

US EPA ARCHIVE DOCUMENT

Preliminary Findings and Observations on Ohio's Great Miami River Water Quality Credit Trading Program

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Water Quality Trading (WQT) has been advocated and attempted since Dales first introduced the idea in 1968, yet this policy approach remains largely a case of unfulfilled expectations. The Great Miami River Water Quality Credit Trading Program run by the Miami Conservancy District (MCD) has the potential to be an exception. Through innovative design features, real demand for credits, and effective leadership, the program has come to resemble a true market in which buyers are paying for pollution reductions and sellers are offering to provide those reductions in response to a price signal. A critical design feature has been the use of the expertise and contacts of agents at county-level Soil and Water Conservation District offices. In this paper, we explore what can be learned from this experience to date and draw some preliminary conclusions about the implications for WQT nationally. We draw primarily upon the bids from farmers to the program and interviews with county-level officials who have served as intermediaries between farmers and the program managers. Two main conclusions can be drawn at this stage in our research. First, bids have varied systematically across counties, influenced more by the agents who are assisting the farmers than variation of the properties of the farms and practices. Second, we find evidence that bids are influenced by strategic behavior at the county level and are also tied to the opportunity available to farmers to participate in government subsidy programs. Hence, despite its use of a reverse-auction structure, the MCD program has not pushed farmers to reveal their direct cost of implementing a conservation practice. Overall, the MCD experience demonstrates how effective design can improve the prospects for WQT, but it also demonstrates some of the limitations this approach has in achieving a cost-minimizing allocation of pollution reduction efforts.