



The Principle of Cost Recovery – A Price Driver for Water?

(Article 9: Water Framework Directive)

Peter Kessler



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Water Framework Directive

„Establishing a framework
for Community action
in the field of water policy“



Features of the WFD

- Water as part of the ecosystem
- Sustainable water use
- „Good water status“ – ambitious objective
- Planning and management cycle
- River basin management
- Combines emission limits values with environmental quality standards
- Participatory approach
- Water as an economic good → cost recovery



Economy Supports Ecology

- Water is
 - part of the ecosystem
 - an economic good

- Cost recovering water prices → incentives to save water

- Subsidized water prices → inefficient use of water resources



Cost Recovery – Controversial Issue

- High subsidies in Member States with agricultural irrigation
- Case of Ireland: a political / social tradition of household water consumption free of charge
- Issue of environmental and resource costs



Water Prices and Water Consumption

	Freshwater Price (m ³)	Per Capita Consumption (liters per day)
<input type="checkbox"/> Denmark	€ 1,84	130
<input type="checkbox"/> Germany	€ 1,73	125
<input type="checkbox"/> USA	€ 0,52	~ 300

**Source: NUS Consulting Group; Households and Small
Businesses**



Functions of Cost Recovering Water Prices

- Information about water use
- Incentive function: Water users decide if their water use is worth its price
- Financing: Fees to cover the costs of water supply and waste water collection and treatment as well as for water protection measures (polluter/user pays principle)



Water Services

- Water supply
- Wastewater treatment and collection

**WFD: „Member States shall take account
of the principle of recovery
of the costs of water services“**



Water Use

„Water services together with any other activity having a significant impact on the status of water“ (e.g. navigation and hydropower)

WFD: „An adequate contribution of the different water uses to the recovery of the costs of water services „ (??)



Costs

- Financial costs
- Environmental costs
- Resource costs



Financial Costs

- Operation and maintenance costs

- Capital costs
(principal and interest payment, and
return on equity where appropriate)



Environmental Costs

Costs of damage that water use
imposes on the environment

(e.g. a reduction in the ecological quality
of aquatic ecosystems or the salinisation and
degradation of productive soils)



Resource Costs

Costs of foregone opportunities
which other uses suffer due to the depletion
of the resource beyond its natural rate
of recharge or recovery

(e.g. linked to over-abstraction
of groundwater)



Open questions

- Environmental and resource costs:
What is the difference ?

- Resource costs:
Are these only a result of water scarcity?

- Environmental and resource costs:
How to set a price?
e.g. What is the value of wetlands?



Partial Internalisation of Environmental and Resource Costs

Charges for:

- Water abstraction
- Waste water treatment
- Nature conservation
- Use of nitrate fertilizer
- ...



Loopholes in Article 9 WFD

- „... shall take account of the principle of recovery of the costs ...“
- Water uses: „adequate contribution to the recovery of the costs“
- „Member States may have regard to the social, environment and economic effects of the recovery as well as the geographic and climatic conditions ...“
- Ireland clause: „Member States shall not be in breach of this Directive ...“



Conclusions

- ❑ The water crisis has reached the rich countries. (USA, Canada, Australia, Spain and even parts of England and Germany)
- ❑ In several of these countries one main cause is the low water price and the resulting inefficient water use.
- ❑ Countries cannot successfully manage water crises without cost recovery.



Cost Recovery

- A welcome price driver
- A necessary price driver

Economy supports ecology!