WETLANDS / SPECIES

Mitigation

The Ecosystem Marketplace's Daily Coverage of the 2006 Mitigation/Conservation Banking Conference

Friday, April 28, 2006 Volume 1, Issue No. 4

Conference Ends, Looks to Future

By Ecosystem Marketplace Staff

The 9th National Mitigation and Conservation Banking conference, came to an end last Thursday, April 27, 2006, in Portland, Oregon with a presentation and a panel discussion on the future of the industry.

The presentation came from Bruce Knight, Chief of the U.S. Department of Agriculture's Natural Resources Conservation Service (NRCS). He spoke briefly on the history of the agency, noting that it was "born of ecological disaster" during the dust-bowl era and that its mission has grown in those 70 years away from soil conservation (it's original name was the Soil Conservation Service) to encompass the protection of the "quality and quantity of water, air, and wildife such that our motto now is 'helping people help the land'."

Knight then went on to highlight some of the NRCS's achievements over the last few years, including working with more than 100,000 farmers across the country, investing billions in conservation and –from the point of view of wetlands—helping achieve President Bush's goal of "restoring, protecting, or enhancing over 3 million acres of wetlands by 2009." In this respect, Knight said the agency was "more than half-way there" with some 1.7 million acres protected enhanced or restored so far.

Bruce Knight (r), Chief of NRCS, and fellow "McGeorge" panelists Sarah Vickerman and Leonard Shabman close out the 9th National Mitigation and Conservation Banking Conference in Portland

Although Knight said he was proud of what the NRCS has been able to accomplish, he explained that it was really "not enough." He said that every conservation program on the NRCS' books had a backlog and that there would never be enough government money to satisfy all that needed to be done to conserve the U.S.'s natural resources. "And quite frankly," he added, "I can not honestly say that I think we should take that much money from American tax-payers." Particularly, he added, not when there exist creative and market-based solutions that might enable us to achieve some of the same goals.

Speaking of these market-based approaches, Knight

The Final Scoop

In our first issue of this conference newspaper, we likened the event's offerings to an ice cream shop, saying it would be difficult to choose just one. Following the event, we wandered into the local Ben & Jerry's for a celebratory scoop after covering our final session on Thursday April 27th, and we realized that this year's conference had even Vermont's finest ice cream masterminds beat when it came to the myriad flavors on display.

Sessions at the conference ranged from practical hands-on advice about how to combat invasive species, to theoretical discussions about the advantages and disadvantages of setting up banking networks under a single regulatory umbrella. People discussed the latest innovations in scientific monitoring tools for tree growth and then leapt, an hour later, into nuanced financial discussions about investment policies for endowment funds. Sessions on stream banking were followed by presentations about banks in the desert regions of the Southwest. How do you start a bank? How do you run a bank? How do you maintain a bank once all credits have been sold?

In the midst of all this variation, however, common themes emerged (sort of like the enduring preference some have for chocolate or vanilla), and some flavors kept popping up again and again.

The historic importance of the new draft regulations for compensatory mitigation, for instance, was a theme throughout the conference. Many presenters considered the business opportunities opened up by the new regulations; others focused on the scientific possibilities afforded by the shift toward watershed level management. In general, conference attendees seemed to welcome the proposed regulations, but still had ideas about refining them further.

The stacking – or bundling – of different environmental credits was also a big topic of conversation on everyone's mind. Should bankers be thinking about how to sell credits for water quality? For carbon sequestration? For fish habitat and wetland restoration? Here, again, consensus suggested that the idea was exciting but might be more difficult than many realized.

Last but not least, this year's conference sounded a loud call for partnership between regulators, bankers and environmental groups. The challenge was thrown down to bankers to prove they could provide the best form of mitigation available in the country today. To meet this challenge, everyone agreed that collaboration with local land trusts, community groups, scientists and regulators is vital.

We thank all those who made this year's conference so interesting and –on a lighter note—tip our hat to the Portland Ben & Jerry's who proved that ice cream scoops, if nothing else, can be successfully stacked.

The Ecosystem Marketplace Team

Conference Ends

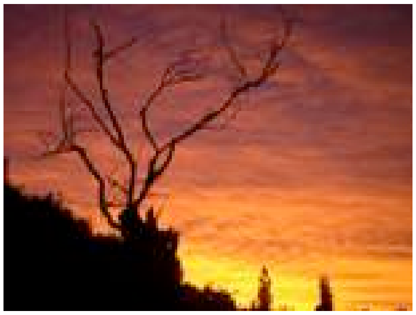
(continued from page 1)

said he can imagine a day in the not-too-distant future when we will "be able to trade environmental goods and services the way we trade corn." He acknowledged, however, that not all environmental markets would be as liquid or as standardized as corn, and that markets would never totally supplant current conservation efforts, but he said one day markets would go a long way towards providing the incentives necessary for Americans –and American farmers in particular—to protect their natural resources.

Knight then went on to say that the wetland mitigation and conservation banking industries were the "farthest along in terms of markets for conservation," and that as a result, his agency would be looking to this community "for ideas, vision, and lessons from the school of hard knocks" as his agency sought to expand their use of market-based approaches to conservation.

Going further, he encouraged conservation and mitigation bankers to think long and hard about what role they would like to see government play in the development of these markets. "What do you want from a federal agency?" he asked. "How much regulation do you want? Is there a role for government in price discovery, in transparency?… Or do you simply want government to stay out of the way and let the marketplace evolve?"

Knight ended his presentation by stressing that he thought one key issue that was needed in order to allow this market to fully meet its potential was greater transparency and a broad-based sharing of information. He noted that "we need reliable and consistent information" to enable buyers and sellers to meet, and to enable all players to play useful roles in these markets. He also said that his agency is taking these issues very seriously and that he thinks this movement toward market-based approaches to conservation could ultimately be a "transformational" force for the NRCS.



Following Knight's presentation, the gathered crowd took part in what has become a much-awaited highlight of every National Mitigation and Conservation Banking Conference: the "McGeorge Group" panel discussion. This panel, modeled on the well-known "McLaughlin Group" television show, brings together people from different sectors of the industry for an open and wide-ranging discussion with George Howard (aka McGeorge), the founder and vice-president of Restoration Systems, LLC.

True to form, the "McGeorge" group resembles a "talk-show" with Mr. Howard asking the panelists direct questions and expecting "frank answers." Joining Mr. Howard on the panel this year were George Platt, Principal of The Wetlandsbank™ Group in Deerfield Beach, Florida (who was introduced as the "silver-backed alpha-male" of mitigation banking); Ron Abrant, Senior Project Manager for the U.S. Army Corps of Engineers in Chicago, Illinois (introduced as someone in an impossible postion: "a regulator asked to speak his mind even though he is not allowed to"); Sarah Vickerman, Senior Director at the Biodiversity Partnership in West Linn, Oregon (introduced as "green, but not

nearly radical enough for my taste"); Leonard Shabman, Resident Scholar at Resources for the Future in Washington, D.C. (who was said to have "stepped down from his ivory tower" for this event); and Bruce Knight, the Chief of NRCS.

The questions began with a round of perspectives on the new regulations. As expected, most of the panelists thought it was a good step in the right direction, highlighting the importance of the move away from strict "on-site and in-kind" mitigation to a more inclusive "watershed approach". Vickerman, however, pointed out that she liked the regulation but would have liked to see it approach the issue of multiple ecological values –bundling and stacking—in a more considered and consistent way.

Howard then asked the panelists if –now that the draft rules were out and were generally to the liking of the industry—the focus of lobbying should shift towards channeling more government money towards the Army Corps of Engineers to allow them to meet the challenges posed by the regulations. Platt responded by saying that, in fact, some of the money needed to achieve the goals of the regulations could come from the industry itself in the form of increased "fees" for the registration process. "I don't think," he said, "that anyone is against the idea of paying more in fees to these services."

George "McGeorge" Howard (r) is joined by part of his panel, George Platt (l), and Ron Abrant, together with a mysterious (possibly totemic?) stuffed animal

The discussion then shifted to a look at what the rules say regarding in-lieu fee (ILF) providers of wetland mitigation. Again, as could have been predicted, the banker on the panel said getting rid of ILF was a good thing, though Shabman said it would have been good if the rule could have provided some clarity on the different kinds of mitigation that are out there, a concept that he says is still "nebulous".

Howard, however, was quick to point out that it seemed to him that the rule was still of "two minds" on ILFs, "condemning them to execution" but then setting up an "appeals process" which might allow them to continue existing. Platt responded by saying that "in the end, the real issue is local politics" and that there appeared to be a situation where local counties were requiring that mitigation take place in the same counties (not in the same watersheds as the law intends) as the wetland impacts. This, he said, could become a problem for the industry in the long-run.

The discussion then shifted to perspectives on a recent paper published by two academics, J.B. Ruhl and J. Salzman, which argued that mitigation appeared to be encouraging the migration of wetlands from urban to rural areas. On this issue, Shabman jumped right in, arguing that the paper was misconceived, that it was taking "too myopic" a view of the regulatory environment faced by developers, and that, in his view, wetlands provide a host of services, some of which can be transferred far across the landscape, and some of which can't. Howard then asked why this paper looked only at private, for-profit banks, and not at permitee-responsible mitigation or at in-lieu fees. "Go do a study on permitee-responsible mitigation," he admonished the academics.

Vickerman and Howard then turned the conversation over to a discussion of how and whether mitigation banking and the U.S. government's Wetland Reserve Program (WRP) might interact. Vickerman pointed out that there had been some discussion at one of the workshops that if mitigation banking was working as it should, perhaps the WRP program wouldn't be necessary. She said that in her mind this was not a fruitful discussion, since it did not have to be "one or the other" and that both approaches were needed. Knight, however, went on to add that the "real discussion needs to be whether or not there are parts of the country where mitigation banking is so vibrant that WRP shouldn't go there, but should rather take its money elsewhere." He said that, in his view, some good discussions between his agency and bankers could lead to a better use of money and a situation where the bankers and the government worked hand-in-hand instead of competing.

Finally, the panel ended with a brief look to the future of conservation and mitigation banking, when Howard mentioned the Ecosystem Marketplace, saying that the information service appeared to be advocating the advent of "secondary markets" in some ecosystem services, and asked whether the panelists thought we would ever get to such a future. Platt kicked off the discussion saying that, as far as he was concerned, he didn't want wetland credits to be totally fungible because then they might be considered traditional securities and therefore "regulated differently." "Besides," he added, "these things are very project and site-specific" and he wasn't sure we'd ever get to a point where they could be traded like standard commodities.

Shabman agreed, saying that "we barely have a primary market in these things, so it is hard to imagine a future where they have secondary markets." He noted that the lack of liquidity in these markets would forever make it difficult for them to truly have secondary markets. Knight said he had a different perspective. He said that while some environmental markets would, indeed, be local (and high-value), we were nevertheless beginning to see the development of large environmental markets, like carbon, where secondary markets are, indeed, emerging. Some water quality trading schemes, he added, would be in big watersheds and therefore would look more like commodities (and possibly have secondary markets). He basically urged panelists not to totally discount the idea that some of these markets could become larger than many people realize.

Howard commented that part of the issue is that there is "no natural market for wetlands", and that "no one wakes up in the in the morning wanting a bowl of wetlands." Here again, Knight begged to differ, he said there can be, and often is, a natural market for wetlands, citing the example of his home state of South Dakota where prairie pothole land has become more valuable than the best farmland thanks largely to the recreational and hunting opportunities available on these wetlands.

Here the discussion was cut short due to lack of time with Howard urging participants to continue watching this vibrant and growing industry, and thanking all of the conference organizers.

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Sessions VII and VIII

Long-term Management & Challenges

7. Long-term Management

How to ensure the long-term success of a mitigation bank? That was the focus of Session Seven. Palmer Hough, of the U.S. EPA, introduced three components to address this topic: the varied circumstances of bankruptcy, robust endowment creation, and collaboration.

Royal Gardner, Director of the Institute for Biodiversity Law and Policy at Stetson University, presented several examples of mitigation bank bankruptcies. The circumstances of these bankruptcies varied from a simple lack of endowment to a combination of an under-funded endowment, poor investment performance, and drawing from the endowment for overhead costs.

Gardner pointed out that bankruptcy doesn't necessarily mean the demise of the bank, depending largely on how the financial guarantees are structured. Even if the owner goes out of business, he said, if the creditor is a separate institution and still in good standing, the bank may be transferred to a new owner.

Stuart Haney, President of Sageworth, a Virginia company, made several points regarding endowment creation and maintenance. His rule of thumb for estimating the necessary size of an endowment was 20x the planned maintenance costs for the first year. So, he explained, if you have $50,000 in first-year maintenance costs you should plan to have a $1m endowment. Haney went on to explain that in many cases endowments fail because of timid investment management. He has seen too many endowments holding back on stock investments because of their perceived risk, while getting sucked dry by inflation.

Haney suggests investing broadly to manage risk and beat inflation. He emphasized "rebalancing" as a counter-intuitive but crucial technique. This means, he said, taking money out of stocks that are doing well and investing in stocks in a section of your portfolio whose price has plummeted. Buy low and sell high, he said.

Perhaps Haney's most interesting suggestion, however, was that mitigation bankers should consider pooling their endowment funds. This technique, he said, has proved critical in ensuring the success of the endowments of certain educational institutions he works with.

Greg DeYoung, a partner with Environmental Business Partners wrapped up the session by emphasizing the benefits of collaboration, specifically with land trusts. DeYoung detailed several example of non-profit organizations with competencies helpful to bankers. For example, he said, CSU Chico Research Foundation has provided research and management assistance, while the Center for Natural Lands Management, has produced a piece of software, known as "PAR", which has proved to be of much utility to bank planning.

VIII. The Mitigation Blues?

It was a surreal scene at Session 8 of the 9th National Mitigation and Conservation Banking conference on April 27th, 2006. Participants settled into their chairs promptly at 8:30 AM that Thursday morning expecting to hear a series of presentations on "Unique Challenges and Opportunities for Banking"; some talks, some PowerPoint presentations, and perhaps an opportunity to ask a question or two. Instead, music began blaring over the loudspeakers. The music was familiar… could it be… yes, it was… from the movie "The Blues Brothers". Sure enough, shortly thereafter, there they were, dressed in their signature black suits, white shirts, black ties, dark sunglasses, and fedora hats.

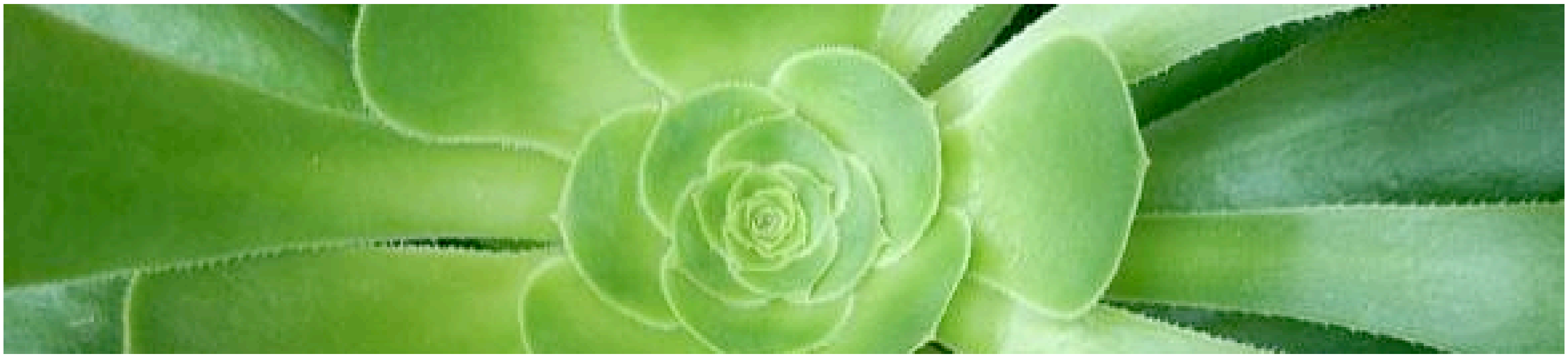
No, it wasn't Dan Aykroyd and John Belushi –though the resemblance was remarkable—but rather it was their mitigation banking equivalent, the two other Chicago boys more commonly known as Dave Urban and John Ryan, both from Land and Water Resources Trust, a mitigation banking company in Chicago. True to form, Dave "Elwood" Urban took the microphone while John "Belushi" Ryan stood, arms crossed, behind him, not saying a word.

As the music ended, Urban began his presentation, telling the story of how wetland mitigation for the Chicago airport, O'Hare, had been mishandled over the past two years. The story, he said, began in April 2004 when the city of Chicago requested proposals from mitigation providers for the mitigation of an expansion at the city's airport. By July of 2004, five companies came forward with 12 proposed sites for that mitigation. Then, in January of 2005, the city notified the providers that 6 sites were acceptable for mitigation. That same month, the Chicago District of the U.S. Army Corps of Engineers, a local organization called CorLands, and the City met to discuss the possibility of an in-lieu-fee to provide the airport's mitigation.

Shortly thereafter, in March of 2005, one of the companies involved, Wetlands Mitigation of Illinois (WMI) decided to remove the largest sites from their proposal and informed the city that they would be submitting a substitute. Then, in April of 2005, the Chicago district of the Corps sent a letter to the City of Chicago suggesting the use of an in-lieu fee mechanism for the mitigation of O'Hare and proposing CorLands as the administrator. That same month, Land and Water Resources sent a letter to the Corps' Chicago district saying they should follow in-lieu fee guidance. Despite this, in May of 2005 the City of Chicago developed a justification for "non-compete" using CorLands as the mitigation provider. By August of 2005, the Corps, CorLands, and other agencies had come up with a draft in-lieu fee agreement. Then, in December of 2005 the Corps issued the permit using CorLands as the in-lieu fee provider for O'Hare's mitigation, with 100% release of the credits, and 100% release of liability for the City of Chicago, all while 0% of mitigation sites had been identified. In return, CorLands was paid $26 million dollars for mitigation. Finally, in April of 2006, CorLands issued an RFP for mitigation sites for O'Hare.

Since there are legal proceedings in progress on this issue, Urban was prohibited from going into details on this story, but he did end his presentation asking "What is wrong with this picture?", when, after two years of activity and discussions, the O'Hare expansion is actively impacting 153 acres of wetlands, and that, while 280 acres of mitigation is legally required, there have so far been no acres of mitigation undertaken. Meanwhile, $26 million has been transferred to CorLands, money on which they are presumably earning interest. He likewise pointed out that, after two years of work and money changing hands, etc, the O'Hare mitigation is at the same point at which it was two years ago: an RFP issued for mitigation sites, with the same mitigation sites likely to be put forward, only this time the RFP was coming from CorLands and not the City of Chicago.

The ILF Blues Brothers act was followed by Gregory



Session IX

How to Measure Success in Banking?

IX. Tracking Progress

How do we define and measure mitigation banking success? What can historic market data tell us about regulatory and economic drivers? What tools can we rely on as we look to the future of mitigation banking? Thursday morning's session on "tracking progress" brought three experts to the table to address these questions. Moderated by Richard Mogensen, director of EarthMark's Mid-Atlantic Division, the panel shared their experiences with conference-goers.

The session's first speaker, Vicky Tauxe, has worked in permitting and compliance with the Florida Department of Environmental Protection since 1991. As environmental manager, Tauxe deals specifically with the state's wetland mitigation program, overseeing state permits and ensuring administrative compliance. She takes her job seriously; twice a year, she rounds up ledgers from Florida's 43 banks and critiques their performance. Addressing the group on Thursday, Tauxe explained how Florida's permitting process ups the ante: "The [Federal] rules cover a lot of basics and I think that [they're] a good guideline," she said, "but the permits are our contract to hold you to." And according to Tauxe, they are continually improving.

"We all define success a little differently," Tauxe reminded the audience, deconstructing her regulatory definition into two categories: ecological function and adequate offsetting. Focusing on ecological success, Tauxe explained how Florida's permitting rules emphasize a mitigation site's natural community type, hydrology, soil integrity, and long-term management. She stressed how on-the-ground monitoring is required to track a bank's progress. "I actually do compliance," she said. "I check every bank when I get a credit release…the banks that we've seen going well, have people on the ground, watching."

Morgan Robertson, ORISE fellow with the U.S. Environmental Protection Agency, brought the group back to numbers. "When economists talk about banking, there's a lot of theory and not a lot of data – let's start to fill in some of those gaps." Introduced by Mogensen as "one of the new faces in the regulatory world of banking," Robertson took off his regulator's hat to present his research on economic and regulatory shifts in two wetland banking markets, the Corps' Chicago District and the State of Minnesota. The subject of his research: Almost 200 transactions for 15 banks during a nine-year study period, 1994 to 2002. Interested in the before-and-after of the 2001 SWANCC (Solid Waste Agency of Northern Cook County) decision, Robertson walked his audience through a series of graphs that illustrated the findings of his research. Throughout, he provided hard and fast lessons learned from a changing regulatory climate: Price signals may be independent of demand; "Compensation should in fact be performance-based;" Spatial markets can fragment; Entrepreneurial demand can change; and "In an era of regulatory instability, flexibility is key."

Kelly Burks-Copes directed the audience to the future, sharing a unique new tool for mitigation banking. Burks-Copes, an ecologist who has worked with the U.S. Army Corps of Engineers for the past 13 years, explained the key benefits and features of RIBITS, The Regional Internet Bank Information Tracking System. Designed to manage and track each District's mitigation banks, the internet-based tool's main purpose is "to provide capability in a real-time setting," with a focus on the end-user. "I bring good news and glad tidings," Burks-Copes announced, "Everyone will have this." She then went on to explain how RIBITS had been tested in a few markets, and how it was now being designed to work across the US, providing real-time data on banking –both wetland banking and conservation banking—across the country. Such an extensive design and data-collection task, however, takes time, and Burks-Copes noted that RIBITS wouldn't be fully functional everywhere for some time.

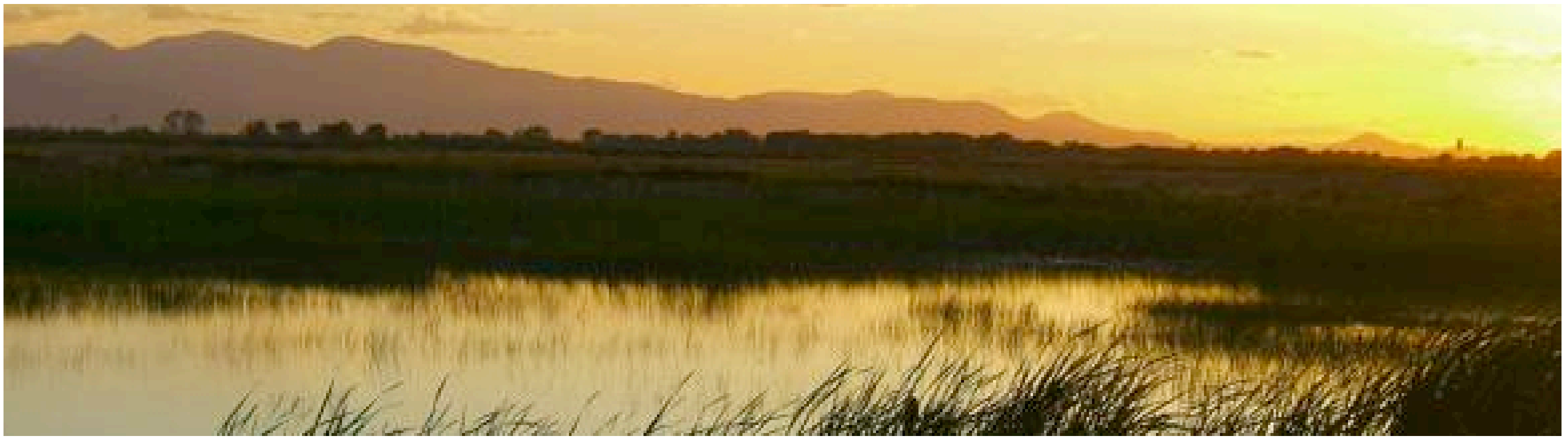
Johnson, Supervisor for Oversight & Evaluation at the U.S. Department of Agriculture's Natural Resources Conservation Service (NRCS) who talked about his agency's role in wetland protection. Johnson explained that through programs such as "Swampbuster", better known as the Wetlands Conservation Program, the Wetlands Reserve Program, and others, the NRCS was helping the agriculture sector go from being "a net source of wetland loss, to becoming a source of net gain."

He explained that this was consistent with the new strategic plan for NRCS, whereby market-based approaches to conservation –and working with mitigation bankers—were becoming central to the agency's work. He also said that in certain areas of the country (e.g. the prairie potholes), there might be an agricultural demand for mitigation. He further noted that certain mitigation banks in agricultural areas had come online and had actually sold-out, citing cases in Iowa, North Dakota, and other states.

Johnson then ended his presentation noting that one key issue to further bring the agricultural sector into these kinds of market-based approaches to conservation would be information, the development of common standards, and mechanisms to bring buyers and sellers together. Finally, he explained that discussions surrounding the upcoming Farm Bill have already made much mention of these kinds of markets and market-based approaches to conservation.

Johnson was followed by Robert Cleaves, Managing Partner at the Maine Wetlands Bank, LLC, who spoke about his experiences creating a wetland bank in Maine. Titling his talk "Wetlands Banking Lite: Tastes Great, Less Risky", he told the story of creating the first bank of its kind in Maine. He explained how his bank looked a lot like a brownfields rehabilitation project because the site they chose was actually in litigation, that the owner was required to remediate the site, but that the owner was insolvent, even though the land was actually on prime real-estate. So what Cleaves and his partners did was assume responsibility for the remediation of the site, at the same time that they got agreement from the Corps and the EPA that they could sub-divide the site, develop a portion of it, and sell the rest as a wetlands bank. He likened the process to selling and marketing standard land subdivisions.

He explained how easements had already been sold for the land, and that credits from his "Bank-lite" had already been sold to permit a local airport expansion. He ended his presentation noting that, although his property wasn't officially a bank, it was a lot like standard mitigation banks in that "we only do sites that we know can succeed, because our capital is on the line." He also pointed out that, although he was not yet a member, he was extremely grateful to the NMBA, because the association's work had made much of his projects possible. He ended by promising that he would be submitting his application for membership shortly.



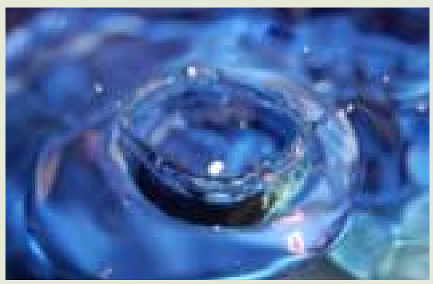
Session X

Of Fish and Practical Experience

X. Banking in the West

Thursday morning's look at banking in the west offered the audience a quick look at two different stages of a bank's lifecycle in the western United States. Howard Brown, a Sacramento-based NOAA Fisheries biologist, shed light on what goes into the site selection process for a new bank. Jay Lorenz a consultant for Frazier Creek Wetland Mitigation Bank just outside Portland then took the crowd through the hands-in-the-dirt phase of building a successful bank for wet prairie on a working farm.

A number of interesting ideas emerged from the session. Brown's presentation, for instance, was particularly intriguing because the banking site about which he spoke – Fremont Landing – is one of the candidates likely to become the nation's first conservation bank for migratory fish species such as Chinook salmon and Central Valley steelhead.



"It's all about water…getting your hydrology right is the key here."

With the aid of an aerial photograph of the proposed site - an old floodplain terrace at the confluence of the Feather River, Butte Creek, and the Sacramento River – Brown discussed the specific opportunities for restoration at Fremont Landing. He highlighted, in particular, plans to restore 7,000 linear feet of shoreline and 100-acres of floodplain habitat that would reconnect off channel rearing habitat with the Sacramento River.

The proposed Fremont Landing project was also interesting because it was designed as part of an umbrella bank that would link individual sites into a larger banking system, with each site tailoring restoration to the intended species. One of the major benefits of the umbrella approach, according to Brown, is that is allows for the broad distribution and habitat needs of a highly migratory species. From the perspective of the banker, umbrella banks can streamline the regulatory process, allowing them to move forward with the permitting process. "I think it is important to have a lot of things in your toolbox for restoring fish," said Brown, "and I think that mitigation banks can play a role in that."

Lorenz followed Brown with a practical discussion of how to implement the restoration process for a bank once a site has been selected and approved. Flipping through photographs of the Frazier Creek bank, he described the process of eliminating annual ryegrass to restore wet prairie. In particular, Lorenz stressed three lessons that have emerged from his experience with the restoration process.

1. "There's just no substitute to learning from the landowner."

2. "It's all about water…getting your hydrology right is the key here."

3. "One of the things that we have really realized is that...it's not the treatment per se, but it's the timing of it and the quantity of it."

Of the various treatments that had been used to try to eliminate the ryegrass, Lorenz said that flooding had been by far the most effective. "The areas that have been flooded have seen lots of volunteer native species come back," he said. Bankers in the audience took note of these results, leaving with just the kind of practical information for which many had come.

Ecosystem Marketplace
Mitigation Mail

Vol. 1, No. 2: March 28, 2006

From The Editors

The Ecosystem Marketplace's Mitigation Mail

Conservation and Wetland News You Can Bank On

We want to be the first to put the proposed regulations in your hands. The new rule, *Compensatory Mitigation for Loss of Aquatic Resources*, was announced yesterday by the U.S Environmental Protection Agency and U.S Army Corps of

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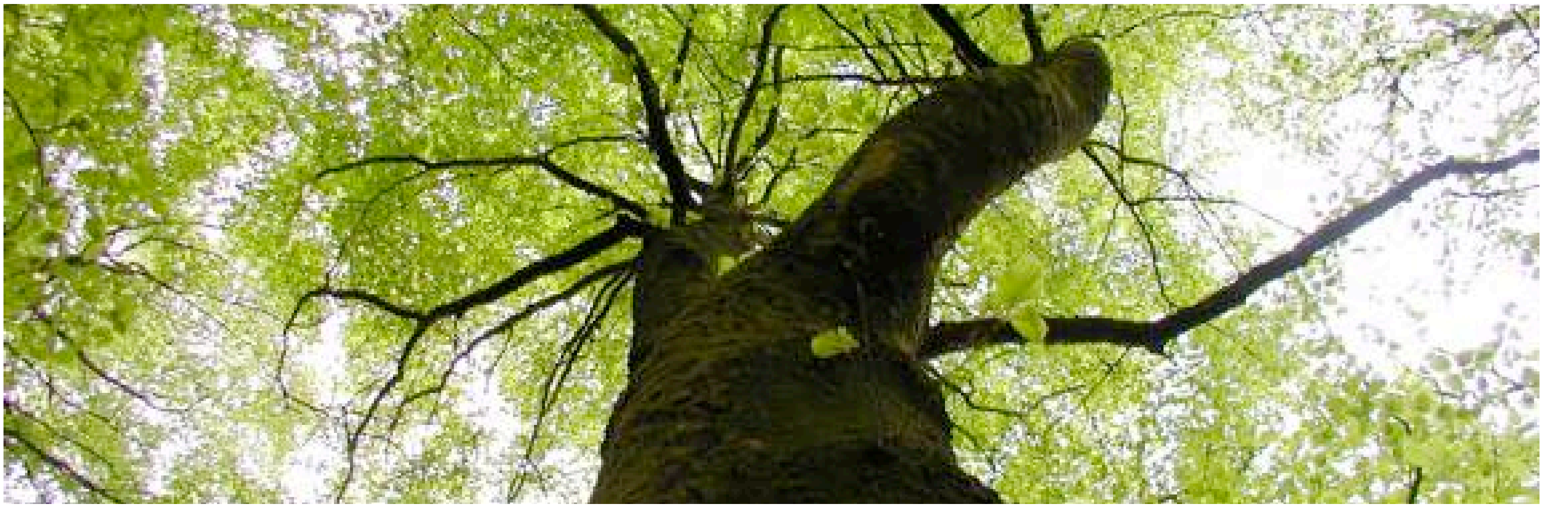

Guest Editorial: Valuable Ecosystems

By Adam Davis

In a Guest Editorial, Adam Davis, Strategic Advisor to the Ecosystem Marketplace, looks at the irony of how the growing scarcity of natural resources may actually make conservation profitable and ecosystems valuable.

It is worth paying attention to the new draft regulations governing impacts on wetlands and streams released for comment by the EPA and the Army Corps of Engineers recently. The real story here is not, however, the familiar refrain we've heard about the Bush administration trying to roll back environmental standards. In fact, the new regulations are far more likely to achieve the 'no net loss of wetlands' goal of the Clean Water Act than the current ones.

Did the Bush administration suddenly go green? Are they trying to win back some approval from the environmentalists in the electorate? Probably not; but the new standards do reflect the influence of a new private industry investing substantial capital in restoring wetlands and streams on private land. This new industry, known as mitigation banking, is offsetting environmental impacts that can't be avoided and reduced through the planning process by providing a way for transportation departments and developers to 'outsource' required restoration to companies whose only business is restoration.

Until now, projects that damaged wetlands and streams could get a permit by restoring similar aquatic resources on their own sites. These 'permittee responsible' projects, however, were not held to the same high standards as mitigation banks. Even worse, permits were issued in return for 'in lieu' payments – which may or may not have been used for something good, but no one was really keeping track.

Remember, the context for this whole part of the Clean Water Act is that about half of all the original wetlands in the United States were drained for agriculture and development until we realized that healthy wetlands are actually essential. It turns out it really isn't nice to fool with Mother Nature on this scale, and we are paying a big and growing price for draining millions of acres of land that absorbed flood waters, purified runoff and provided a place for ducks and other wildlife to live.

In fact, mitigation banking is part of a much larger global movement that is recognizing the financial value of protecting and restoring ecosystems. While we can continue to insist on regulation to avoid and minimize environmental impacts of all kinds, the fact of the matter is that being a modern citizen – living in a house, driving to work, using materials and energy of all kinds – has serious environmental ramifications. By creating a price signal for each unit of improvement, mitigation banking regulations reward investment, innovation and job creation in the service of the environment.

The entire well-worn storyline of the 'good environmentalists' against the 'bad business interests' is turned on its head when the business actually makes a profit from providing environmental solutions.

For the last 40 years or so, critical environmental legislation like the Clean Water Act, the Clean Air Act and the Endangered Species Act have protected us by protecting the ecosystems on which life depends. These laws all share one key flaw however, which is that they only tell us what not to do. They don't describe what we need to do in order to go about our daily business of producing and consuming while at the same time preserving our Earth's valuable resources.

The seemingly humble wetland and stream regulations issued on March 27 offer a clue. By requiring unavoidable impacts to be offset, an acre restored for an acre drained, and by enabling private investment in the restoration, we're seeing the true value of the ecosystem in financial terms. It used to cost nothing to impact and damage ecosystems, because they seemed infinite in relation to human needs and human numbers. Now that there are 296 million of us here in the U.S., ecosystems are increasingly scarce and therefore increasingly valuable.

An entire ecosystem marketplace has developed to recognize and capture this growing value–just type those words into Google if you doubt it! Businesses are innovating and people are getting paid real money for taking CO2 out of the atmosphere and fighting global warming, for reducing smog and water pollution, and yes, for restoring wetlands. It's completely ironic, of course, but the real environmental story of the Bush years may be that the scarcity caused by the damage we've wrought actually contains the seed of a solution.

Adam Davis is President of Solano Partners Inc. and serves as strategic advisor to the Ecosystem Marketplace

Thanks! (See you Next Year)

The Ecosystem Marketplace and our Coverage of the 9th National Mitigation and Conservation Banking Conference is made Possible through the generous contributions of our sponsors. We thank them for their support:

About the Ecosystem Marketplace

The Ecosystem Marketplace seeks to become the world's leading source of information on markets and payment schemes for ecosystem services; services such as water quality, carbon sequestration and biodiversity. We believe that by providing solid and trustworthy information on prices, regulation, science, and other market-relevant issues, markets for ecosystem services will one day become a fundamental part of our economic and environmental system, helping give value to environmental services and thereby helping conserve them.

Staff

Michael Jenkins — Publisher
Ricardo Bayon — Director
rbayon@ecosystemmarketplace.com
Amanda Hawn — Editor
ahawn@ecosystemmarketplace.com
Nathaniel Carroll — Program Manager
ncarrol@ecosystemmarketplace.com
Beth Egan— Contributor

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