

Aqua Publica Europea's position on the role of water pricing as a key element of sustainable water management

EXECUTIVE SUMMARY

The challenges ahead

The European Commission's Blueprint to Safeguard Europe's Water Resources highlights worrying trends regarding the increase of water stress phenomena in Europe. Technological and industrial development may lead to new and unforeseen risks with regard to water safety. What is more, in many contexts investment capacity needs to rise in order to ensure adequate renewal of assets and to tackle emerging threats.

In this framework, water pricing is considered to be a key to signal to users the relative scarcity of water, to achieve a more balanced contribution to cost recovery of different societal uses, and to ensure the financial sustainability of water services.

However, the supposed correlation between increased water tariffs and decreased water consumption is questionable. On the other hand, any increase in water tariffs is likely to affect low-income households proportionally more than well-off households, due to low-demand elasticity. This, combined with an enduring economic crisis, is creating water affordability problems in several European countries, as also demonstrated by the significant public response to the European Citizen Initiative Right2Water.

Moreover, due to the particular characteristics of water resources (i.e. the fact that it constitutes a natural monopoly and is essential for life), the financing of investments may create equity issues across generations.

Finally, identifying the right set of instruments to tackle current and future challenges is complicated by the fact that management of water resources is strongly influenced by local conditions.

Against this background, APE's members are persuaded that effective governance and place-based approaches are also needed, along with water pricing, to reconcile the objectives of the protection of water resources, affordability, and financial sustainability.

APE's proposals

Since water price cannot be determined through normal competitive market mechanisms, other indicators need to be employed to determine relative levels of water scarcity and depletion. In this framework, and even without considering the methodological problems of calculating resource and environmental costs, APE members look forward to the publication of the new *Water Exploitation Index +* in order to gain a more accurate understanding of water stress levels in Europe.

More generally, we observe that domestic users are still disproportionately charged for water cost recovery, compared with agriculture and industry. More effort is needed from all stakeholders to achieve more effective implementation of the 'polluter pays' principle.

Also, the European Commission's efforts to achieve a better alignment of objectives between water and other policy domains (in particular agriculture) are welcome and need to be further strengthened.

However, we are also persuaded that potential conflicts arising from competing water needs cannot always be solved only through water pricing. Drawing on their direct experience, APE's members consider that place-based governance mechanisms based on stakeholders' engagement and transparency can also play a key role in successfully implementing consensual 'control at source' approaches and, in general, identifying the most cost-effective solutions for a specific territory. The importance of these approaches needs to be better recognised.

APE's members then believe that water affordability problems are better tackled through socially targeted measures such as income support. However, these measures are not available in all EU countries. In this framework, water solidarity mechanisms based on the water bill may also represent a valid alternative. The EU could promote a wide debate on different approaches to ensuring the right to water, also with a view to raising Member States' awareness of this issue.

Water affordability issues may also be tackled by ensuring that all economic resources generated from the water-management cycle are reinvested for the improvement of water quality, infrastructure, and services. Under no circumstances should water be a source of finance for other policies through taxes or other means. Further, decisions regarding the enforcement of stricter quality standards should always be based on solid scientific evidence and a cost-benefit analysis, to avoid disproportionate intervention that could eventually lead to higher water prices. The same can be said for investment in new technologies; innovation is an important adjunct to tackling water challenges and, as such, it should remain a means rather than an end.

Finally, affordability problems must be reconciled with investment needs. APE's members generally consider that water tariffs should aim to recover both management and financial costs. However, we believe Member States should be free to finance some parts of the water cycle cost, especially as regards investment, through general taxation. Also, more effort is needed from national and local institutions to remove the institutional bottlenecks and uncertainties that hamper public water operators' access to long-term loans. Public risk-sharing and counter-guarantee instruments to enhance investments in water infrastructure should then be further developed. More generally, the investment-related challenges that lie ahead can only be tackled with active support from citizens and users; transparency in water pricing and in the deployment of financial resources play a crucial role in raising users' awareness and support for investment decisions.

To conclude, APE's members are persuaded that water pricing can play an important role in tackling the multiple challenges that lie ahead if coupled with a sound governance system based on subsidiarity. EU Institutions are called to provide a consistent legislative framework, setting general objectives and providing guidelines. Member States need to accelerate the pace of implementation, retaining the necessary freedom to define the best way to achieve general principles. National and regional governments and regulators should also provide an adequate institutional framework to facilitate co-ordination among the various stakeholders who have an impact on the water cycle. Public water operators are ready to meet the challenges, and are increasing their efforts to ensure the efficiency and protection of water resources, while maintaining a strong focus on questions of affordability.