

CHESAPEAKE BAY ENVIRONMENTAL MARKETS TEAM

CHARTER

PURPOSE

The Chesapeake Bay watershed is an ecosystem of great natural, social, economic, and cultural value -- a network of people, plants, fish and wildlife and the places they live, each one connected to the other. Federal agencies recognize this interdependence and the need to design efforts to restore and protect the Chesapeake Bay in a way that benefits the entire ecosystem. The progress of the past several decades has not been sufficient to fully restore and protect the Chesapeake Bay watershed; driving the need to fundamentally shift strategies, take bold action and increase accountability. In 2010, the federal government identified a strategy to accelerate progress toward Bay restoration goals.

Environmental markets were identified in the Strategy for Protecting and Restoring the Chesapeake Bay Watershed (2010) as an emerging tool for facilitating the implementation of conservation measures as well as compliance with environmental regulations. While still in their infancy, environmental markets show promise for protecting and restoring clean air and water, wetlands, healthy wildlife, and a suite of other environmental benefits while encouraging innovation and private investment, improving accountability, reducing costs, and expanding conservation opportunities for landowners.

However, the success and expansion of environmental markets still faces significant challenges. A robust environmental market requires strong drivers of demand, an adequate supply of quality credits, a sound and transparent infrastructure, consistent standards, science-based tools to measure and verify the environmental performance of conservation practices, compliance with regulatory standards, a secure system of property rights, protocols that define relevant baselines, a platform for registering, reporting and tracking measurable environmental benefits over time, methods to mitigate risk, reasonable transaction costs, and systems that bring the buyers and sellers of benefits together. With these elements in place, markets can help achieve environmental protection goals with assurance and lower cost. Collaboration among federal agencies is needed to address these challenges of environmental markets and to allow such agencies to better engage states and other stakeholders in the Chesapeake Bay watershed.

BACKGROUND

The basic premise of an environmental market is that an entity that needs to reduce its impacts to the environment can purchase credits to offset an equivalent or greater amount of environmental improvement. In addition, an entity who depends on environmental benefits may want to voluntarily invest in their stewardship, thus ensuring their delivery into the future. In either case, environmental benefits (offsets or credits) must be established and verified and may be registered and traded much like other commodities. Clear procedures and verifiable metrics for quantifying the environmental outcomes of aquaculture, fisheries and coastal management, agriculture and forestry practices, and other conservation measures can facilitate market-based strategies and

improve the accountability of existing incentive programs. To be fully effective and reduce barriers to adoption, guidelines must also meet the needs of multiple Federal agencies and other private and public stakeholders.

The 2008 Farm Bill directed the USDA to develop tools, standards, and other guidance that would enable landowners to participate in environmental markets. In May of 2009 the President signed EO 13508, announcing strong federal leadership, action and accountability for the purpose of protecting and restoring the health, heritage, natural resources, and social and economic value of the Chesapeake Bay watershed and directed Federal agencies to develop a strategy to meet that purpose. On May 12, 2010 the *Strategy for Protecting and Restoring the Chesapeake Bay Watershed* (hereafter referred to as the “*EO Strategy*”) was announced. The EO Strategy called on federal agencies to form an interdepartmental team, under leadership of USDA, tasked with collaboratively developing the infrastructure for environmental markets in the Chesapeake Bay watershed.

Existing and future Clean Water Act related regulations make water quality trading an obvious first step towards establishment of environmental markets in the Chesapeake Bay. The Total Maximum Daily Load (TMDL) for nitrogen, phosphorus, and sediment for the tidal segments of the Bay and its tidal tributaries and embayments, along with the use of offsets as a mechanism for reducing pollution loads, provides an important foundation on which other ecosystem services and market-based approaches can be built.

AUTHORITY

The interdepartmental Chesapeake Bay Environmental Markets Team (CB EMT) is chartered by the *Strategy for Protecting and Restoring the Chesapeake Bay Watershed*, issued on May 12, 2010 as directed by Executive Order 13508. The CB EMT is established to facilitate collaboration among federal agencies in development of the infrastructure needed for enabling environmental markets to function effectively in the Chesapeake Bay Watershed. The CB EMT supports the missions of individual agencies charged with both regulating environmental compliance in the Chesapeake Bay watershed as well as those supporting voluntary conservation.

DURATION

The Chesapeake Bay Environmental Markets Team shall be chartered for a period of 5 years, with the option for renewal. This Charter was prepared by the CB EMT and will be reviewed annually and revised as appropriate.

MEMBERSHIP

As set forth in the *EO Strategy*, the CB EMT shall be comprised of representatives from the US Department of Agriculture (USDA), Environmental Protection Agency (EPA), Department of Commerce (DOC), Department of the Interior (DOI), Department of Transportation (DOT), Department of Defense (DOD), the US Army Corps of Engineers (USACE), Council on Environmental Quality (CEQ), and the Office of Management and Budget (OMB). It shall also

include representatives from the Department of Homeland Security (DHS) and the Department of the Navy. Other participation in the CB EMT is voluntary, and CB EMT members may review their membership in accordance with appropriations, resources and mission.

ROLES AND DUTIES

The CB EMT will assess existing and emerging environmental markets, explore areas of new market opportunities, and use this knowledge to engage in efforts to improve effectiveness and efficiency in achieving environmental goals in the Chesapeake Bay watershed. This will require working and coordinating with entities that have established or are interested in establishing, such markets. The CB EMT will provide input and recommendations to those working on development of the policies and infrastructure for environmental markets.

The CB EMT has both short and long term roles. During year 1-2, the CB EMT will place its emphasis on nutrients and sediment, driven by the Chesapeake Bay TMDL—adding valuable support to the EPA and State processes for implementation of pollution caps and offsets for the Chesapeake Bay. In the long term (2-5 years), the CB EMT will explore options for new crediting and market opportunities in the Chesapeake Bay watershed, such as wetlands, habitat, carbon and other payments for ecosystem services that can build on the Bay watershed water quality market and other regulatory and market frameworks.

The EO Strategy calls on the CB EMT to collaborate on efforts to:

- Develop and evaluate scientific tools that measure the environmental performance of conservation practices and projects included in environmental markets;
- Develop protocols that measure relevant baselines for supplying credits;
- Define and measure the environmental improvement (performance) of practices and projects used in environmental markets;
- Develop protocols to certify and verify that measureable environmental improvements occur;
- Establish a platform to register, report and track measurable environmental benefits over time in order to facilitate commerce between buyers and sellers of credits and provide market transparency; and,
- Establish a credible and robust management infrastructure that lends control, oversight, visibility and transparency to the markets.

Further, in meeting EO Strategy goals, the role of the CB EMT will be to:

- Facilitate essential mechanics of environmental markets, through market infrastructure that takes into account the need for low transaction costs, realistic enforcement mechanisms, a large number of market participants, and net economic and/or environmental gains from credit sales or trades;
- Evaluate options for reducing market risk and transaction costs and assessing the value of stacking and bundling ecosystem services in a market structure;
- Address the tradeoffs and spatial complexity of practices used in environmental markets, especially those that cross agency jurisdictions and trust resources;

- Work to ensure that environmental justice issues of concern are adequately considered in the development of environmental markets for the Chesapeake Bay region;
- Work with agencies to incorporate, when appropriate, tools and protocols developed by the CB EMT into agency regulations or programs;
- Propose strategies to develop market infrastructure, test and guide market function, link regulatory systems and markets, and evaluate the performance of markets;
- Foster research relevant to environmental markets in the Chesapeake Bay region; and,
- Foster education, outreach, data support, and communication systems that support the engagement of project developers and private landowners in environmental markets.

TEAM OPERATION

To accomplish its goals, the CB EMT will:

- Develop an annual program of work and estimated budget;
- Meet monthly to discuss topics of interest, emerging issues and opportunities, and progress on activities of work groups and member agencies related to Chesapeake Bay environmental markets;
- Maintain a “Water Quality Work Group” that will gather information on approaches and concepts for market design that have applicability to water quality trading and offsets markets in Chesapeake Bay;
- Establish and support other work groups as needed to fulfill the purposes of the CB EMT and complete its annual program of work;
- Coordinate with the Chesapeake Bay Program (CBP) Office and appropriate CBP committees;
- Identify opportunities for collaborative projects and budget resources to carry them out;
- Identify the relevant scientific and market expertise of federal agencies in order to ensure that the CB EMT’s development of environmental markets facilitates conservation compliance and creates measurable environmental improvements;
- Ensure that sound economic and scientific theory, including the latest scientific and technical information, informs the process; and,
- Enable a broad array of stakeholders, the public and private sector and non-governmental organizations, as appropriate, to provide input.

The USDA Office of Environmental Markets will provide administrative support for operation of the CB EMT.

REPORTING

The CB EMT will provide annual reports to the Chesapeake Bay Federal Leadership Committee.