

As Eleanor Roosevelt once quipped, "Great minds discuss ideas; average minds discuss events; small minds discuss people." This article by design will cover the spectrum of small- to big-mindedness, with the singular goal of advancing the ball on environmental restoration. But let me start with the former. In September, the U.S. Department of Agriculture (USDA) and the U.S. Environmental Protection Agency (EPA) hosted a three-day national workshop on water quality trading markets. It was a splendid event with more than 200 attendees convening in beautiful Lincoln, Neb., to explore the expansion of water markets to accelerate the restoration of watersheds plagued by serious water pollution problems.

Markets & Bold Action

By Brent Fewell



EPA workshop explores expansion of water markets to accelerate watershed restoration

Having spearheaded EPA's national trading conference in Pittsburgh, I was eager but admittedly a bit anxious to learn about the collective progress that has been made over the past decade. The workshop was attended by big thinkers, traders and prominent voices, including EPA's Gina McCarthy and Ellen Gilinsky, USDA's Tom Vilsack and Ann Mills, and Maryland's Ben Grumbles, to name a few. A number of projects were highlighted, such as the Ohio River Basin's interstate nutrient trading effort involving Indiana, Kentucky and Ohio; the Chesapeake Bay efforts supported by Virginia, Maryland and Pennsylvania; Washington, D.C.'s new storm water credit trading program; and the nascent programs in the Great Lakes Basin and Iowa to address Gulf of Mexico hypoxia. On the whole, I came away from the event with a renewed sense of optimism, but also a resolve to do more.

Environmentally & Economically Sensible

The idea of using market-based approaches to reduce pollution, like cap and trade under the Clean Air Act, dates back to the late 1970s. These markets have increasingly gained credibility and popularity over the years. The Environmental Defense Fund, for example, says cap and trade is the most environmentally and economically sensible approach to controlling greenhouse gas emissions. Leveraging markets to improve water quality, however, is a more recent phenomenon. Although trading is not expressly mentioned in the act or codified by regulation, in 2003, EPA's Office of Water under Tracy Mehan's leadership adopted the agency's final water quality trading policy. The policy encourages entities to capitalize on the economies of scale and the control treatment cost differentials among pollution sources. Case in point: For the past decade, the Rahr Malting Co. in Minnesota has paid local farmers to install best management practices to reduce phosphorous-laden runoff to achieve its 150-lb permit discharge limit, costing \$2 per pound instead of an estimated \$4 to \$18 per pound to install treatment equipment. With a 2:1 trading ratio, the result is cleaner water at half the cost.

Another recent success story involves Medford,

Ore., which was required to reduce the temperature of its wastewater discharge by 2°F to protect the salmon fisheries in the Applegate River. Rather than paying \$16 million to install a large cooling system—which has a large carbon footprint—the city, with the help of the Freshwater Trust's Joe Whitworth, opted for planting native trees along a 30-mile stretch of the river, thus allowing Mother Nature to cool the waters. So, instead of purchasing 14 million kcals at a cost of \$16 million, the city, using a 2:1 credit ratio, purchased 28 million kcals of conservation at a cost of only \$8 million. Not only does the environment benefit from cooler water at half the cost, but the uplift from the same conservation practices has produced more wildlife habitat, cleaner air and water, and improved recreational value. That's what I call a much bigger bang for the buck.

These types of restoration projects are exciting and prove how simple ideas and regulatory flexibility can do so much more to produce better and more sustainable environmental outcomes. Moreover, these same projects force people from all walks of life—farmers, environmentalists, landowners, academics, civic groups, companies and community leaders—to collaborate and work together toward a common goal, offering a community-based solution. These entities coming together to do good represent the "little platoons" spoken of by philosopher Edmund Burke that form the building blocks of a sustainable society—in this case, a sustainable environment.

Legal Enough

Why, then, have we not witnessed more trading activity? Truth be told, water trading markets have languished relative to other environmental markets. Wetland mitigation banking, for example, is estimated at a whopping \$4 billion annually, compared with water quality trading's paltry \$10 million annual price tag. So some might ask, where's the beef? The workshop prompted a fair amount of ruminating on this question, including whether the lack of an authorizing statute or regulation was putting the brakes on trading. Here, the threat of litigation by a small but vocal group of activists has had a practical effect on making trading harder and less certain. Grumbles, however, noted in closing remarks that trading is "legal enough."

But is "legal enough" enough?

Yes, trading is legal and fully consistent with the Clean Water Act, but I have long argued that trading must get a boost from Congress (or EPA) to provide clear authorization for more states to feel comfortable using trading as a tool to accelerate watershed restoration. Such action would afford greater legal deference by the courts if a trading program or a permit using trading is legally challenged. Further, such action would send a strong signal to market participants and private investors that it is safe to enter the water and invest more time and money in water quality trading, similar to what happened in 2008 under EPA's Mitigation Banking Rule, which served as a powerful catalyst to mitigation markets. Without such bold action, I fear that the great idea of trading will, in fact, remain just that: a great idea.

Enough talk—it's time to act. **w&wd**

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