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FACT SHEET Water Quality Trading Policy

Water quality trading is a market-based approach to improve and preserve water quality. Trading can provide greater efficiency in achieving water quality goals in watersheds by allowing one source to meet its regulatory obligations by using pollutant reductions created by another source that has lower pollution control costs. EPA's policy endorses trading as an economic incentive for voluntary pollutant reductions from point and nonpoint sources of pollution and as a way to achieve ancillary environmental benefits such as creation of habitat.

The Environmental Protection Agency (EPA) is issuing a Water Quality Trading Policy ("policy") to provide guidance to states and tribes on how trading can occur under the Clean Water Act and its implementing regulations. The policy discusses Clean Water Act (CWA) requirements that are relevant to water quality trading including: requirements to obtain permits, antibacksliding provisions, development of water quality standards including antidegradation policy, National Pollutant Discharge Elimination System permit regulations, total maximum daily loads (TMDLs) and water quality management plans.

EPA's policy supports trading of nutrients (e.g., total phosphorus, total nitrogen) and sediment load reductions. The policy recognizes the potential for environmental benefits from trading of pollutants other than nutrients and sediments but believes that these trades may warrant more scrutiny. The policy does not support any trading activity that would cause a toxic effect, exceed a human health criterion or cause an impairment of water quality. EPA does not support trading of persistent bioaccumulative toxic pollutants at this time.

The policy supports trading to improve or preserve water quality in a variety of circumstances. For example, in unimpaired waters trading may be used to preserve good water quality by offsetting new or increased discharges of pollutants; in waters impaired by pollutants trading may be used to achieve earlier pollutant reductions and progress towards water quality standards pending the development of a TMDL; and trading may be used to reduce the cost of achieving reductions established by a TMDL. EPA does not support trading that delays implementation of an approved TMDL.

The policy draws on lessons learned from pilot programs conducted under EPA's 1996 *Draft Framework for Watershed-Based Trading* by identifying common elements that EPA believes are necessary for trading programs to be credible and successful. These elements include clearly defined units of trade, use of standardized protocols to quantify pollutant loads and reductions, provisions to address the uncertainty of nonpoint source loads and reductions that are traded, accountability mechanisms for all trades, public participation and access to information, and monitoring and program evaluation.

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