

Environmental Tools:

Resource Allocation Trading

What is resource allocation trading?

Resource allocation trading is the buying and selling of natural resource entitlements or allocations issued by a regulated authority. Water allocation transfers are a good example of resource allocation trading. The trading mechanism provides regulated entities the flexibility to access resources from sites that don't need it, to ones that do, for higher value uses. The resulting economic benefit to natural resource users will have a positive effect on sustainability for natural resource extraction and utilization.

Where is resource allocation trading used?

Australia's Murray-Darling Basin: water allocation regime

The irrigation industry is the major user of freshwater in Australia, consuming between 70 and 80 per cent of all water used. Water trading was introduced in the early 1980s to address these concerns. The majority of the water trading has been temporary, within states, and along individual river valleys.

Alberta water transfers

Alberta's *Water Act* provides the legal mechanism for transfers of water allocations. They allow for the transfer of an allocation of water held under a licence from one parcel of land to another, as long as there is no detrimental impact on another water user or the aquatic environment from the licence transfer. Transfers may be permanent or temporary, and may be for all or part of a water allocation.

In Alberta, only water that has been used under a licence – but is, or will no longer be required due to water conservation, or other planned reduction in need – is eligible to apply for a transfer.

Upon transfer of a licence, the *Water Act* also provides Government the ability to withhold up to 10 percent of the water being transferred. The water withheld will generally remain in the water body to meet the needs of the aquatic environment and is not available for reallocation for other uses.

Applications:

Resource allocation trading is most commonly used for water trading and the distribution of fishing and hunting quotas. This tool differs from emissions trading in that the traded commodity is not a polluting emission or effluent, but instead the natural resource itself.

Tool performance:

Pro

- The resulting economic benefit to natural resource users will have a positive effect on sustainability for natural resource production.
- The amount of a resource is used, but allocates it to where it has a greater value.

Cons

- Over-consumption of the natural resource is a major concern and could cause environmental impacts in an area. For example, the water irrigation systems used in water trading can lead to land degradation, and many fishing quota systems fail when the allocated quotas (based on total allowable catch) is greater than a fisheries ability to replenish.

Special considerations

Natural resources need to be audited before trading the allocation to avoid over-consumption of the resource. In particular situations, a cap has been put in place to control this. In the case of the Murray Darling Basin in Australia, a cap was put in place to reduce the flow of water going to the irrigation systems to safeguard the river environment from over-use before the river system becomes unhealthy.