



Institute for Agriculture
and Trade Policy

BEYOND REGULATIONS: USING POLLUTION TRADING AND RESULTS REWARDING INCENTIVES TO PROMOTE SUSTAINABLE AGRICULTURE

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As the natural environment becomes increasingly valued by society, farmers are finding income-generating opportunities in on-farm environmental protection and pollution prevention activities. Farming in ways that benefit the environment -- by enhancing biodiversity and water quality; producing safer and healthier food; and protecting climate stability, wildlife habitat, and green spaces -- has become a means of adding value to agricultural products. By generating a financial reward, environmental value-added agriculture can help to ensure the future viability and success of sustainable farmers. There are two general categories for environmental value-added agriculture -- upstream and downstream.

"Upstream" programs involve payments to farmers in exchange for utilizing specific environmental protection practices. For example, in the Catskills region of New York, farmers receive funding from New York City's Department of Environmental Protection in order to make changes in their farming operations that will protect the quality of the drinking water flowing from the Catskills to the city. In the Tar-Pamlico River Basin in North Carolina, an innovative pollution trading venture used funds provided by local utilities and factories to help finance on-farm pollution reduction measures. In other regions, bird-watching clubs pay farmers to protect bird populations and to provide access to their farmland. In Minnesota, the ReInvest in Minnesota (RIM) program pays farmers to leave valuable wildlife habitat untouched in order to provide habitat for deer, pheasant and other wildlife. In this category, there are a number of important market incentive tools including cost share, pollution trading, and benchmarking.

The second category of environmental value-added agricultural initiatives, which we call "downstream", are those in which the broader consumer public is asked to support environmentally beneficial farming practices with their pocketbooks and marketplace choices. These "downstream" activities include organic and eco-labeling initiatives, as well as direct farmer-to-consumer marketing such as community supported agriculture farms (CSAs), farmers markets, and food cooperatives.

The Netherlands is a country with a strong and innovative history of rewarding farmers who protect the environment. A large percentage of Dutch farmers participate in a unique array of activities, ranging from drinking water protection to special on-farm bird sanctuaries and wildflower protection schemes. Among these programs, there are two important initiatives that are being watched closely around the world as potential models for new directions in the arena of environmental value-added agriculture.

The first initiative is the introduction of special "green" labels to identify and add value to farm products produced under conditions and with practices specifically

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designed to protect drinking water. The label is similar to an organic certification; however, with an emphasis specifically on protection of the environment. The Dutch green label is currently being tested on potato crops which are raised according to specific criteria, and it has already proven highly popular with consumers.

The second initiative is the development of "nature cooperatives" in which farmers join together for training and support in environmental protection. The cooperatives can also negotiate with local environmental agencies and organizations for payments in exchange for protecting wildlife and promoting biodiversity. In the Netherlands, this movement is now taking on the feel of a paradigm shift -- with farmers seeing themselves as "producers of nature" as well as producers of food.

A particularly innovative approach to pollution trading is happening at the farm level in the Netherlands. When farmers reduce their pollution below specified levels, they can then receive a permit to build an additional residence on their farm, either for a family member or to be sold on the open market. This approach, where pollution trading is used to achieve overall reductions "up front", is a concept that IATP is testing to see if it can be applied here in the United States.

Cost Sharing, Pollution Trading and Other Environmental Value-Added Agricultural Initiatives in the United States

The Institute for Agriculture and Trade Policy (IATP) is working to introduce and expand environmental value-added farming concepts in the United States. This work has thus far included the following:

- 1) The coordination of annual study tours with U.S. farmers and environmentalists to the Netherlands in order to look at some of the exciting new Dutch agricultural initiatives in the areas of pollution trading, benchmarking and eco-labeling.
- 2) The launch of a program to test and promote Dutch on-farm pollution prevention benchmarking tools called "yardsticks" here in the U.S. The yardsticks provide farmers a guide for assessing the adverse environmental impacts of their current practices and then selecting practices which would be less harmful or more beneficial to the environment. In the Netherlands, these yardsticks form the basis for a "green label" program.
- 3) The development of several river basin-wide plans to reach specific pollution reduction goals using pollution trading concepts being developed in Europe. Based in part on the EPA's Total Maximum Daily Load (TMDL) concept, these pollution reduction plans could serve as models for metropolitan regions which face drinking water degradation problems and the threat of costly new filtration plants.
- 4) Testing several green label concepts that U.S. farmers could use on their products when they met specified pollution reduction goals.
- 5) Working with a group of farmers interested in participating in a pilot "nature cooperative" modeled after the ones in the Netherlands.
- 6) IATP will sponsor a series of full-cost accounting studies to determine the potential savings to residents and taxpayers from pollution trading, cost-sharing and other on-farm pollution prevention practices. The first of these studies, a full-cost, life-cycle study of spring wheat production in the northern plains of the United States, is available from IATP at the address below or on our webpage.

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