

## *Great Lakes Trading Network*

### *Summary of the August 13, 2001 Conference Call*

#### **DRAFT**

Representatives from the Massachusetts Department of Environmental Protection, Environmental Financial Products, Ltd., Kieser & Associates (K&A), Fox-Wolf Basin 2000 (FWB), the Minnesota Pollution Control Agency, EPA's Office of Water and National Risk Management Research Laboratory, EPA Headquarters, the World Resources Institute, Allegheny Energy, Texas A&M, Ohio Environmental Protection Agency and David White of Senator Lugar's staff participated on the call. Dave Batchelor (Michigan Department of Environmental Quality) chaired the call.

The July 24 conference call summary was approved. The final version is attached.

#### **The Massachusetts Initiative**

The group welcomed Mike Rapacz of the Massachusetts Department of Environmental Protection (MDEP). Mike presented an overview of what is developing in Massachusetts. The MDEP is about to start a project that will evaluate 87 estuarine embayments in southeastern portion of the state. The study includes Cape Cod and will focus on nitrogen loadings and reduction programs. Some of these studies may evolve into total maximum daily loads (TMDLs) for impaired waterbodies. One of the questions raised is what communities will be able to do with the studies once they have been completed.

The SE portion of the state was chosen for study because of its economic base, restricted tidal fluctuations and local water quality issues. The area involves coarse sand and gravel groundwater systems in addition to surface water bodies. There are around 1500 watersheds/sites listed on the 303(d) list for which the study will be considering how to reduce the cost of improved treatment associated with meeting water quality objectives.

The MDEP is preparing guidance documents and discussion papers on key issues, one of which is nutrient trading. Some of the topics that have come up include point source nutrient trading associations and how to address new sources that apply for a surface or groundwater discharge permit. Many of the embayments exceed acceptable nutrient budgets by more than 50%. One approach could be to "make the new discharges invisible", in other words, offsetting increases with reductions from existing point and nonpoint sources. An example would be to offset a new wastewater discharge by reductions from correcting or connecting septic systems. Consideration is being given on how larger operations like cranberry farms and fish hatchery dischargers could meet regulatory requirements by implementing projects to reduce nonpoint source discharges.

Following Mike's presentation there was a discussion period. A question was asked about the process being used to achieve stakeholder support. The TMDL development process provides public participation and feedback. In addition, the MDEP is working with stakeholder groups and is considering the formation of watershed districts. Mike explained the "town government"

system and that outreach and education are key. A participant suggested that the MDEP consider a "strong policy statement" to set the stage for pilot projects before individual facility permits are developed. The legislative approach being taken in Wisconsin to establish clear legal authority for trading to occur was also suggested.

The group briefly discussed institutional inertia of regulatory agencies that centers on the question of what is the proper way to manage programs - command and control or market-based strategies.

### **Senate Bill S 1326**

Paul Faeth provided background on the Farm Bill and introduced Dave White of Senator Lugar's staff. The farm bill must be reauthorized periodically to maintain farm programs. The debate inevitably focuses on which programs should be funded at what levels. Traditional farm programs have focused on maintaining farm prices. Today the focus is shifting more towards environmental performance in conjunction with sustainable agricultural practices.

David White is a senior staff and policy advisor to Senator Lugar. Dave presented a summary of Senator Lugar's bill relative to the Conservation Title of the Farm Bill.

Senator Lugar, previous chair of the Senate Committee on Agriculture, Nutrition and Forestry, has introduced a bill that would double the amount of funding for conservation programs. The Lugar bill, S.1326, would reauthorize the Environmental Quality Incentive Program (EQIP) at \$1.5 billion dollars per year. Within the EQIP program there would be an increased focus on water quality and programs to address hypoxia and coastal eutrophication and green house gas emissions.

Section 1240 H of the Lugar bill proposes a \$100 million dollar per year appropriation expressly for market-based programs that reduce nutrient runoff and greenhouse gas emissions from agricultural lands through implementation of sustainable management practices. These funds would be available to state and local units of government, non-governmental organizations, environmental groups, industry and individuals with an equal local match.

A couple of examples of how these funds could be used were discussed. A water treatment plant faced with a major capital upgrade expenditure could apply for a grant to purchase nutrient reduction credits from a farmer or agricultural cooperative to offset or supplement treatment requirements. This would achieve equal or greater nutrient reductions to the nation's waters, reduce treatment costs and implement agricultural best management practices.

Grants could be used to offset growth in a fully allocated waterway that is currently meeting designated uses. Similar programs could be implemented to reduce nonpoint source runoff from agricultural lands and improve water quality in threatened water bodies, thereby averting the need for future regulations. Private organizations could obtain grants to implement watershed-based programs to reduce nonpoint source loadings, supplemental to federal and state regulatory programs. Grants could also be used to develop pilot and full-scale nutrient trading projects like those represented on the GLTN.

The Bill is cutting edge in that it recognizes and establishes economic incentives for capitalizing on the synergy of implementing agricultural management practices that reduce nutrient loading and green house gas emissions. These are two of the most challenging environmental issues we face in today's society.

The process/time line for finalization of the Farm Bill by 2002 is roughly as follows. The House version of the farm bill has already been approved by the Agriculture Committee and is expected to be voted on by the House in mid-September. In the Senate, Senator Harkin, the new chair of the Ag. Committee, has indicated that he hopes to finalize the Senate Bill by the end of September. Once Senate and House actions are complete, the bills would go to a Conference Committee to resolve any differences.

Dave invited participants on the GLTN to provide feedback and comments on how Senator Lugar' bill may be strengthened and its provisions clarified.

The group discussed a couple of issues that have been raised in other nutrient trading programs. Can/should toxics be traded? Can public dollars be used to create private credits? Although programs like Michigan's do not allow this, there are potential benefits that can be realized by leveraging participation with traditional conservation programs, especially where the federal funds are appropriated for sustainable agricultural practices. These and other policy issues will likely come up as this bill moves forward.

Senator Lugar's Floor Statement, a bill summary and Section 1240 H are attached.

The next GLTN conference call is scheduled for 11:00am on Wednesday, September 12, 2001.