

**Statement of Bruce Knight**  
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**United States Department of Agriculture**  
**Before the House Committee on Transportation and Infrastructure Subcommittee on**  
**Water Resources and Environment**  
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Mr. Chairman and Members of the Committee, I am pleased to appear before you today to present the Department of Agriculture's views on the U.S. Environmental Protection Agency's proposed water quality trading policy. I thank the Members of the Subcommittee for the opportunity to appear, and I would like to express gratitude to the Chairman and members of this body for your interest in the subject of this voluntary, market-based approach to improving water quality.

Last year, Secretary Veneman released *Food and Agriculture Policy: Taking Stock for the New Century*. This document provided guidance on future agriculture policy, and identified emerging hurdles facing farmers and ranchers across the nation. A key component dealt with natural resources, and provided policy options for meeting a breadth of conservation challenges including water quantity and quality. A central tenant to the conservation portion of that document was the proposition that market-based solutions should be developed and implemented as a means to achieve conservation goals. The document also pointed out that farmers and ranchers need voluntary conservation opportunities commensurate with the regulatory challenges they face.

From that beginning point, the Department welcomes the proposal by the U.S. Environmental Protection Agency (EPA) to develop voluntary, market-based options for farmers and ranchers for mutual improvements in water quality. We believe that encouraging natural

resource improvement is always preferable to the negative ramifications associated with disincentives. Furthermore, the net benefits to both the environment and rural economies make the concept of water quality trading a potential “win-win” for everyone. In turn, water quality trading has the potential to foster unique cooperation and partnerships between farmers, ranchers, and forest owners and managers with citizens in communities across the country.

USDA supports development of a water quality trading policy that provides for voluntary, market-based approaches to water quality improvement. As such, our Department has engaged with EPA in a dialogue over the past few months on how best to establish an effective water quality trading system. We will continue to work with EPA during the review period.

Because most of the environmental concerns relating to agriculture and silviculture are termed “nonpoint”, USDA recognizes that trading between point sources and nonpoint sources poses many challenges. One will be trading greater certainty (with point sources) for uncertainty (with nonpoint sources). For this reason, a trading policy should have the following features:

- Provide sufficient voluntary and market-based incentives for crop, livestock, and timber producers to willingly participate with point sources, but not take-on increased federal regulatory liability.
- Consist of a simple trading structure between willing buyers and willing sellers with limited contractual oversight from government entities.
- Include flexibility and adaptive management, recognizing that potential nonpoint source conditions are different from crop field to crop field, woodlot to woodlot, grazing land to grazing land, and storm to storm.

- Encourage innovative approaches and investments because further advancement of science and technology is needed on nonpoint sources for site-specific estimates.
- Complement existing USDA natural resource conservation programs so that the conservation programs and trading programs can be delivered seamlessly and effectively to producers, without creating conflicting or redundant technical assistance or paperwork.
- Allow flexibility for non-government entities to conduct trading.

In general, EPA's proposed Water Quality Trading Policy incorporates the above features and we look forward to continue working with EPA to enhance the proposal. We are also encouraged to see that specific trading ratios are not mandated in the policy, but that the trades will result in net benefits as determined by States and Tribes.

USDA is committed to implementing the conservation aspects of the new Farm Security and Rural Investment Act of 2002, and believes that there are interesting opportunities for coordinating USDA's implementation of these aspects of the Act with EPA's attempts to encourage water quality trading involving agricultural sources of water pollution. USDA plans to work closely with EPA during the review period for the proposed water quality trading policy and in the following months to explore these opportunities and how they can best be realized to meet the stated conservation objectives of the Act.

Reliable estimates of nutrient and sediment load reductions can be complex to develop, and are dependent upon site specific circumstances. USDA has knowledge and expertise to contribute in this area, although more needs to be done. USDA agencies, including the Natural

Resources Conservation Service, Forest Service, Agricultural Research Service, and the Cooperative State Research, Education, and Extension Service, and Economic Research Service will work closely with EPA, States, and Tribes to ensure that the methods and procedures used by States and Tribes to determine trading units are practical and appropriate for the site conditions. Additionally, USDA remains committed to cooperating and collaborating with EPA to develop and test new or improved tools appropriate for pollutant trading, and to assist with program effectiveness assessments.

We are optimistic that a workable and sound product can be developed from this process. Agricultural producers and communities around the country stand to benefit greatly from the product of our efforts. We look forward to working with the EPA as well as Members of the Subcommittee on this endeavor. Again, I thank the Chairman for the opportunity to appear here today, and would be happy to respond to any questions that Members might have.