Chesapeake Bay Program
SCIENTIFIC AND TECHNICAL ADVISORY COMMITTEE
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February 24, 2014

RE: STAC Nutrient Trading Workshop Report

Nicholas DiPasquale, Director, Chesapeake Bay Program
U.S. Environmental Protection Agency
410 Severn Avenue, Suite 109
Annapolis, MD 21403

Cc: Management Board; STAR; Water Quality GIT, Trading and Offsets Workgroup, Agriculture Workgroup, Wastewater Workgroup, Land Use Workgroup, Watershed Technical Workgroup

Dear Mr. DiPasquale,

Please see the attached STAC workshop report entitled, "Critical Issues in Implementing Nutrient Trading Programs in the Chesapeake Bay Watershed." This report provides a summary of STAC's May 2013 workshop. The report also includes specific recommendations identified by workshop attendees. Attendees recommended the following:

Recommendations for the Partnership include:

- Do not lose sight of the fact that trading is an economic tool. In general, trading rules need to make economic sense. How issues such as equivalence and consistency with other programs are handled can have major impacts on the economic incentives that drive markets to minimize costs.
- Recognize that setting a baseline for a point source-nonpoint source trading program that is more stringent than what is legally required of all farmers may perversely reduce the total nutrient and sediment reductions from the agricultural sector because it reduces the incentives to trade and voluntarily comply with baseline requirements.
- Limit the use of point source-nonpoint source trading to situations where adequate information and financial resources are available to minimize performance uncertainty (minimizing the use of *ad hoc* trading ratios) and to support the administrative requirements for trading.

- When possible, incentivize on-site validation of nonpoint source practices, either through inspections or monitoring (depending on practice). Validation is a critical step in reducing uncertainty in both trading and traditional conservation programs.
- Explore the use of alternative, performance-based policy approaches for addressing nonpoint source pollution. Voluntary incentive programs may generate more reductions with the same budget through the use of auctions and performance-based payment mechanisms. Existing tools for estimating nonpoint source abatement credits can be used to estimate field-level performance of management practices. An adequate source of annual funding would be required for such programs.
- Ensure that a close working relationship and some level of trust exists with the agricultural community. This likely means making use of existing agencies or institutions that have strong ties with farmers, such as soil and water conservation districts. It is important that adequate financial resources be available to support this relationship.
- Reduce uncertainty by continuing research on practice performance and the delivery of pollutants downstream. This would allow a more accurate estimation of the number of credits produced, and reduce the need for *ad hoc* trading ratios.

We hope these recommendations are useful, and STAC looks forward to your feedback. STAC respectfully requests a written response to the above specific recommendations from the CBP Management Board Chair by Monday, April 7, 2014.

Please direct any questions you may have about this report and its recommendations to Matt Ellis, the Chesapeake Bay Program's Scientific and Technical Advisory Committee Staff, and lead workshop steering committee member Marc Ribaudo of USDA-Economic Research Service.

On behalf of the entire STAC, thank you again for considering these recommended next steps, and we look forward to working with you closely on this in the future.

Sincerely,

Kirk Havens
Chair, Chesapeake Bay Program's Scientific and Technical Advisory Committee