



## Cost recovery, incentive pricing, and the polluter pays principle in Dutch agriculture

Rob van der Veeren  
3 maart 2006

## Water pricing, cost recovery and PPP



## Cost recovery

- Member States shall by 2010: "take account of the principle of recovery of the costs of water services including environmental and resource costs, ..., and in accordance in particular with the polluter pays principle" (Article 9 WFD).
- Member States should also ensure by 2010: "an adequate contribution of the different water uses, ..., to the recovery of the costs of water services, ... taking account of the polluter pays principle."

## Water services in the Netherlands

- Water services defined in the Netherlands:
  - Production and delivery of water
  - Transport and discharge of wastewater
  - Wastewater treatment
  - Water quality management
  - Regional water quantity management ('dry feet', but also discharge of excess water for agricultural purposes)
  - Groundwater management

## Water pricing

- Article 9 of the WFD, requires Member States to introduce incentive pricing by 2010.
- Member States are to ensure by 2010 that “water pricing policies provide adequate incentives for users to use water resources efficiently, and thereby contribute to the environmental objectives of the Directive” (COM, 2000, p. 12).

## The Dutch view on water pricing

- WFD mentions price incentives as one of the possible measures
  - Not a measure, but an instrument
  - Pricing will be analysed as one of potential instruments, next to others
  - Instruments will be discussed once cost-effective programs of technical measures are known

## Water pricing in the Netherlands

- Different systems exist for different water services:
  - Drinking water: Price/m<sup>3</sup> + fixed tariff for infrastructure
  - Sewerage levy: e.g. Levy/value of estate
  - Sewage treatment: Levy/Pop. Equivalent
  - Water quantity management: e.g. Levy/ha
  - Groundwater: Tax/m<sup>3</sup> when extraction exceeds 10 m<sup>3</sup>/hour (most farms use less)
- Present pricing policies results in high cost recovery rates (80 – 100%)

## Challenges for water pricing , cost recovery and the polluter pays principle

- Are environmental costs included completely?
- Can water pricing provide strong incentives to reduce the use of water services?
  - Limited opportunities to alter use patterns; e.g. water quantity management
  - Most farmers use less water than 10 m<sup>3</sup>/hour, therefore, they are not confronted with the groundwater tax
- Polluter pays principle is an important principle in the WFD. Is it fully implemented?
  - Households pay for treatment of wastewater = PPP
  - Users pay for drinking water treatment = UPP
- Do polluters have the right to pollute or do users have the right for clean water?

## Statements

- Water pricing cannot be used in current environmental policies (e.g. Nitrate Directive), since those are based on a command and control approach
- An important 'theme' in WFD is the river basin approach. Incentive pricing (and other instruments) at an international level might be theoretically interesting, but is unwanted because of serious institutional implications
- Cross compliance should be limited to present policies. That's already difficult enough

## The future of water pricing in the Netherlands

- At the moment, first draft programs of (technical) measures are constructed. The issue of economic instruments (including price incentives) will be discussed later
- But research is ongoing on alternative economic instruments

## Questions?

Please feel free to contact me:

Rob van der Veeren  
RWS-RIZA  
PO box 17  
8200 AA Lelystad  
The Netherlands

Tel: +31 320-298938  
Fax: +31 320-298710

[r.vdveeren@riza.rws.minvenw.nl](mailto:r.vdveeren@riza.rws.minvenw.nl)