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Mr. Carl Lucero
Natural Resources Conservation Service
United States Department of Agriculture
5601 Sunnyside Avenue
Mail Stop 5473
Beltsville, MD 20705

Re: Interim Final Rule of Conservation Innovation Grants Program, 7 CFR Part 1466.27

Dear Mr. Lucero:

I am writing to provide comments on the Rules for the Conservation Innovation Grants Program. Let me start by commending the Department for moving this program forward. We believe that this initiative has significant potential to support initiatives in the U.S. that can dramatically reduce the costs of meeting environmental targets and provide income-generating opportunities for farmers.

In particular, we want to encourage NRCS to make the most of the opportunity that this program provides to support innovative market-based approaches to address the nation's water quality and climate problems. Research that WRI and others have done over the last five years shows that compared to traditional regulatory or voluntary approaches, market-based solutions can achieve the nation's environmental goals at much lower cost.

US EPA has acknowledged this finding and moved forward in this area, providing guidance in January of 2003 to states and tribes on the implementation of water quality trading programs. The Conservation Innovation Grants Program, if appropriately implemented, could advance the development of such markets by providing funds to state and tribal programs. There are a variety of programs across the country that are moving forward, albeit slowly, and the single biggest challenge they face is the fact that there is a paucity of funding to develop these types of programs in the current fiscal environment. Given the magnitude of the benefits that could accrue to the large-scale adoption of market-based approaches, we believe the Conservation Innovation Grants Program deserves the full support of the NRCS and State Conservationists.

Our comments on the rule are intended to strengthen the program so that it fully supports this important opportunity.



Recommendations for Improving the Interim Final Rule

1. Proposed Funding Limit:

Current language: Maximum limit is set at \$1 million, with most grants between \$75,000 and \$500,000. This funding level is insufficient to implement trading programs. To ensure that there are measurable outcomes from the awarded grants, funds must be sufficient to create a credible and successful trading project. These funding limits may be sufficient for types of 'innovative technology' but not for the implementation of trading projects. Programs across the country that are under consideration include trading programs as large as the Chesapeake Bay and the Ohio River Basin. The program should anticipate and support such large-scale efforts, as these multi-tributary, multi-state efforts will do more to test and refine the concepts than any variety of small investments.

Recommendation: That at least 2 awards are made annually with a maximum limit of \$5 million dollars. The current funding limits could be used for the remainder of the awards.

2. Monitoring:

Current language: There is no requirement for monitoring the performance of the technologies being implemented in the awarded grants. Monitoring is a key tool to demonstrate the success of the grants program, providing accountability for the use of public funds, and enabling appropriate evaluation of the technologies implemented so as to inform future program decisions.

Recommendation: Each awarded grant over \$250,000 should have a monitoring plan and the mechanism for implementing the monitoring plan, with up to 5% of the total grant amount spent to evaluate performance. For grants under \$250,000 USDA should provide simple on-line tools to enable grantees estimate and report performance.

3. Grant Review Board:

Current language: The grant review board is limited to only state and federal agricultural department officials.

Recommendation: Expand the grant review board to include at least two members outside of government agencies, including a member from a non-governmental organization and another from a producer organization. At least one member of the review board should be an expert in market-based solutions to environmental issues.

4. Annual allocation of funds:

Current language: The annual allocation of funds is currently determined each year by the chief. This provides uncertainty about how much, if any, funds are available each year.

Recommendation: That each year the minimum Conservation Innovation Grants Program allocation is \$50 million. The chief may decide in any given year to allocate a greater amount to the program.

5. Eligibility:

Current language: Even though the general eligibility is for individual, Indian Tribe, State or local unit of government and NGO's, the current language emphasizes grants to individuals.

Recommendation: Revisit the language and general tone of the document to be much more inclusive of the other groups eligible for the grants to make it clearer that applications from these sources are welcome.

6. Intent of the legislation:

Current language: The original legislation states that grants are to focus on 'market systems for pollution reduction' and 'innovative conservation practices, including the storing of carbon in the soil'. However, there is very little mention of market-based systems in the current text. Instead, emphasis is on the implementation of innovative technology at the individual producer level. The program should be implemented in a manner that emphasizes market-based solutions, including trading, to deal with nutrient and GHG emissions, thus supporting the principal intent of the law.

Recommendation: Raise the profile of market-based systems in the grant language. The grant application for market-based projects should allow the development of rules for trading by state agencies and watershed groups, the development of mechanisms such as registries and other appropriate tools for market operation, the development of plans for continued operation of the project after funding is completed, monitoring, and other market-based trading activities.

7. Conflict in language:

Current language: On page 9, section (b)(4), the language states that projects can address more than one natural resource concern. However, on page 21, section (g)(4)(ii), addressing more than one natural resource concern was considered but then rejected as a criterion.

Recommendation: As projects that address more than one concern will provide greater public benefit, NRCS should provide greater weight to projects that address more than one concern. For the same reason, broader geographic scope should go back in.

8. Natural Resource Concerns

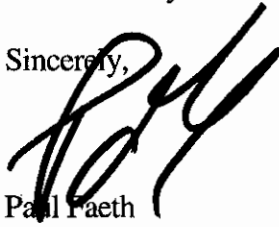
Current language: In atmospheric resources, climate actions are limited to carbon sequestration actions only. This is a very narrow focus eliminating the possibility of taking climate action by reducing nitrous oxide or methane emissions. Given that nitrous oxide emissions from agriculture account for approximately 74% of the U.S. total, and agricultural emissions of methane are approximately 30% of the U.S. total, this overlooks significant greenhouse gas reduction opportunities from the agricultural sector, which studies suggest are cheaper sources of reduction and have the added benefit of permanence.

Recommendation: The language should explicitly mention and encourage reductions in nitrous oxides and methane emissions.

April 22, 2004

We hope that you will consider the comments and recommendations offered herein when drafting the final rule. If you have any questions regarding these comments, please do not hesitate to contact me.

Sincerely,

A handwritten signature in black ink, appearing to read 'Paul Faeth', written over the word 'Sincerely,'.

Paul Faeth
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