

## Trading Water Rights

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For years, water has been a heavily subsidized commodity. In the United States, for instance, farmers in desert regions of California have received water at unrealistically low prices for decades. A small number of these farmers, in fact, have controlled as much as 80 percent of the state's water supply. This pattern of subsidized water use has been repeated in countries worldwide.

But now, a new economics of water is sweeping the world. For the first time, governments and people are realizing that water itself is a commodity with a real market value.

For this reason, the largest water agency in the U.S. has begun trading water rights electronically, creating the first true market for buying and selling water. Conservationists, who are right to believe that too often the value of natural resources is under-represented, support this market trend. Business people, of course, welcome a market. Part of the value of this market approach is that farming will be placed in a realistic position in a global economy with improvements in the efficiencies of water use and production. Higher water prices lead to less wasteful irrigation and better water. Areas that could use their water for higher value purposes will realize the wisdom of importing food grown elsewhere.

The emergence of water markets and electronic trading, supported by "green" economists and traditional business people alike, suggests major changes as we all seek to reach an environmentally sustainable global economy. Concern for the environment has moved from a "me too" response for many, to an informed discussion of issues, policies, market principles, and their underlying values.

Part of this discussion has centered on the best way of delivering water and wastewater services: Through traditional public utilities? Privately owned facilities? Or a blending of the two? At the Paris Conference on Water and Sustainable Development in 1999, several ministers and delegates argued that water, "as a valuable and increasingly rare commodity, could be best managed only with the aid of the financial and technical resources of the private sector," World Water and Environmental Engineering magazine reported.

Others debated that view, arguing that rural residents are unlikely to be connected to modern distribution systems because private companies see rural projects as inherently unprofitable. Water, they said, is a social good; water rates should never be raised with the sole intention of meeting investment costs.

The issues of private versus public are obviously complex, with dozens of conflicting views and hundreds of players.

In the U.S., the water industry has been called "America's Last Great Monopoly." The two big monopolies preceding it — electricity and telecommunications—have become among the most dynamic business areas in America. They demonstrate, as the Economist magazine said, "that when deregulation and innovation come together, the results can be startling. "

Deregulation and innovation are certainly afoot in the water industry. The convergence of these two trends will forge a new water industry. And whether it is public, private, or a blend, it will operate under new and dynamic economic rules. Look at the headlines you've seen lately about telecommunications and electric power across the globe—and imagine that same level of activity reaching the water industry.

In fact, since water is more essential to life than either electricity or telecommunications, the impact may be even greater. If you think that that is an exaggeration, consider that the United Nations has identified 70 areas of water-related friction stretching from the Near East to West Africa, the drylands of Latin America and the Indian sub-continent. And Frederico Mayor, director of UNESCO, noted recently, "that in the near future, water is considerably more likely to cause bitter conflicts than either gasoline or land. "

In America, most of the public and the media still think of water and wastewater companies as small enterprises—or sleepy public utilities. But we are about to find out how dynamic the water business really can be. Do you realize that Vivendi, the diversified French water utility company, not only owns water plants

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throughout the world, but publishing firms, television networks and major phone companies? Vivendi, in fact, has 220,000 employees worldwide and revenues surpassing \$35 billion. That includes a growing business in the U.S.: The company's sales here total \$2 billion. It operates water and waste-water facilities for 8 million Americans in 35 states. Have you ever heard of Vivendi?

Well, in the years ahead, I suspect you will know the name Vivendi—and a dozen other big water industry players. They will be as familiar as Sprint or Northern Telecom are in telecommunications, or Southern Company and Enron are in electric power. To be sure, "America's last monopoly" is about to enter a time of remarkable change.

Perhaps that's why National Geographic Magazine—in a special supplement on water—concluded, "As you add them up, the many scenes begin to tell a single story. They tell us that a change is coming—a fundamental change in the way we use, see, and think about water."