Forested catchments (or watersheds) provide a myriad of services of benefit to downstream users yet in Australia these services often go unrecognised. For example, in eastern New South Wales (NSW) the majority of coastal catchments are used for domestic water supplies, agricultural production and recreational activities. It is no coincidence that the headwaters of these catchments are forested, thereby maximising water quality and naturally regulating the capture and release of precipitation. However, mostly these ‘watershed services’ are taken for granted; except in cases where there is an infrequent, temporary threat to their provision such as a wildfire or logging operation. Payments for watershed services (PWS) schemes operate to internalise these benefits (externalities) within an economic framework. The schemes involve implementation of markets whereby buyers (downstream users) purchase watershed services from providers (e.g. forest managers) if these services are secured.

The author draws upon his research of successful PWS schemes operating across a mix of public and private forest tenures in the USA to outline how such a scheme could be implemented for mutual benefit to forest managers and water users in a case study catchment in NSW. Fundamental to the successful adoption of PWS schemes is the valuation of watershed services and establishment of appropriate units of exchange. The author argues that paired catchment studies, at least in the context of Forests NSW gauging network (streamflow and water quality), are essential for the initial and ongoing quantification and valuation of watershed services from forests and other land uses.