



CALIFORNIA DEPARTMENT OF FOOD AND AGRICULTURE
Meeting of the State Board of Food and Agriculture
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TESTIMONY BY:
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Good afternoon, my name is Emily Rooney and I am President of Agricultural Council of CA. Ag Council represents agricultural cooperatives and farmer-owned businesses. Collectively, we represent over 15,000 farmer-owners and over \$9 billion in sales. Ag Council members participate in domestic and international markets, sending products throughout the United States and to over 100 countries.

Some of our members are food processing entities that will have to participate in the cap and trade program for AB 32. Food processors, including cooperatives and family-owned businesses, can easily exceed thresholds of 25,000 metric tons of CO₂ emissions when cooking, cleaning or processing food.

When we think of agriculture, we often think about the farm or ranch. There is not much thought given to what happens to these products once they leave the farm or ranch, but many of them are turned into items you and I consume on a daily basis. A short list of items that we consume, but exceed the emissions thresholds include (but is not limited to): butter, tomato paste, fruit cups and wine.

Ag Council's members are not afraid of environmental sustainability. Many agricultural and food processors respond to market forces that require them to achieve certain environmental thresholds and as such, they routinely set internal standards for environmental improvements. Many of our members have the most efficient boilers and equipment available to meet their goals, regardless of the status of cap and trade regulations.

However, cap and trade brings serious concerns to our industry; specifically the amount of unknown cost that could potentially occur starting next year – the first year of compliance. CARB estimates that the price of carbon in an auction market can be from \$10 per metric ton to \$40 per metric ton. For a food processor producing approximately 70,000 metric tons of CO₂, such as Land O' Lakes in Tulare, this could mean an additional cost of \$700,000 to \$2.8 million annually at the full cost of compliance. CARB has taken measures to slow down the full



implementation of cap and trade due to the economic downturn, but there are still other variables that could increase costs, including the fact that there is no price cap on allowances on the auction market. (Theoretically, allowance costs could exceed \$40.)

Food processing is mostly a seasonal industry, with operations lasting less than four months out of the year, with the exception of dairy. Crop characteristics such as the amount of solids or sugars play a role in the efficiency and operation of our boilers and equipment. Additionally, variable fruit and vegetable quality may require more or less time cooking, depending on solids, size and other variables.

Furthermore, our industry is sensitive to import pressures from domestic competitors in other states as well as foreign competitors such as China, Greece, Italy, South America and Mexico.

The term “emissions leakage” for the food processing industry is our central concern in this regulation. “Emissions leakage” is essentially the concept that emissions leak elsewhere due to increase cost of the regulation. This means one of two things: 1) a business actually leaves California due to the increased cost of the regulation; or 2) California-grown products are replaced on store shelves with domestic or foreign competitors due to the increased cost of the California product.

This philosophy embodies the meaning that those emissions were never reduced, since they just leaked elsewhere – therefore ignoring the underlying goals of these regulations, which is to reduce emissions. We commend CARB in its recognition of the potential problem in its regulation and are working with them to achieve a common solution on this specific issue.

While many cooperatives and family-owned businesses would work to stay in California, we would likely see this scenario play out where low-price competition is strong. For example, if a country such as China comes into markets with products produced at a lower price.

Agricultural products are very sensitive to low-cost competitors in domestic and international markets. Many of these markets can flood segments of our industry in a matter of months, such as the current situation in the canned peach industry.

The November 12, 2010 edition of “Peach Fuzz,” a newsletter by the CA Canning Peach Association, demonstrates the problems associated with low-cost competitors such as China:

The newsletter reads, “Canned peach imports for June-August (of 2010) were up 45% from the first three months of the 2009-10 marketing year... China



continues to be the leading importer... In fact, Chinese imports for the calendar year (thru August) have increased, reaching a 30% increase over last year's volume... Imports from China have tripled since 2006."

According to CA Department of Food and Agriculture, of the top ten commodities, over half are exposed to international trade. Many export to international markets, while others face pressures from importing markets. Any fluctuation in price threatens our presence on store shelves on both sides of this equation.

CARB has the authority to provide relief for industries sensitive to trade exposure, however, we have not been granted this special consideration at this time. Ag Council has been working with CARB to position the food industry in the areas where they do have the flexibility to provide some relief, but we have not been successful to date.

It is important to note that the European Union exempted food processors from its carbon trading program due to potential impacts to farmers and consumers. In a climate where food prices are all over the headlines, we are hopeful that CARB would take these issues into consideration, when rolling-out these regulations and provide us with the flexibility required to allow us to continue processing.

In addition to "emissions leakage," there are a host of other more technical issues that we have concerns with, in this regulation, but for the purposes of today's testimony, I chose to focus on the above highlights.

Thank you for your time today and your consideration of this very important issue. I am hopeful that CDFA will remain engaged on this matter and am happy to answer any questions at the end of the panel.