

# Fundamentals for Understanding Nutrient Trading

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# Why do we care?

## ***What markets do well:***

- Reduce costs: trading programs are designed to reduce costs of achieving water quality restoration goals.
- Incentivize innovation: when designed properly, market tools spawn innovative new policy approaches and practices.

# What makes markets work?

- Voluntary: flexibility is key
- Product: good or service is defined
- Buyer: sufficient demand
- Seller: sufficient supply
- Marketplace:
  - Rules, boundaries, and regulations
  - Information
  - Access

# What makes markets fail?

- Voluntary: lack of flexibility
- Product: poorly defined
- Buyer: insufficient demand
- Seller: insufficient supply (higher prices)
- Marketplace:
  - Inconsistent rules and regulations
  - Inconsistent or inequitable information
  - Limited access

# The path forward

- Adaptive decision-making: financing based on science, transparency, information
- Focus on outcomes rather than outputs: pay for pounds not for practices
- Be market-like with all financing: focus on costs and incentivizing innovation
- With this foundation, markets will happen

