

15 minutes

**Thank you Jim.**

As we heard from **Administrator Johnson** yesterday morning, this conference was an opportunity for all stakeholders to come together and share experiences, thoughts, and ideas. An important part of that process involves EPA listening to issues that exist and opportunities to address those same issues.

Also as we heard from the **Assistant Administrator of the Office of Water, Benjamin Grumbles**, trading is one tool among others that we can use to achieve important environmental goals. The clear purpose of trading is to achieve those goals at lower cost, faster pace, and with a wider array of environmental benefits.

As President Bush has emphasized through Cooperative Conservation, we believe that many of the best solutions will necessarily involve state and local decision making. In my opinion, the role of federal agencies such as EPA and USDA is to work with our partners at the state and local level to solve environmental problems. Toward this end, encouraging voluntary, market-based approaches, such as water quality trading, offers us a unique platform to advance the vision of cooperative conservation and greater watershed stewardship.

**We did a lot of listening in last 2 days** – We heard success stories, new ideas, and your lingering concerns about obstacles. Over the last three years, since the first national conference in Chicago, our knowledge base

and understanding of water quality trading has increased. Three years, ago, there were far more questions than answers, and a certain level of cynicism regarding whether trading was even possible. While some of the same questions have been posed this week, I am encouraged to witness the progress that has been made. I sense from this week an added level of energy and optimism regarding the possibilities for trading to achieve our goals. We had, for example, economists stepping up to the microphone adding their questions and perspectives. We had representation from home builders as interested “buyers,” NGOs involved in wetlands that can offer nutrient controls, regulators, POTWs, and cities. We heard from **Mayor McLin of Dayton, Ohio** how she expects the ratepayers of Dayton to benefit, and we are all ratepayers.

## **Think Big**

I thought the plenary sessions were fascinating and I wrote down a few notes that I wanted to mention. On the first day Secretary McGinty discussed the important of trading for enabling states and communities to address water quality challenges. I share her sentiment that not developing and advancing trading “is not an option.” She outlined her program and how she is seeking to bring all stakeholders into the process in a collaborative fashion, how she defined the clear goals related to trading in Pennsylvania, the challenges they have faced, and solutions that they are working towards.

There are countless ways of developing a trading program as evidenced in the many papers and projects discussed this week. A number of you posed a collective challenge for us to think bigger and to consider larger basin-wide trading areas to tackle challenges such as Gulf of Mexico hypoxia.

The relevance of this touches upon some of the issues raised at yesterday's plenary session. **As was mentioned, nitrogen is a unique pollutant that lends itself to larger watershed trading as it relates to downstream impairments.** I believe challenges such as hypoxia present opportunities for establishing larger trading zones for total nitrogen and smaller trading zones to deal with other pollutants such as ammonia. Remember the Clean Water Act requires a federally driven process that is initiated where other actions have not solved impaired waters.

**My point is that there are no constraints to where trading program development can go, the size of the trading zones and the role of technical and market innovation so long as we achieve water quality goals. While we should not place artificial constraints on these budding markets, the parameters of trading must be clearly defined based on sound science and the law. Such parameters will help remove some of the uncertainty that has been mentioned this week. As Ricardo Bayon pointed out this morning, certainty and clarity of the rules is the most important thing in encouraging the development of ecosystem-based markets. I believe it is incumbent for the federal government to help provide greater certainty, not create uncertainty.**

As Ben Grumbles said, we believe the Clean Water Act provides ample authority to advance trading. It also provides certainty. Important tools under the Clean Water Act, such as the TMDL program and nutrient criteria, can help to establish trading parameters and create certainty in markets. You see, all sectors of the economy have a role to play, and as such there must

either be some form of allocation, whether through regulatory or voluntary means. Allocations and the existence of lower cost, more beneficial opportunities is the foundation for any “market.

Equity issues are part of the allocation process, real issues for sure, but again part of the allocation. Allocation and equity in the context of trading are matters that in my opinion are generally best resolved by individuals outside of the federal government. Our state partners and local stakeholders are generally in a much better position to assess and determine the allocation process.

As Ben Grumbles emphasized, trading must be science-centered. We should follow the trail of sound science. If the science says that nitrogen from the entire Mississippi watershed is causing harm to the Gulf of Mexico, we should explore ways to resolve that larger challenge.

This was a tremendous conference because of you. I want to thank Don Parrish and others from the agriculture community represented here today. Thank you for your leadership and your commitment to helping encourage trading markets by acting as brokers and aggregators as well as credit generators. Thank you to Mayor McLin and her pioneering spirit to embark on trading. As the Mayor explained, citizens of Dayton will benefit through lower water rates as well as cleaner water that is so important to her City’s standard of living and economic vitality. I also want to thank Katie McGinty who has shown real leadership on this issue. She represents a large number of states that are poised to embrace and initiate trading programs. I also want to recognize the important presence of water and wastewater

utilities here this week and am encouraged that you are ready to participate in trading programs.

We also heard from Clean Water Services that they are making important investments in ecosystem services and the multiple benefits that watersheds can provide. We heard about the potential for savings on the scale of \$1 billion in the Chesapeake Bay. We heard that academia is ready to help as well. Universities are working diligently on projects to develop sound science, innovations, and technical tools to facilitate trading.

## **We heard**

We understand that we need greater **simplicity** in trading and need more tools to help explain and clarify trading. The term “trading in a box” was tossed out this week as an idea. I’m not quite ready to say “trading in a box” because there really are unique circumstances for each trading program, but we can do a better job of amplifying the best of the best as examples. And as Ben announced yesterday, we intend to provide annual recognition of those best programs. There are others things that we at EPA are doing. We believe that the *Water Quality Trading Toolkit for Permit Writers* and its 12 case studies will provide stakeholders a better understanding of the components of a trading program, and how each of these programs were developed - to demonstrate the opportunities and the range of what’s out there now. We also heard the need to **reduce the mystery** of trading by providing more tools. I’m looking forward to your comments on the Toolkit that will be coming out in August.

As many of you are helping to develop trading programs, I want to encourage all of us to be more inclusive and reach out to those stakeholders who might not normally be sitting at the table. Ask someone from a local fishing organization or garden club to attend a stakeholder discussion. My point is that this needs to be a collaborative process that includes more stakeholders than just merely point sources and farmers.

### **Adaptive management**

I confess to being a “cheerleader” for trading because I recognize the significant environmental results that can be achieved. I understand that some folks may be frustrated at the pace of trading markets, and I can relate to some degree with that frustration. As we learned this week, there is no perfect program. However, we cannot nor should we allow the “what ifs” to paralyze or prevent us from moving forward. Adaptive management and change will be a necessary part of the process. We want to encourage more pilots, such as Don Hey’s nutrient farming project in Illinois, so we can learn and refine our understanding of how trading works.

We also want to encourage the development of more trading programs through strategic funding. The Targeted Watershed grants are envisioned to provide \$3 Million for trading in 2007. If, as Paul Faeth and others have suggested here this week, setting up large scale trading programs may not be much more difficult than small trading programs, we should be willing to test that hypothesis. Later this year, EPA is hosting a webcast to provide grant training to anyone interested in applying for targeted watershed grants. We’ll be soliciting feedback from participants on criteria for proposal

evaluation. This is to help make sure that there are more examples from which to learn.

## **Ending**

We heard you, a diversity of opinions and viewpoints. We are grateful for your participation, thank you for sharing your experiences and your ideas regarding how we can advance water quality trading. Our mission and goal here today is clear: at the end of the day, water quality must improve and water quality trading is a necessary tool that can help us succeed.

**Personal thanks to EPA and USDA persons.**