Wall Street's Water Grab

As water supplies reach historic lows in the American West, causing cities like Phoenix to pause new housing construction,[1] Wall Street and other investors are scrambling to grab up dwindling water supplies. These profiteers use a variety of strategies. Some private investors plan to stockpile water from the Colorado River and other sources in wet years and sell it for a profit in dry years.[2] Others are buying up small farms to access underlying water rights. The drought profiteers include Wall Street investment firms as well as some of the world's largest investment banks, pension funds, and insurance companies.[3]

Like the privatization of water infrastructure,[4] the increasing profiteering of water resources poses significant threats to environmental and public health. It encourages deeper drilling and over-pumping of groundwater and can leave low-income rural and farming communities without freshwater supplies.[5] In order to ensure public access to clean and safe water, we must ban speculation and profiteering on water in all forms and invest in public water infrastructure.[6]

Drought Profiteers and Climate Change – a Disastrous Duo

Climate change is spurring a new wave of water profiteers, particularly in the Western United States where states authorize private entities to own rights, or claims, to use public water resources.[7] In a water market, water claims allow the claim owner to trade, lease or sell water to another party as well as make withdrawals and consume water from a specific source.[8] Water claim laws in the U.S. differ from state to state due to variation in water availability.[9] However, regardless of the legal system, the private holding and profiting off of water and its infrastructure often lead to poor environmental and health outcomes for the general public.

Hoarding these claims to water and its infrastructure are unfortunately nothing new, but alongside climate change, they present significant problems. Following years of historic drought in the American West intensified by climate change, water scarcity is increasing the value of water claims in states with dwindling water supplies.[10] Arizona has experienced 10 percent increases in water claims values each year from 2005 to 2018 due to water scarcity.[11]

While drought profiteers cite climate change as a reason to create water markets, which allow the sale or lease of water claims to the highest bidder, in reality these markets provide a tool to profit off of the water shortages that are a product of climate change.[12] Wall Street's water profiteering contributes to attacks on the human right to clean water, which are exacerbated by climate change, as well as fossil fuels, plastics, and other corporate pollution of water and the environment.[13]

info@fwwatch.org
202.683.2500 (DC)
510.922.0720 (CA)
foodandwaterwatch.org

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Top Three Threats of Water Markets

As these markets open up and Wall Street and other large investment firms move in, the already stressed water supplies are at even greater risk of misuse, all in the name of short-term profit. Here are the three key threats of water markets:

1. **Water hoarding**. First, water markets can lead to a water grab and water hoarding, where claims holders and potential buyers can buy up water claims to effectively speculate on the price of water at the expense of nearby residents and the environment.[14] Water hoarding decreases water availability and increases the price of water in areas already experiencing water shortages and even shutoffs, causing residents to fend for themselves when it comes to obtaining water.[15] Unfortunately, speculation on water is becoming more common. In December 2020, the Chicago Mercantile Exchange opened the world's first water futures market, which leaves water supplies vulnerable to market manipulation and excessive speculation and could increase water prices for everyone.[16] With water rates increasing by nearly 400 percent over a 20-year period in some Western states, it is no surprise that drought profiteers from Wall Street and beyond are swarming.[17]

2. **Price gouging**. Second, markets and water hoarding can drive up the price of water. Private water markets significantly increase water bills for consumers while encouraging unsustainable water use practices and deteriorating water quality.[18] In the U.S., private water markets are associated with higher water prices and less affordability for low-income households.[19] Abroad, Chile's water market caused many poor farmers to lose access to water due to insufficient funds, while wealthy farmers increased their water claims.[20]

3. **Misuse of supplies**. Third, the markets allocate water to the highest bidder – not to the highest public value for people and the planet. This incentivizes a race to the bottom for the environment, where water claim owners drill deeper wells and over-pump groundwater resources, drying out shallower wells of neighbors that cannot afford deeper wells and causing subsidence (land sinking).[21] Australia's water markets failed to provide sufficient water to maintain river and wetland health, as the river and surrounding environment were not acknowledged as water claim holders in the market setting.[22] Similar environmental degradation occurred following Chile's adoption of a water market.[23]

In the American West, markets are diverting water away from river ecosystems and small farms in order to supply new housing developments and golf courses in the middle of the desert.[24] In California, large farming operations are depleting groundwater reserves to grow high-value crops such as almonds, pistachios, and walnuts, leaving surrounding communities with dry wells and relying on bottled water.[25] In Arizona, poor rural communities are also feeling the impact, where a deal dubbed "Robin Hood in reverse" is moving already-insufficient water resources from rural areas to Phoenix suburbs.[26]

Wall Street's New Role in Water

Wall Street's entry into water markets is a new cause for alarm both in the short and long term, due to the large funds and unapologetic profit motive that investors bring to water markets. Some of the world's largest investment banks, such as Bank of America, TIAA, and UBS, are getting in on the action with investments of hundreds of millions of dollars.[27] These large investors are buying up farms and other lands in the American West with water claims.

Investors may plan to profit from water claims by supposedly making farms more efficient in their use of water and selling off excess water to other farms, golf courses, and nearby cities — or abandoning farming altogether, hoarding water, and then selling it off in times of drought.[28] They stand to benefit from stockpiling water and its claims as the climate change-driven drought patterns continue to increase the value of scarce water resources. In order to access water, investors are engaging in highly unsustainable extraction processes such as "extensive exploratory drilling," where investors drill underground to find water reserves, and they are digging deeper wells to access groundwater that municipalities and smaller farmers would never have the funds to access.[29]

Deeper wells, matching the deep pockets of Wall Street investors, do significant harm to the environment through overextraction while stealing and exporting water from surrounding communities.[30] Some investors are aware that their unsustainable water pumping will need to be scaled back in the next decade; however, they expect to turn a profit before that day comes.[31]

Water Banking

Other practices that investors are hoping will turn a profit include building water banks — where they hoard water during wet years to sell it off at a premium in dry years — and purchasing land with water claims and then reselling the water claims when water becomes scarce and more valuable.[32] These actions, along with drilling and pumping, quickly turn into environmental justice issues in the American West as water markets pit poor residents against Wall Street investors in a struggle for water they need to survive.[33]

Case Study: Cadiz

In California, intense drought has led some investors to dig wells reaching depths of 3,000 feet in order to reach ancient water reserves.[34] Cadiz, Inc. is one such company drilling for this "fossil water," or water that has been in the ground since the Ice Age.[35] These millennia-old water deposits, along with others, will never recover their capacity once pumped, leading to potentially serious environmental consequences above ground.[36] This includes land subsidence, or sinking land, which, augmented by historic drought, causes damage to roads, bridges, and pipelines.[37] This has caused some to call for these investors, who claim to farm the land, to pay a mining tax.[38]

Adding insult to injury, the executives of these companies, in Wall Street fashion, are already making money off of these insidious plans. In 2020, despite losses of $37.8 million, executives at Cadiz, Inc. were paid salaries and bonuses well over $500,000, with additional stock options worth more than their salaries, highlighting the game that Wall Street is playing with precious water resources.[39]

Key Wall Street Players

A handful of investment firms are leading Wall Street's charge to hoard water claims and profit off of climate change-driven drought in the American West. Top investors include Water Asset Management, Greenstone, and Vidler Water Company. These three main drought profiteers that are focusing on dwindling Western water supplies have purchased land and water claims in states facing serious water stress such as Arizona, California, Colorado, Idaho, Nevada, and New Mexico.[40]

1. **Water Asset Management**, a New-York based private equity firm, has invested over $300 million in land with water claims. It now owns at least 3,000 acres of land in Western Colorado's Grand Valley, along with an additional 6,200 acres in Arizona owned by LLCs connected to Water Asset Management.[41]

2. **Greenstone**, a subsidiary of the financial conglomerate MassMutual, owns nearly 9,000 acres in Arizona.[42]

3. **Vidler Water Company,** a "private-sector water resource company," has purchased and sold tens of thousands of acres of land in the American West and hoarded and stored hundreds of thousands of acre-feet[a] of water since the late 1990s.[43]

In recent years, there have been a number of attempts to quantify the total amount of land and water that these drought profiteers are snatching up in water-stressed areas.[44] Unfortunately, these firms often buy land under different subsidiary names, obscuring the total amount of land and water claims they hold.[45] Further, due to shady financial regulation, the water owned by these investors is considered financial information, so the hedge funds are not required to disclose the amount of water they are hoarding.[46]

While total water holdings of these companies are indiscernible, as these investors snatch up more and more land and water claims they become the majority landowners of irrigable acres in districts and watersheds across the West.[47] This is cause for concern, as the more control these profiteers have within a local water supply, the more they can affect the price of water for nearby residents and farmers.

Conclusion

Wall Street's control of water must be stopped in order to ensure safe and reliable water supplies for all, while avoiding excessive environmental damage through profit-driven groundwater pumping and misallocation of water. All levels of government must protect water as a public trust resource that recognizes the human rights to water and sanitation and ensures strong water stewardship for the wellbeing of people and the planet.[48] This goes hand in hand with outlawing profiteering and speculation on water resources, and, at a minimum, requiring full disclosure and reporting of water assets held by private investment companies and their subsidiaries — as well as banning water-abusing practices like fossil fuel extraction and factory farms, which are driving climate change and water stress in the U.S. and across the world.[49] The federal government must invest in climate-resilient, affordable public water infrastructure through legislation such as the Water Affordability, Transparency, Equity, and Reliability (WATER) Act to help ensure safe and accessible water for all.

[a] An acre-foot is the volume of water needed to cover an acre of land in one foot of water — roughly 326,000 gallons.

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