Financialisation of water: what is it all about?

In the past few years, mechanisms aimed to transform fundamental natural components of commons (biodiversity, land, water, forests and their ecological functions, etc…) into tradable financial assets have been expanding rapidly. A growing number of civil society groups therefore strongly engage in trying to unveil the mechanisms, logics and motivations behind the financialization process(es) and what they might mean for communities. In order to revert this trend which jeopardizes the life of millions of people all over the world, it is key to identify driving forces and leading actors.

The process of “financialisation of the economy”, where trading money, risks and the financial products engineered on their basis became more profitable and started outpacing trading goods and services for capital accumulation, has penetrated all commodity markets. But more than that: their reach has expanded from areas like social reproductive systems (pensions, health, education, housing) into nature’s commons. In this framework, the financialisation of the natural commons creates new “assets”, which can be appropriated and from which financial investors can extract profit, either directly or through creating other possibilities for trading and speculation on financial markets.

When it comes to trying to understand the mechanisms and implications of the financialisation of “water”, we have to consider that we are referring to a vital substance on which life as a whole depends. Depending on the interest pursued, the same water might be classified by different interests as: a common (shared for the benefit of all and detriment of no-one), a public good (society as a whole benefits from a safe public water supply), a private good (i.e. consumption of bottled water), an economic good (important to people but scarce in relation to its demand), a merit good (consumption depends on households' capacity to pay for it), or a welfare good (access to safe water as a contribution to public health).

To what extent can we claim that the natural common water is financialised?

It is important to ask, which new attempts of commodification and marketization of the “commodity” water have been advanced so far as possible building blocks for financialisation to unfold, and what implications will this have for our organising to revert this trend?

While other commodity markets are much further advanced than the water market, it is considered to have a great potential. In 2011 the financial analyst James E. McWhinney wrote “*water may turn out to be the biggest commodity story of the 21st century […] Why the interest in water? Like gold and oil, water is a commodity – and it happens to be rather scarce […] there are currently numerous ways to add water exposure to your portfolio - most simply require a bit of research*” (1).

In other words, the reason behind financial companies’ investments in water is linked to the idea that a predictable scarcity will put a price premium on water providers. Pressure for control over water, and thus, water rights, is likely to grow in the near future. As a matter of fact, “water trading” has already been introduced in some places where water rights have been created and water markets are already in place. This is the case for some countries, such as Australia, South Africa, western United States, Costa Rica, Spain and, above all Chile.

According to Reuters, China is also about to start a pilot project of water trading. "*China has picked seven provinces to host pilot markets for trade in water rights, as the government battles a spreading water crisis that threatens to curtail economic growth and hinder food production. The move is the latest sign that China aims to use market-based mechanisms to handle growing environmental problems. It has already launched seven pilot markets to cut emissions of climate-changing greenhouse gases, and plans to roll out a national scheme later in the decade*" (2). Meanwhile in Europe, the European Commission's "*Blue Print to safeguard Europe's water resource*s" (2012), suggests that water trading could be included as a tool to manage water (3).

The existence of water markets doesn't lead immediately to the financialisation of water. However, water markets facilitate the creation of new asset classes that can be traded without any evidence that this would contribute to better allocation or management of water.

The worrying example of Chile

A possible transition from commodification to financialisation can be observed in Chile, where the most neoliberal system in Latin America has led to very developed model of financialisation of water, where water is fully regulated by the market and the State plays a mere administrative role.

As Jessica Budds wrote in 2009, "*Chile operates a unique system of private tradable water rights. Under the 1981 Water Code, existing water rights (the entitlement to use a certain flow of water under specified conditions) were converted into private property and regulated through economic and market mechanisms*" (4).

The 1981 Water Code was approved by Augusto Pinochet's military regime, within a neoliberal framework based on property rights and market principles. The law, still in force, handed the control of hydric resources to the private sector, free of charge and for an unlimited period of time. Its economic and market features were designed to consider water as a commodity like any other, which entailed separating it from land and territory where it flows. As a consequence, landowners do not automatically own the rights over the water on their land and, therefore, water rights –for all surface and groundwater resources - can be traded separately from the land (5). The imperative is that water can only be used by who owns the corresponding water rights. The Water Code demolished the existing institutional structure and stimulated the creation of a parallel water rights' market, permitting a free and permanent allocation without restriction of volumes that could preclude its concentration in a few hands.

In 1992, former Chilean president Patricio Aylwin proposed to the Congress a bill to limit water rights' concessions and previewed their restitution to the State where title holders didn't use them. The Congress needed 13 years to reach an agreement. The law 20.017 modified the Water Code but the water rights' restitution to the State was considered a "socialist recipe" and was replaced by a "penalty for non-use".

This unusual act implied two paradoxes. On the one side, for the first time those holders of water rights who didn't use water had to pay more than those who consumed it. The "penalty for non-use" forced water rights' holders to use water, and it created the conditions for making the wasting of it more convenient than its preservation and avoidance of misuse. On the other side, the reform allowed a further concentration of water rights in few hands.

According to a research published by the Economic Commission for Latin America and Caribbean (CEPAL), in central Chilean regions like Valparaiso and Coquimbo, the selling price of water rights can be up to 22 times higher than the fine for not using it. As a consequence, a lot of water rights holders prefer to pay the penalty to keep water rights until their price rises, and therefore, gaining more money later on.

This system has nothing to do with trading real quantities of commodified water for agriculture or urban services. Rather, it is a financialised market where water rights are sold and bought with the only purpose of accumulating profit. In times of water scarcity or when its demand rises because of, for example, the expansion of industrial mining activities, those rights acquire more value so that the opportunities to profit in the financial markets increase. The impact of this process is absolutely real: the price of water is one of the highest in Latin America, many rural and urban people lack access to water, and water rights holders are increasing their political and economic power, which enables social control.

Implications

The implications of both commodification and financialisation of water for local communities and the environment are real, very real. Finding out where they differ and where financialisation of water hides, and how it relates with the larger transformation of nature into profitable financial assets, has considerable importance in terms of organizing and support communities struggling with the consequences. Understanding these processes is also important for understanding how we can contribute to reverting them.

Water is increasingly being financialised through the creation of asset classes based upon the commodity “water” (as in the case of carbon, forests, oil, food etc.). This process is closely linked to the logic that is allowing the generation of new “virtual” commodities through “offsetting mechanisms” that are based on the control of territories to a larger extent. This opens up an almost unlimited horizon for potential financial profit and therefore, this calls upon civil society organizations acting in solidarity with impacted communities worldwide to re-think traditional campaigning and advocacy methods.

In this wider framework, nature in its entirety is at stake. And the “offsetting mechanisms”, trading “ecosystem services”, the principle of “natural capital”, the “green bonds”, the “conservation credits”, the “biodiversity banks” and all the related mechanisms and facilities which are based on the idea of putting a price on specific elements or functions of nature are becoming real challenges. These are coupled with the perverse logic and the policy frameworks that are being developed to facilitate the appropriation of nature and territories by today’s financial capital. Unveiling the logic explains why these mechanisms must be rejected, plain and simple.

From this changing scenario, new questions arise, which might be useful to try to collectively address: what does this shift imply for communities? To what extent does this scenario represent an opportunity for alliance building to oppose and revert the financialization process? Confronted with this new complexity, how do we effectively identify the targets of our actions? Who do these new logics and mechanisms really benefit? How do we effectively confront them?

These questions are urgent to address, as they are key to advancing the critiques of the wider “financialisation of nature”. And by answering these questions we can slowly identify, together with those impacted, the possible strategies to reverse this devastating trend.

Further reading: "Financialization of Water", Re:Common, 2014,

http://www.recommon.org/eng/financialization-of-water-meeting/

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2. China to roll out seven pilot markets for trading water rights, Reuters, 24th of July 2014, http://www.reuters.com/article/2014/07/24/china-water-environment-idUSL4N0PZ2DJ20140724
3. http://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:52012DC0673
4. Budds, Contested H2O*:* Science, policy and politics in water resources management in Chile, Elsevier, 2009.
5. See further on the Chile Water Code at: J.Budds, Contested H2O: Science, policy and politics in water resources management in Chile, Elsevier, 2009.