

WATER PRICING

Finding the right price for water

Why should water cost more in some countries than others? Green Week heard about the latest research on water pricing and other economic instruments.

The price of water varies widely across the EU. In Copenhagen, users pay EUR 6 a cubic metre (including supply and treatment). In Rome, they pay EUR 1.25. It is right that costs reflect local conditions, said David Zetland, senior water economist at Wageningen University and the author of *The End of Abundance*. What is not right is failing to pass the costs – including environmental ones – on to customers.

In a session entitled ‘Who’s afraid of... water pricing?’, he warned that political pressure keeps prices artificially low and prevents water companies from recovering capital costs. ‘If you’re not covering your costs, you’re not being sustainable.’

Globally, it is agreed that water costs should not exceed 3% of household income. Europeans pay far less than this. If poorer people need help to meet the costs, it is better to give them money and let them choose how to spend it, rather than setting ‘social tariffs’ that are hard to target and do not provide an incentive to use water efficiently. ‘Price water at a sustainable level and people will use less or more, as they wish. This is better than telling them how long to take a shower or whether they can water their garden.’

Context is everything

Solventa water consultant John Maguire also argued in favour of companies setting a price for water and aiming for full cost recovery to cover the high fixed costs of maintaining the water infrastructure.

He presented the results of a study into ‘sustainable economic levels of leakage’ (SELL) in water distribution networks. SELL is the level at which the cost of fixing leaks is equal to the marginal price for water. In case studies from six EU Member States and Turkey, the SELL level of loss varied from 7.3% to 48%.

The results suggest that it would be a mistake to set EU-wide targets for water losses, as systems are context-specific. ‘You reach a point where focusing on reducing leakage is not cost-effective. For example, in the UK it’s cheaper to build a new reservoir than to reduce leakage by a further 1%.’ Cost-effectiveness calculations need to include environmental and resource costs and not only financial costs.

Jaroslav Mysiak of the Fondazione ENI Enrico Mattei and Euro-Mediterranean Centre for Climate Change, presented the results of a study on Evaluating economic policy instruments for sustainable water management in Europe, concentrating on elements such as water pricing, trading, market friction reduction and risk-sharing. It concluded that problems such as sustainable water provision should be addressed by specially targeted instruments.

Although many such instruments have failed to deliver the desired outcomes, in some cases this is because they have been abolished too quickly. One fact is certain: economic policy instruments do promote water efficiency.

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David Zetland

