credits as it relates to carbon sequestration;

We oppose:
(1) Mandatory air quality standards for ozone and particulate matter on farmers and agricultural businesses;
(2) Air permits for agricultural operations that are not science based; and
(3) Any efforts by the EPA to implement permitting fees and/or protocol or take regulatory action regarding greenhouse gas emissions for production agriculture.

Environmental Credit Incentives

Market-based incentives, such as pollutant credit trading, are preferable to government mandates. We support:
(1) The development of a practical voluntary market-based carbon credit trading system. To encourage this new market, we also support a USDA pilot carbon credit trading project to develop trading criteria, standards and guidelines;
(2) Farmers being compensated for planting crops or farming practices that keep carbon in the soil;
(3) Seeking alternative energy sources, which will minimize atmospheric pollution;
(4) Providing incentives to industries seeking to become more energy efficient or reduce emissions of identifiable atmospheric pollution and the means of preventing it;
(5) Providing incentives to individuals seeking to reforest fragile lands that are currently in agricultural production;
(6) Emission offsets that sequester carbon through agricultural practices should be fully recognized in any cap and trade system and should not be limited to a percentage of total offsets;
(7) Participation in climate discussions to enhance and maximize agriculture's ability to capture economic benefits from an emerging carbon market; and
(8) Market-based solutions, rather than federal or state emission limits, being used to achieve a reduction in greenhouse gas (GHG) emissions from mobile sources.

We oppose:
(1) Mandatory restrictions to achieve reduced agricultural greenhouse gas emissions;
(2) Mandates relating to GHG policies, that would adversely impact agriculture;
(3) Any attempt to regulate methane emissions from ruminant animals under the Clean Air Act or any other legislative vehicle;
(4) Emission control rules for farming practices, farm equipment, cotton gins, grain handling facilities, etc., and urge EPA to re-evaluate the imposition of standards on farm and ranch equipment and other non-highway use machinery;
(5) Unilateral mandatory state or federal GHG emission reduction requirements; and
(6) Including the carbon impacts resulting from indirect land use changes in other countries in the carbon life cycle analysis of biofuels.

American Farm Bureau Federation Policy on Commodity Futures and Options

The integrity of all U.S. commodity futures and options exchanges as a pricing mechanism must be maintained by the members of the exchanges and their overseeing governing bodies. Commodity futures and options trading serves a useful purpose for a number of commodities by providing a means to transfer certain types of risk. Other commodities should be included where need exists and research shows futures and options trading would be beneficial. We urge that regulatory laws be strictly enforced. We support the use of off-exchange agricultural trade option contracts in commodity marketing, which would include complete risk disclosure, vendor integrity and the opportunity for cash settlement of the option. We should provide educational programs for producers to learn about this risk management tool and work with commodity buyers to offer agricultural trade option contracts.

We will:
(1) Aggressively work to maintain agricultural representation on Commodity Futures Trading Commission (CFTC);
(2) Oppose efforts by CFTC to regulate cash grain;
(3) Encourage CFTC to require additional delivery points and assure an adequate delivery system;
(4) Continue to work with state Farm Bureaus and their affiliated marketing agencies to encourage the expansion of forward pricing services based on futures and options and to strengthen current programs;
(5) Encourage worldwide electronic trading at U.S. commodity exchanges;
(6) Support expanded use of mini-futures contracts on all commodity exchanges;
(7) Support changes in current futures contracts if research shows that they will result in maintaining or increasing liquidity of the market;
(8) Oppose efforts to combine CFTC and the Securities Exchange Commission and support regulation of the commodity futures business by CFTC;
(9) Urge CFTC to increase oversight of futures exchanges and floor traders to ensure that integrity of these markets is maintained and to curb practices that result in manipulation or artificial price swings;
(10) Review price-setting mechanisms and make recommendations for the most effective price discovery systems for identity-preserved grains;
(11) Urge the governing body of the commodity exchanges to continue to establish predetermined, publicized limits for margins at various market price levels for each commodity;
(12) Oppose efforts by the commodity exchanges to charge a fee for delayed market quotes;
(13) Conduct a review and actively participate in the reauthorization of the Commodities Exchange Act. That review will seek to minimize price manipulation and ensure the markets are effective as a price discovery mechanism given the increasing levels of contract production;
(14) Encourage commodity exchanges to have an active and viable agriculture advisory committee; and
(15) Support regular and thorough review of the CFTC and commodity markets.

We encourage the use of marketing tools or other marketing alternatives. We support hedge-to-arrive contracts being honored when used as a marketing tool that ensures delivery of the

commodity on the contract and has a set delivery date. Those entering into these agreement or contracts should be held liable for their own actions.