



## **USDA-CSREES 2007 National Water Quality Conference**

### **Comparative Analysis of Trading Programs and Projects in Mid-Atlantic States**

Pollution trading allows polluters to meet their discharge limits by “purchasing” pollution reductions from other sources. Such flexibility in abatement decisions should lead to cost-effective achievement of environmental objectives while providing incentives for abatement innovations. Inspired by the success of sulfur dioxide emission market, several trading programs have been designed to reduce water pollution. However, trades in water quality markets are still limited in number. The reasons include nontransferable liability of point source requirements for pollution reduction, high monitoring and enforcement costs, high costs of finding and negotiating with trading partners, and difficulties in estimating discharge reductions for nonpoint sources. We discuss the varied approaches to trading program design and implementation employed by the Mid-Atlantic States. Among the key components that will be examined are regulatory drivers and environmental objectives, abatement baseline definitions, geographic and uncertainty trading ratios, pollution credit pricing, and monitoring and enforcement schemes. We will also discuss how different trading program designs employed by these states can potentially influence their performance. States in the Mid-Atlantic region differ in the stage they are at in trading program development and their approaches. In all States, Chesapeake Bay Agreement objectives drive the interest in trading programs. However, Virginia’s trading program focuses on point sources (with provisions for future participation of non-point sources), while interim trading policy in Pennsylvania allows point and nonpoint sources to participate in the credit market. The Potomac bank-and-trade pilot project is expected to help in the development of a trading policy for West Virginia. Instead of establishing a trading program, Maryland finances the Chesapeake Bay Watershed Restoration Fund from public fees. In Delaware, nutrient trading has also been discussed. Comparison of trading programs across Mid-Atlantic States will help Bay stakeholders understand how policies for trading are evolving and to what extent they may contribute toward water quality improvements in the Bay.

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