

Assessment of Cost Recovery through Water Pricing

Publication

[Report](#)

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Despite the legislation in place and the growing awareness of the need for full cost recovery and incentive pricing in the European water sector, Member States have not yet achieved the objective of integrating these key principles into their water policy. Through a comparative analysis of water pricing schemes and governance structures across selected European countries, a recent study in which Ecologic Institute participated provides practical information on the implementation of the key principles under Article 9 of the EU Water Framework Directive (WFD).

According to the study, pricing can be a powerful communication tool that, by carrying information about the scarcity or abundance of water, can influence the way in which the resource is used. The study notes that water consumption levels decrease by around 33% in households and up to 20% in agriculture when users are charged for the full amount used. Water tariff reforms implemented in the early 1990s to charge the "full price of water" in Denmark and the Czech Republic preceded reductions in water consumption. Nevertheless, the study notes that pricing should not be seen as a stand-alone tool to achieve the multiple requirements of the WFD. The study offers that the use of price controls, in conjunction with other policies like regulation and public expenditure, may be the best strategy.

Whereas the full recovery of the operation and maintenance costs of water services was found to be the rule across the assessed countries (with the irrigation sector being the exception in some), cost recovery levels in some Member States are still below 100% (e.g. Slovenia and Spain). The study suggests that mainly perhaps due to political reasons (e.g., protecting low-income groups and particular economic sectors), some parts of Europe still operate flat rates. These fail to incentivize efficient use and only partially recover the costs of the water services provided. In these cases, some of the unrecovered costs might be imposed on other actors.

The study shows evidence of inconsistencies in the definition of water services and in the accounting of environmental and resource costs (ERC) across the EU. In this sense, the lack of clear definitions and standardized accounting and reporting represent two main barriers that reduce transparency and hinder comparability between water service providers in different Member States.

Some of the recommendations included in the study are:

- In addition to water tariffs and environmental taxes, further economic instruments should be considered to achieve the WFD objectives of full cost recovery and efficient water use
- Separate social measures, like direct income support or technical assistance to reduce water consumption levels, should be seen as a way to address affordability issues
- Developing a standardized international reporting system based on the existing European benchmarking initiatives could improve future reporting consistency

This collaborative study was launched by the European Environment Agency (EEA). Ecologic Institute led the work on the specification of the current tariff structures and price levels of water services for the household, agriculture and industry sectors, the assessment of full cost recovery and incentive pricing, and the proposed options for reporting of ERC to enhance comparability and benchmarking.

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Authorship

[Gerardo Anzaldúa](#)

Andrew Ayres

Marlene Angela Lange

[Dr. Manuel Lago](#)

PhD Pierre Strosser

Gorm Dige (EEA)

Gloria De Paoli (ACTeon)

Frans Oosterhuis (IVM)

Mojca Hrabar (Oikos)

Stale Navrud (NMBU)

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