



ENVIRONMENTAL DEFENSE FUND

finding the ways that work

*USDA: U.S. Agriculture Grows Under Climate Policy,  
Costs Small, Benefits Not Yet Quantified*

*Key Findings from USDA's Preliminary Analysis of the Effects of HR2454*

USDA's analysis is the most credible analysis on impacts to U.S. agriculture to date. The USDA's analysis draws on the best available projections of energy prices under HR2454 from a government analysis of the bill using two of the most credible and well-respected macroeconomic models<sup>i</sup>.

USDA's new analysis shows that **U.S. net farm income will grow strongly under HR2454**. In its baseline (business-as-usual) scenario, USDA projects that net farm income will continue to grow robustly over the next decade (in nominal terms). The estimated impact of H.R. 2454 implies that **net farm income continues to grow**, but only at a slightly slower rate.<sup>ii</sup>

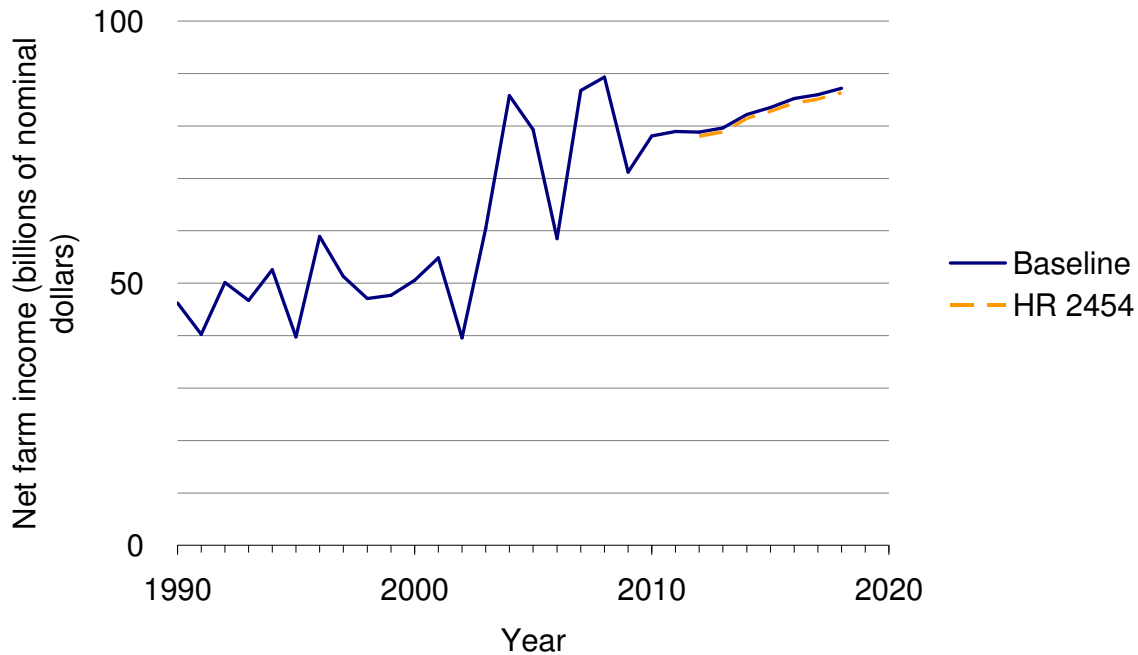
USDA's analysis is conservative: impacts on producers will be even more positive than predicted. USDA's analysis omits the benefits to producers from climate legislation. Although it makes sense from a modeling standpoint, this results in overestimated costs to producers.

- USDA does not consider the impacts of technological innovation or change in production practices. Therefore, it does not reflect the many ways producers can and already do mitigate costs through efficiency gains and other innovations.
- USDA does not include potential benefits from the Renewable Electricity Standard and other provisions which will incentivize increased demand for biomass. In fact, previous analysis has shown that when changes in input mix and revenues from biomass production are included, net farm income would increase by about \$0.6 billion in 2030 and more than \$2 billion by 2045.<sup>iii</sup>
- Although USDA considers the benefits of offsets to producers, it does not include the potential revenues in its estimates for net farm income. Based on EPA analysis, agriculture offsets (excluding forest management) could produce gross revenues of about \$500 million annually in the near term, and \$4 billion annually in the medium term. As Secretary of Agriculture Tom Vilsack stated in testimony to the Senate Committee on Agriculture, Nutrition and Forestry on July 22, 2009, **"In the short term, the economic benefits to agriculture from cap and trade legislation will likely outweigh the costs. In the long term, the economic benefits from the offsets markets easily trump increased input costs from cap and trade legislation."**

Finally, it is critical to note that USDA's analysis only looks at one side of the ledger: it does not consider the *damages* (costs) of climate change to U.S. agriculture, which has enormous implications for farmers, ranchers, and forest landowners since their livelihoods are so directly connected with weather and climate.

# USDA HISTORICAL AND PROJECTED DATA

## Net farm income, 1990-2018



**Note: Impact of H.R. 2454 Does Not Include:**

- Benefits of Offsets to Producers
- Income from Production of Biomass
- Income from Production of Renewable Energy
- Ability of Producers to Mitigate Costs
- Effect of Offsets on Commodity Prices
- Avoided Cost of Climate Impacts

Chart shows historical (1990-2008) and projected (2009-2018) net farm income, in nominal dollars, along with projected income under H.R. 2454. *Source: USDA Economic Research Service data.*

<sup>i</sup> The IGEM Model, developed by Dale Jorgenson of Harvard and Dick Goettles of Northeastern University and the ADAGE Model, developed by Research Triangle Institute. These are the two models that EPA has used in its analysis of H.R. 2454.

<sup>ii</sup> See "A Preliminary Analysis of the Effects of HR 2454 on U.S. Agriculture, Office of the Chief Economist, U.S. Department of Agriculture, July 22, 2009, at <http://www.usda.gov/oce/newsroom/archives/releases/2009files/HR2454.pdf>, and <http://www.ers.usda.gov/Publications/OCE091/OCE091.pdf>.

<sup>iii</sup> Schneider, Schneider, Uwe A. and Bruce A. McCarl. "Implications of a Carbon-Based Energy Tax for U.S. Agriculture." *Agricultural and Resource Economics Review* 34/2 (October 2005): 265-279.