



Selling a New Commodity from Agriculture: Cleaner Water



Many agricultural producers in the Ohio River Basin already know about the benefits of using conservation practices in their operations. Some of those advantages include better soil, cleaner water and higher profits. But what if you could earn even more from implementing those same conservation practices? The Ohio River Basin Water Quality Trading market, currently being developed by the [Electric Power Research Institute \(EPRI\)](#) and its partners, may make that possible.

WHAT IS WATER QUALITY TRADING?

Water quality trading (WQT) is a market-based approach to improving the quality of water flowing into creeks, streams, rivers and lakes. It creates a private market that allows participants, who emit below an agreed upon baseline, to generate credits to sell to regulated polluters, such as public utilities or manufacturing operations. Producers participate in WQT by implementing agreed-upon conservation practices to generate pollutant reduction credits that they will be able to sell in the Ohio River Basin WQT Market. The utility companies, waste water treatment plants and other regulated entities in the basin will purchase these credits to help them meet their pollutant reduction requirements at a more cost competitive price than upgrading their treatment facility.

Through WQT, the regulated facilities avoid expensive infrastructure upgrades, municipal waste water treatment and utility customers avoid much higher utility bills and farmers receive the money they need to implement and maintain conservation practices.

The Ohio River Basin WQT market will be the first regional WQT market in the nation and will benefit from an ample number of credit buyers and sellers, resulting in a market that will cost-effectively improve water quality in the basin.

HOW CAN PRODUCERS BENEFIT FROM TRADING?

Trading ecosystem services like water quality improvements provides an alternative funding source that producers use to offset the cost of implementing and maintaining conservation practices. Credit payments are based on the amount of pollutant reduction the conservation practice is expected to generate over its lifespan. Water quality trading will allow producers to implement conservation practices more economically and will improve and protect water quality at the same time. Once the Ohio River Basin WQT market is up and running, agricultural producers in New York, Virginia, West Virginia, Pennsylvania, Kentucky, Ohio, Indiana and Illinois who operate within in the Ohio River Basin watershed may be eligible to participate in trading. Since 2006, a pilot project with nine municipal waste water treatment plants in the Great Miami River watershed has been purchasing nutrient credits from agricultural producers to improve water quality in one of the rivers feeding into the Ohio River.

CREDIT STACKING

Many conservation practices provide multiple benefits to the environment. For example, installing riparian buffers along streams feeding into the Ohio River will trap soil sediments and phosphorus while capturing and storing carbon—a greenhouse gas—generating credits for phosphorus, sediments and carbon. The Ohio River Basin WQT market will allow producers to sell all of these credits to the same or to different buyers, increasing the value of the conservation practice. We will also work with USDA's Natural Resources Conservation Service (NRCS) to consider ways in which the federal conservation cost-share programs can work synergistically with this new market to help producers get more conservation practices on the ground in the basin.

GETTING AGRICULTURE INVOLVED

[American Farmland Trust](#) (AFT), along with its partner, the [Ohio Farm Bureau Federation](#), will be reaching out to agricultural producers and bringing them into the market design process so that the resulting market will work for credit sellers as well as for credit buyers. AFT's interest in private ecosystem services markets is deeply rooted in its 29-year history and our primary goal is for these markets to succeed.

AFT blends on-the-ground work with farmers and ranchers around the country with academic research and policy work at both the state and federal level, making it possible for us to rapidly scale up successful projects by sharing our results with policy makers and federal and state agencies.

Starting in January 2010, AFT will convene listening sessions with agricultural producers in the basin to determine what kind of market structure will best work for agriculture. You can read the proceedings of our initial listening session in Troy, Ohio in April 2009 at <http://www.farmland.org/programs/environment/solutions/AFTProjectMaterialsOhio.asp>.

If you would like to participate in one of these listening sessions or share any ideas or concerns with us, please e-mail us at: tbullock@niu.edu.

If you would like to receive quarterly updates on the project, please sign up on the EPRI Website (OhioRiverTrading@epri.com.)

American Farmland Trust

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DEVELOPING TOOLS FOR PRODUCERS

During the first year, [EPRI](#), [AFT](#) and their partners will work with producers to test on-line tools that calculate the number of credits they can generate by implementing various conservation practices on their farms. These tools include the USDA NRCS nutrient trading tool and an on-line calculator developed by EPRI and Michigan State University that assigns a carbon credit value to reductions in the use of fertilizer. These tools will, in turn, link to a computer model of the entire basin and, eventually, to an on-line registry that can automatically assign dollar values for various conservation practices for producers to consider.

If you are an agricultural producer in the basin and would like to test these tools this coming year, contact AFT by e-mailing tbullock@niu.edu.

If you are apprehensive about whether some of these conservation practices will reduce your yields, you can try them out ahead of time without any risk to your income. Contact AFT and participate in [AFT's BMP Challenge](#) to cover that risk. The BMP Challenge has been used on more than 15,000 acres nationwide.

WATER QUALITY TRADING *IS*:

WQT is Market Based—Similar to carbon trading through the Chicago Climate Exchange (CCX), participants in a WQT program buy and sell WQT pollutant reductions in a regional market.

WQT is Voluntary—No laws or regulations require industries or landowners to participate in WQT programs and participation is voluntary.

WATER QUALITY TRADING IS *NOT*:

WQT is NOT a way to regulate agricultural operations—Some agricultural producers worry that WQT is a slippery slope that will end up extending regulatory requirements to producers that normally would not be regulated under the Clean Water Act. This is **not** the case. The Clean Water Act clearly exempts most agricultural activities from regulation. Producers who voluntarily participate in WQT programs are required to fulfill only the terms of the contracts they negotiate with their trading partners.

WQT is NOT a way to avoid Clean Water Act requirements—Some opponents to WQT claim it enables regulated facilities to continue to pollute. This is **not** true. WQT simply allows regulated facilities to achieve pollutant controls more economically by making it possible for producers in the basin to use additional conservation practices. The market can be designed to improve water quality in the basin even more than what relying on expensive infrastructure upgrades might achieve.

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