



EurEau

Rue du Luxembourg 47-51,
B-1050 Brussels, Belgium
Tel : +32 (0)2 706 40 80
Fax : +32 (0) 2 706 40 81
BE 0416.415.347
secretariat@eureau.org
www.eureau.org

Cost recovery in the WFD

WFD article 9, recovery of cost for water services

Summary

For EUREAU members, the application of WFD Article 9 on cost recovery is an essential part of the WFD that will have an impact on all European citizens. Being the only organisation representative of all water and waste water service providers in Europe, EurEau is willing to contribute with its experience to any new guidance document published for the implementation of the cost recovery imperative.

EurEau underlines the following elements for the implementation of cost recovery and in particular for the inclusion of resource and environmental costs:

- ~ EUREAU stresses the necessity for parties affecting the water quality to bear the relative costs (application of polluter pays and user pays principles).
- ~ Water supply and sanitation infrastructure is ageing in many member states. Where water pricing policies are revised, environmental fees should not be introduced at the expense of the recovery of asset renewal costs.
- ~ In addition to payment by users, grants from national budgets and transfers from European funds will remain necessary for a period of time to upgrade waste water systems in some areas, so as to achieve good status for surface waters.
- ~ Guidance on article 9 of WFD should include a clear definition of what cost recovery means for water services.
- ~ Water supply and sanitation are essential services and a human right. Application of article 9 of the WFD should take these notions into account.

The 2012 EU Blueprint to safeguard Europe's waters identifies the need to better implement existing EU water legislation in order to achieve the goals of an effective protection of our water. One of the identified weaknesses is article 9 of the Water Framework Directive (WFD) concerning the recovery of costs for water services. In particular the poor or missing recovery of resource and environmental costs is addressed. The Common Implementation Strategy (CIS) of the WFD is tackling this topic in the working group on economics among others by the elaboration of an updated guidance

document on this subject. EUREAU is committed to contribute to this initiative. This position paper summarises the major concerns of the water service operators in Europe.

Environmental costs should be shared equitably between users

EUREAU supports the cost recovery principle and recognizes that the inclusion of environmental and resource costs in the water tariff is a sound objective. However, it is indispensable to better apply the polluter pays principle in the same time. Otherwise, this approach could lead in some cases to a significant increase in the price of water services.

The polluter pays and the user pays principles are essential and principal notions of the WFD. Where a charging mechanism for abstraction or diffuse pollution omits environmental or resource costs, this enhances the risk that other water consumers will have to cover this cost, which is detrimental to the polluter pays principle.

Charging the users of the urban water services is practically and politically easier than other categories of users. That is why in many member states water service operators' costs include costs that should not be borne by their customers but by other water users and polluters. Transfer of these costs (cost reflectivity) would help to mitigate some of the price increases for water customers that could arise from charging environmental and resource costs under article 9 of the WFD.

The mechanisms ensuring adequate contribution of different water users should be set up at Member States level so as to reflect local water resource issues. When abstraction charges are applied, the degree of consumptiveness of the different uses should be taken into account. In average more than 75% of the resources abstracted for urban water services are returned to water bodies downstream.

Infrastructure renewal cost recovery should be a priority

The water supply and waste water infrastructure in many parts of Europe is ageing. In some countries the charges collected from the users are not sufficient to maintain and renew the systems in due time. In addition, it is necessary to take into account the need for future investments in storm water management, as a part of climate adaptation.

If decision makers want to avoid significant price hikes while applying new charges for environmental costs, there is a risk that the new tariff policy decreases the available funding for asset renewal. Paradoxically, this would result in serious consequences on the environment due to infrastructure obsolescence (water losses through leakage, pollution from combined sewers overflows and insufficient treatment of effluents).

EUREAU strongly recommends keeping the funds collected through the water tariff (general taxes excluded) in the water sector, notably to finance the renewal of water assets, and the fair share of domestic water users in the protection of water resources and

aquatic ecosystems. It must be avoided that environmental charges included in the water tariff are used for other purposes.

National and European grants will remain necessary in some areas

Presently, total cost recovery from users is not achieved in all the regions of Europe. Part of the capital expenses, notably for waste water treatment, is covered by grants from national budgets or by EU's structural funds (Cohesion Fund, ERDF). The doctrine of cost recovery should not be an obstacle to the continuation of this support which is necessary to reach good status of European waters in some regions, while keeping the water tariff at an acceptable level.

EUREAU acknowledges that total cost recovery from water users is a sound and desirable objective for sustainable water services in Europe. However, a rigid interpretation of this imperative must be avoided. And there is a need to recognise a time frame over which it can be achieved.

Need to define the cost recovery ratio

The proposed guidance on Article 9 of the WFD should include a precise and realistic definition of cost recovery for water and waste water services, so as to allow for a homogeneous reporting of member states, and therefore a better knowledge of the baseline and the possibility to monitor progress in a consistent manner.

A cost recovery ratio for water and sanitation services is not a straightforward concept. EUREAU has worked on a framework for the description of the sources of funds of the European water sector, based on the "3Ts" approach (Tariff, Taxes and Transfers) proposed by OECD. A guide is available on EUREAU's website. The numerator of a cost recovery ratio is the first "T" (Tariff). Here are some examples of questions addressed in EUREAU's guide:

- ~ What kind of taxes/fees included in the water bill should be accounted for in the cost recovery ratio?
- ~ How to account for payments made by land developers for water infrastructure expansion?
- ~ The denominator of the ratio should be the sum of all costs incurred for the water service:
 - o Operational Expenses.
 - o Capital Expenses. A methodology should be proposed to account for the cost of asset renewal; this term should be based upon the need for a reasonable renewal, not just on the real amount allocated during the period.
 - o Resource and environmental costs. As there are no market values to be referred to, guidance is required for this term.

Cost recovery policy should take social considerations into account

EUREAU members are committed to the implementation, under the supervision of governmental authorities, of the human right to water and sanitation as defined by the Human Rights Council of the UN General Assembly on 24 September 2010.

Therefore EUREAU believes that water pricing policies need to consider social impacts. In countries where they are needed, EUREAU recommends measures targeting persons facing affordability problems, through the tariff system or by other means. Even if the decisions on such measures and the identification of beneficiaries remain the responsibility of public authorities, water operators can play an important role in developing appropriate models.

EUREAU is the voice of Europe's drinking water and waste water service operators. Collectively, they provide water services to more than 400 Million people and reflect the full diversity of the European private as well as public water service industry across Europe.

EUREAU brings together national associations, representing water supply and waste water services in EU and EFTA countries. An observer status is granted to representative associations of countries in accession negotiations with the EU.

About EurEau

EurEau is the voice of Europe's water sector. We represent drinking water and waste water service providers from 27 countries in Europe, from both the private and the public sector. With a direct employment of around 600 000 people, the European water sector makes a significant contribution to the European economy.

EurEau is the European Association of National Associations of Water Services. We bring national water professionals together to agree European water industry positions regarding the management of water quality, resource efficiency and access to water for Europe's citizens and businesses.



Rue du Luxembourg 47-51,
B-1050 Brussels, Belgium
Tel : +32 (0)2 706 40 80
Fax : +32 (0) 2 706 40 81
secretariat@eureau.org
www.eureau.org