When land does well for its owner, and the owner does well by his land; when both end up better by reason of their partnership, we have conservation.

When one or the other grows poorer, we do not.

- Aldo Leopold
Commoditization of Intangibles: Overcoming Impediments to Reducing Pollution through Markets

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Key Steps Required

1. Clear Title

2. Clear Transparent Definition of Product

3. Agreement Between Buyer and Seller
Establishing Clear Title

If you don’t own it can you sell it?

Have we established clear ownership rights?

What is our reluctance?
Ownership Rights Probed

Do we want individuals (or corporations) to improve environmental quality?

Do we object to them making money for improving environmental quality?

Environmental benefits do not add value to them but to off site users.

Then are we willing to sanction property right or clear title?
Ownership Rights Inconsistently Granted

USDA has codified in regulation Ecosystem Services belong to the landowner
   Even if they are the secondary product of an incentive program to do something else
   *Except in the case of WRP

Corps of Engineers asserts claim that any wetland restoration must incorporate all the ecosystem services and therefore precludes trading secondary benefits
Who Sanctions Rights?

The State
  Legislature?
  Agencies?

The Courts?

Do markets accept?

Who makes the ecosystem service valuable?
  Do they sanction property right to facilitate a trade?
What Is A Commodity?

Normalization to a common standard

✓ Agreement between buyer and seller
✓ Accepted in trade
✓ Transparent price
Examples of Commodities

24 Carat Gold

SAE 10 W 30
   Motor oil
   Maintained by American Petroleum Institute
   Based on agreement between producers/ users

Dross
   Recycled metal standard
   Maintained by Institute of Scrap Recycling Industry

Again, set by agreement between buyers & sellers
So What are the Commodity Standards for Ecosystem Services?

Do we have well defined standards?

Is there agreement on the standard in the Marketplace (between buyer and seller)?

There are multiple marketplaces with inconsistent standards? (markets need to be able to distinguish)

Who are the buyers and sellers?
What is Required for Standardization?

Meeting of the Buyer and Seller

Producer (landowner)

Buyer (municipality, utility, government etc.)

Regulator (government agency)

Certifier (may not need to be in meeting but engaged in deal)
What is Required for Standardization?

Meeting of the Buyer and Seller

Can there be multiple markets

Do the same standards always need to apply?

Greenhouse gas is easy – it does not matter where in the world – there is one common atmosphere and impact generally the same

Not so with water – we need to facilitate multiple markets that will have differing standards
What is Required for Standardization?

If Greenhouse is easy, why do we have so many differing markets and such disparate standards?

Most markets evolved in voluntary conditions
No common expectation of performance
No meeting of full set of buyers and producers
Each crafted to maximize their benefits
Lack of maturity of market
That has led to tremendous price instability
2007 Farm Bill established directive on Environmental Services

SEC. 1245. ENVIRONMENTAL SERVICES MARKETS. (a) TECHNICAL GUIDELINES REQUIRED. The Secretary shall establish technical guidelines that outline science-based methods to measure the environmental services benefits from conservation and land management activities.
SEC. 1245. ENVIRONMENTAL SERVICES MARKETS

(a) TECHNICAL GUIDELINES REQUIRED.—The Secretary shall give priority to the establishment of guidelines related to farmer, rancher, and forest landowner participation in carbon markets.

(b) ESTABLISHMENT.—The Secretary shall establish guidelines under subsection (a) for use in developing the following:

   (1) A procedure to measure environmental services benefits.

   (2) A protocol to report environmental services benefits.
Who is to be Engaged

(1) Federal and State government agencies.
(2) Nongovernmental interests including—
   A farm, ranch, and forestry producers;
   B financial institutions involved in environmental services trading;
   C institutions of higher education with relevant expertise or experience;
   D nongovernmental organizations with relevant expertise or experience; and
   E private sector representatives with relevant expertise or experience.
(3) Other interested persons, as determined by the Secretary.”
Why has this failed?

Ecosystem Service Office USDA has been cheerleader but not institution bringing buyers and sellers together.

Failed to produce common understanding within the government about who owns an ecosystem service & a common standard is

Failed to engage private sector
Why has this failed?

Ecosystem Service Office USDA has not drawn on market experience

Has limited focus to principally discussion within the government

Can not even reach standard within government much less between buyers and sellers

EPA also needs to step up and define what it will sanction
We have a fundamental question we have to get over:

Do we want to manage the environment exclusively or principally through regulation – or do we want to use the power of markets as an innovative tool?
What is needed?

Mimic the function of a trade association

Convene a meeting of buyers and sellers

Have government definitively state what it will accept.* For example, EPA should explicitly sanction ecosystem service trades as part of Chesapeake Bay compliance

Need to set reasonable baseline requirements – not something that leaves nothing to trade
What is needed

Scarcity is part of what adds value

Widely accepted that the government creates windfalls and wipeouts

Need to explicitly sanction that environmental regulations can be fulfilled by ecosystem service markets
If We Get It Right

1. We will get more for our dollar (both as taxpayer and as environmental proponent)

1. The cost of regulations will be lower because markets reward efficiency and

2. We will unleash competition for improving environment which will promote innovation and delivery