

# WATER PRICING

Seizing a Public Policy Dilemma by the Horns

CANADIAN  
WATER POLICY  
BACKGROUND

SEPTEMBER 2011

## Water as a Policy Issue & the Water Pricing Project

### Background

Ensuring that Canada's water resources are well-managed and that our water use patterns are sustainable are critical to the nation's environmental and economic well-being. Canada's environmental integrity and economic vitality are closely linked to the quality and quantity of Canada's water supply. Water is essential for life, essential for the environment and essential for economic activities such as manufacturing, energy production and agriculture.

Across the country, there is a growing recognition of the immense value of water fuelled by concerns over potentially shrinking supply, growing demand and threats to water quality. This has led to an increased focus in the policy community on market-based mechanisms—specifically pricing—for effective water management and allocation. Attaching a price to, or charge for, water is seen by many as a powerful means to encourage conservation, reduce waste, limit demand and more efficiently allocate water resources among sectors of the economy.

### International Trends

Many countries have shifted their thinking on water resources management and are introducing market-based mechanisms. The water supply in many of these nations—Australia, Mexico and members of the European Union to name just a few—is strained. The result is growing competition for water among the agricultural, industrial and residential sectors. In response, the popularity of market-based mechanisms has increased. Multilateral organizations such as the World Bank, the Organisation for Economic Co-operation and Development and the United Nations are all coming on board.

Diminishing water supply and over use of water resources are not issues contained by political borders. The majority of major river basins in Canada are shared between provinces or territories and Canada's largest source of freshwater—the Great Lakes—is shared with the US. What happens in one watershed may have implications for another. Learning how to address these challenges now will be valuable if water supplies come under greater strain in the future.

### The Canadian Response

Compared to many other nations, Canada enjoys a relative abundance of safe and clean water. This is perhaps one reason why Canada has yet to enthusiastically embrace the larger movement toward water pricing. But there is a consensus slowly emerging that such a direction should be seriously considered and the policy arena is shifting in that direction. Spearheaded by provincial and local governments rather than the federal government, some regions of the country such as southern Alberta, Ontario and Quebec are moving to implement pricing strategies as well as other market-based mechanisms such as the trading of water use licenses. Such policy shifts are proactive and anticipatory of potential future water supply challenges.

Ensuring that Canada's water is effectively managed will help prepare Canada to effectively deal with future international conflicts over water. In the coming years, it is possible that water will become a defining international policy issue. As a respected member of the international community, Canada is not cocooned from global water challenges. Water shortages around the world are increasing, and this is a challenge that is unlikely to disappear. Nations with growing populations and economies, but insufficient water resources, are almost certain to look at water-abundant nations for water in the future.

Bulk water exports are not likely to become commonplace in the short-term. Transporting water is extremely expensive and the legal implications of exports are still foggy. But, the door will certainly be opened to even more intense debate in

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Canada on whether water should be considered and treated as a commodity, particularly if market-based mechanisms come to play a larger role in water resources management and if water itself somehow becomes subject to trade regulations under agreements such as the North American Free Trade Agreement.

Despite a loose consensus on the nature of many Canadian water challenges, there is much less consensus on the role that pricing could or should play in the creation of policy solutions. If effective water pricing policies are implemented in Canada, they must be carefully implemented. While pricing can help change consumption patterns and stimulate conservation, it can be a complex undertaking. In addition to addressing numerous policy landmines and confronting the difficulties associated with changing the status quo, there is the need to find effective price points that can change consumptive behaviour while still ensuring economic productivity.

## The Water Pricing Project

The *Water Pricing: Seizing a Public Policy Dilemma by the Horns* project rests on a handful of assumptions. First, the allocation of water—an increasingly scarce resource—will be one of the most difficult policy challenges in the years ahead. Second, part of the solution can come through the application of pricing to encourage conservation, reduce demand and stimulate more optimal economic allocation across users. Third, charging for water use is not without its difficulties. If pricing is to be implemented in Canada, it must be done cautiously and with due consideration to finding effective price points that can change consumptive behaviour while not undermining goals such as economic competitiveness. Any introduction of pricing mechanisms must consider how they can be designed to address social equity and the provision of ecological goods and services. Fourth, the Canadian policy arena is not sufficiently primed for this debate as it has tended to evade rather than confront pricing mechanisms and the design features needed to build political support.

The goal of the *Water Pricing: Seizing a Public Policy Dilemma by the Horns* project is to explore the current state of water pricing in Canada and take a closer look at water pricing in the Canadian context. Although Canada is not facing a national water crisis, some parts of the country are beginning to experience water challenges. Strains on water supply can

impact both regional economies and the Canadian economy as a whole. Examining this issue is critical to ensuring that Canada's water policy is proactive rather than reactive.

The results of the project are summarized in a series of backgrounders and two reports:

### Backgrounders

The *Canadian Water Policy Backgrounders* are short documents providing basic information on Canada's water resources. The series seeks to inform the debate over water pricing and set the stage for a consideration of pricing as a water resources management tool tailored to Canada's unique waterscape. Titles in the series include:

- Canada's Waterscape in Context
- Water Use in Canada
- Water Management and Allocation in Canada
- Summary of Recent Canadian Research on Water Pricing
- Water Pricing
- Water Pricing Policy in Canada
- Water, Water Use and Water Pricing Around the World
- Water Pricing Approaches in the UK, Israel and Australia

### *Charging for Water Use in Canada: A Workbook of the Central Principles, Key Questions and Initial Steps*

In late 2010, the Canada West Foundation drafted a discussion paper on charging for water use in Canada. The discussion paper was sent to a group of water policy experts from Australia, Canada and the US. *Charging for Water Use in Canada* describes where there was general consensus among the experts and outlines the key questions policymakers need to answer.

### *Our Water and NAFTA: Implications of Market-Based Instruments for Water Resources Management*

Some have suggested that the use of market-based mechanisms for water in Canada is risky because it might trigger an obligation to export water under NAFTA. This paper examines this issue.

For more information and to access the Canada West Foundation's water policy research visit: [www.cwf.ca](http://www.cwf.ca)