



# Environmental Trading Network

## October 2003 Conference Call (October 15, 2003; Draft)

Representatives from the following organizations participated in the conference call: Brown and Caldwell, Nashville, Tennessee (John Ricketts); Friends of the Potomac River (Dan Nees); Great Lakes Cities Initiative (David Ullrich); Kieser & Associates (Mark Kieser and Andrew Fang); Massachusetts Department of Environmental Protection (Marcia Sherman); Michigan Department of Environmental Quality (Rick Hobrla); Minnesota Pollution Control Agency (Al Innes and Kathy Jensen); National Association of Conservation Districts (NACD, Gerald Talbert); Resource Strategies Inc. (Joe Kramer); South Nation Conservation, Canada (Dennis O'Grady); Texas Water Commission (Clyde Bohmfalk); US EPA-National Center for Environmental Economics (Barry Korb); US EPA-National Risk Management Research Laboratory-Sustainable Environments Branch (Hale Thurston); US EPA-Office of Water (David Batchelor, Chris Salloway, and Lynda Hall Wynn); University of Maryland and King & Associates (Dennis King); World Resources Institute (Siet Meijer).

Mark Kieser chaired the call.

### Miscellaneous Items

Due to a number of first-time conference call participants, Mark Kieser briefly introduced the history of the Network.

### **Pennsylvania Department of Environmental Protection's Call for Comments on its Plan to Build an Environmental Credits Registry**

Mark indicated that Andy Zemba (???) from the Pennsylvania DEP will be on next month (November's) Network conference call to give more details on DEP's plan for the credits registry. The comment solicitation will end in December. As background information, the Conestoga River in Pennsylvania received an EPA grant to use trading to reduce nitrogen loads and generate other environmental benefits such as habitat creation.

### **Electronic Discussion Board for Questions from EPA's Trading Forum in July**

Mark reported that the electronic discussion board set up by the ETN on its website has not been active, although it received some visits during the past month and a half. Mark asked for



suggestions on how to generate interests in the trading community to contribute to the discussions on the board.

Dave Batchelor suggested that new questions posted by discussion board users can be automatically sent to ETN participants to alert new topics. Lynda Hall Wynn indicated that EPA's website on trading will post a link to the discussion board. Last week, representatives from 20 states interested in developing trading programs had a conference all with Dave and Lynda. This call was organized by Rabbi Savage with the Association of State and Interstate Water Pollution Control Administrators (ASIWPCA). Lynda will ask Rabbi to inform these state representatives of the discussion board. Barry Korb speculated that people may be just hesitant to initiate discussions. Therefore, someone should come out to break the log jam first.

### **Other Updates**

Dan Nees from the Friends of the Potomac River introduced himself and his organization's interest in trading. The Friends started with interest in carbon sequestration but later came to realize that with nutrients as the primary problem in the river, a shift in focus to water quality trading was necessary. The Friends hosted a trading forum on September 16-17, 2003. A steering committee is now begin to explore trading in a small watershed in West Virginia.

David Ullrich from the Great Lake Cities Initiative indicated that the Initiative is an organization of Great Lakes mayors, established to help mayors and other local officials develop and advocate programs to improve the Great Lakes. It officially started its operation on July 14, 2003. The Initiative is interested water quality trading among sanitary districts. However, the Initiative is also exploring the possibility of water quantity trading in the Great Lakes, given the provisions regarding water quantity in Annex 2001 of the Great Lakes Charter. The Great Lakes Protection Fund has asked the Initiative to examine this possibility. David indicated that all trading work at the Initiative is still "in its infancy".

### **National Association of Conservation Districts' Water Quality Trading Nonpoint Credit Bank Model**

Gerald Talbert summarized his report on a credit bank model for trading nonpoint source water quality credits, prepared as part of an EPA-funded project to promote trading in conservation districts. The report will be sent to the executive director of each state conservation agency for their information and consideration if water quality trading is contemplated. Gerald emphasized that the main purpose of this credit bank model is to bring more landowners to voluntarily participate in conservation practices (BMPs).

Conservation districts and USDA-NRCS local offices have worked to promote BMPs for many years. Conservation districts have developed a delivery system to help landowners properly install and maintain these BMPs. Federal and state cost-sharing programs, such as EQIP, WHIP, and CREP, have been used as a tool to attract landowners to adopt these practices. For example, in Maryland, EQIP provides 50% of the cost-sharing and the state adds another 37.5%. For water quality trading programs involving nonpoint sources, it makes sense to incorporate cost-sharing programs into the trading scheme. For example, the Tar-Pamlico trading program in North

Carolina uses credit money from point sources to include more participants in North Carolina's cost-sharing programs.

It is such trading arrangements that inspired Gerald to develop his credit bank concept. He believes that cost-sharing plus credit sales would be able to put the most BMPs on land and make the most use of the current delivery system because it provides the greatest economic incentives to landowners. With a credit bank acting as a depository of certified nonpoint source credits and the direct seller of these credits, many barriers that point-nonpoint source trading programs may encounter can be overcome. The bank would function to verify, certify, and insure the produced nonpoint source credits. To point sources, the bank would be a one-stop shopping place to get required credits without worrying about things such as finding credit sources and verifying credits. In addition to credits from cost-sharing programs, a credit bank can identify BMPs that are currently not covered by these programs to generate tradable credits. Examples of such BMPs are reduced use of fertilizers and use of chicken feed that results in less phosphorus concentrations in manure.

The following are questions, comments, and answers from the ensuing discussion on Gerald's report. Except specified otherwise, questions and comments were raised by various conference call participants and the answers were all from Gerald.

*Q:* What would be the geographic scope of a bank?

*A:* The bank can cover an entire state but credits would come from individual watersheds.

*Q:* What kind of legal entity would such a bank be?

*A:* This is not clear at this point. The Tar-Pamlico program does not have a specially designated entity yet, because there has not been any trading activity in the watershed. The Long Island Sound trading authority was created by the state legislature and has all the necessary authorities, which may be a good model for credit banks.

*Q:* Who would run the bank?

*A:* The state conservation agency should assume the responsibility but this remains to be seen. It can be different from state to state.

*Q:* Current cost-sharing programs sometimes focus on "getting the money out the door" instead of obtaining the most environmental benefits with money available. Will this be a problem in the bank concept?

*A:* This kind of situation can be avoided, for example, by targeting credit-eligible areas with the worst environmental problems. (Dave Batchelor: Economic means, for example, pricing credits differently, can also be used to achieve desired environmental outcomes). The bank concept is flexible enough that different crediting mechanisms can be adapted in different regions and/or watersheds. (Dennis O'Grady: Treating certain areas differently economically from others may be perceived as inequitable. Differentiation should be based on watersheds/subwatersheds instead of towns or cities).

*Q:* Can the Farm Service Agency (FSA) operate a bank?

*A:* No. A credit bank should be a state program (FSA is a federal agency).

*Q:* So far, it's all carrots and no sticks. What are the sticks that can force farmers into trading?

*A:* The concept is all about incentives for voluntary participation. Therefore, no sticks are available. But there are means in trading programs to regulate market activities and ensure environmental benefits.

*Q:* What about margins of safety?

*A:* This can be managed by the bank using fees or credit discounts. But the rules on how to do these should be set by stakeholders as part of the process of establishing a bank. This is essentially a trading ratio question and trading ratios should be ultimately decided by scientific calculations. When unavoidable, the built-in safety factors should be decided to reach a balance between ensuring desired environmental benefits and sustaining adequate market activities.

### **Trading Technical Workshops**

Gerald indicated that the USDA is hosting a series of open forum sessions on trading. He will make the schedule available to be posted on the ETN website ([www.envtn.org](http://www.envtn.org)).

### **Next Call**

The next call will be at 10:30 EST, Wednesday, November 12, 2003. Tentative discussion items include:

- 1) Andy Zemba: Pennsylvania DEP's effort in developing an environmental credits registry.
- 2) Dennis King: lessons for trading from the wetland mitigation banking experience in Florida.