



UNITED STATES ENVIRONMENTAL PROTECTION AGENCY
WASHINGTON, D.C. 20460

OFFICE OF WATER

MEMORANDUM

SUBJECT: Water Quality Trading on a Watershed Scale

FROM: David P. Ross

TO: Regional Administrators, Regions 1-10

The purpose of this memorandum is to share the attached document titled *Water Quality Trading on a Watershed Scale*. This paper describes three factors that trading program managers may want to consider when determining the appropriate scale for a trading area.

On February 6, 2019, EPA issued *Updating the Environmental Protection Agency's (EPA) Water Quality Trading Policy to Promote Market-Based Mechanisms for Improving Water Quality* to modernize the Agency's approach to market-based programs. The 2019 memorandum:

- 1) reiterates EPA's strong support for water quality trading;
- 2) promotes the adoption of market-based programs to incentivize the implementation of technologies and practices to reduce nonpoint source pollution;
- 3) provides additional guidance and policy options to stakeholders for developing and implementing market-based programs; and,
- 4) promotes increased investment in conservation actions.

To achieve these goals, the 2019 memorandum identifies six market-based principles, the first of which is that *states, tribes, and stakeholders should consider implementing water quality trading and other market-based programs on a watershed scale*.

Establishing an appropriately defined trading area is necessary to provide a viable trading market and to ensure that targeted water quality concerns are addressed throughout the trading area. Working within a larger geographic area may facilitate greater market opportunities and participation, resulting in larger scale resource improvements over time. EPA recommends that the scale of a market-based water quality improvement program, including water quality trading, be informed by the water quality goals of the program and the hydrology and ecology of the watershed in conjunction with the effects and the extent of the pollutants of concern. As with any market-based program, in order to ensure market viability, the existence of sufficient supply and demand for credits should be considered when determining the trading area.

If you have any questions or need additional assistance, please contact Andrew Sawyers at Sawyers.Andrew@epa.gov or (202) 564-5668, or Christopher Kloss at Kloss.Christopher@epa.gov or (202) 564-1438.

Attachment