Arbeit, Bildung & Gesellschaft 26

Labour and Sustainable Development

North-South Perspectives

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1. Auflage 2012 2011. Buch. 502 S. Hardcover
ISBN 978 3 631 61731 1
Format (B x L): 14,8 x 21 cm
Gewicht: 740 g

1 Introduction

> Water is not a commercial product like any other but, rather, a heritage which must be protected, defended and treated as such.
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> EC Water Framework Directive (2000/60/EC), Preamble (1)

Fresh water resources are essential for sustaining life on our planet, enabling economic development and maintaining environmental services. An integrated approach for ensuring the sustainability of fresh water resources use has, however, long been neglected in European water policy. Today, the sustainability of many European river basins is at stake, both in terms of quantitative availability as well as in qualitative terms (EUROPEAN COMMISSION 2007, GLEICK ET AL. 2001, EUROPEAN PARLIAMENT AND EUROPEAN COUNCIL 2000). Over-abstractions put many aquifers and wetlands in Europe at risk. This problem is strongest in Southern Europe, but extends more and more to regions in the north of Europe. In consequence, the ecological status of river basins degrades, ecosystem services can no longer be fully provided for and the survival of aquatic species is threatened. With increasing imbalances at the regional level between supply and demand, intersectoral and interregional competition for water resources increases. These water quantity problems often amplify existing problems of water quality and pollution (EUROPEAN COMMISSION 2000). While the number of heavily polluted rivers has decreased over the past twenty years, also due to concerted actions by international river basin authorities, quality improvements are mainly recorded in large rivers and diffuse pollution, particularly from agriculture, remains problematic throughout Europe. Against this background of increasing water scarcity and pollution problems, economic instruments and principles have increasingly been recognised by national and European policy makers alike as a valuable addition to the traditional water management tool box (EUROPEAN COMMISSION 2001, OECD 1999A).

Water was recognised early on as an important field of environmental policy for the European Community. But until the ratification of the EC Water Frame-

work Directive (WFD, 2000/60/EC) in 2000[1], a large variety of independent directives on singular water policy issues hampered the move towards an integrated management of Community waters. With the WFD a number of decisive novelties were introduced to European water policy. Overall, the Directive aims to achieve "good status" for all Community water bodies by the year 2015[2], acknowledging the fact that "c*ommon principles are needed in order to coordinate Member States' efforts to improve the protection of Community waters in terms of quantity and quality, to promote sustainable water use, to contribute to the control of transboundary water problems, to protect aquatic ecosystems, and terrestrial ecosystems and wetlands directly depending on them, and to safeguard and develop the potential uses of Community waters*" (WFD preamble (23)).

With the WFD, the integration of economics into European water policy and management gained significant momentum. It is the first environmental policy directive at the European level that draws on economic instruments, methods and principles throughout its implementation process to reach its ambitious objectives. The use of economic approaches gives credit to the understanding that the Directive's goals can only be reached within the foreseen timeframe, if economic rationales are invoked regarding water use and allocation, and implementation costs are minimised. In its preamble, the Directive acknowledges the complex and multifaceted dimensions of water, all of which translate into different and at times contradictory claims on its usage and allocation. Despite its economic take, the WFD regards water "*not* [as] *a commercial product like any other but, rather,* [as] *a heritage which must be protected, defended and treated as such*" (WFD preamble (1)).

With its economic elements, the WFD fosters a shift away from the traditionally dominant water supply management towards water demand management approaches, recognising that supply side management often does not provide sustainable solutions and may shift problems locally to other areas or over time, i.e. onto next generations (MASSARUTTO 2004A, ROTH 2001). Demand management approaches instead try to better use available resources through efficient allocation. To this end, Article 9 of the WFD demands that account be taken of the principle of cost-recovery for water services, including environmental and resource costs, and for an adequate contribution of water uses

1 Directive 2000/60/EC of the European Parliament and of the Council of 23 October 2000 establishing a framework for Community action in the field of water policy, OJ EC L 327, 22/12/2000, p.1.

2 The Directive provides the possibility of extending the deadline for reaching its objectives by a maximum of two six-year implementation cycles, i.e. to 2027 at the latest.

(disaggregated into at least industry, household and agriculture) to this cost-recovery according to the polluter-pays principle.[3] Furthermore, it calls for water pricing policies that provide adequate incentives for efficient resource use by the year 2010. While water pricing is invoked for reaching the Directive's objectives, it is not considered a one-size-fits-all solution to European water management problems, but rather as an opportunity that "*should be given due consideration, to ensure it promotes more efficient and less polluting use of our scarce water resources*" (EUROPEAN COMMISSION 2000).

The overarching aim of Article 9 is to establish transparency of financial flows in the European water sector, by asking which costs are encountered in water services' provision and how these costs are recovered.[4] However, achieving the overarching aim of Article 9, namely transparency of financial flows and associated water pricing policies that aim at sustainable water services provision and efficient resource use, is severely hampered by the difficulty of comparison among Member States. The definition of cost categories to be considered in the assessment of cost-recovery as well as the accounting for subsidies and cross-subsidies varies considerably across Member States. As pointed out by the EUROPEAN COMMISSION in its Communication on water pricing in 2000, "*The existing accounting rules used by Member States imply different ways of calculating costs. Also, the costs of different services can be included into water prices. As a result, comparisons between the costs of water supply and treatment services, water prices and existing levels of cost-recovery are often misleading. The adoption of common definitions for key cost variables would facilitate the comparison between costs and prices and benchmarking for different water services, uses and countries*."

This study aims to address this need and proposes a comparative accounting framework for assessing cost-recovery of water supply and sewerage services for private households and agriculture under different institutional, geographical, economic, legal and social-cultural conditions. The assessment framework is set-up with a view to delivering a pragmatic tool that is able to expand over the years as more reliable data becomes available and is equipped to accommodate national particularities.

The following sections give an introduction to the evolution of European water policy up to the WFD (Chapter 1.1) and highlight the objectives and

3 Unless otherwise noted, references to articles refer to the EC Water Framework Directive (2000/60/EC).

4 Transparency would imply that comparable assessments are conducted in all European Member States, which would also help to facilitate the to-date severely hampered water price comparisons (cf. HOLLÄNDER ET AL. 2008, METROPOLITAN CONSULTING 2006, OECD 1999, UBA 1998).

novelties introduced by the WFD in general (Chapter 1.2) and its economic elements in particular (Chapter 1.3). Next, the partly contradictory aims of Article 9 are analysed with a view to gaining a deeper understanding of its explicit as well as its implicit objectives (Chapter 1.4). The chapter sets the basis for the selection of relevant theoretical underpinnings in Chapter 2 and the methodological development for the comparative assessment of cost-recovery in Chapter 3. It presents the research questions addressed in this thesis (Chapter 1.5) and outlines the methodology employed in this study (Chapter 1.6). The chapter concludes with a brief overview of the structure of the thesis (Chapter 1.7).

1.1 European water policy: from regulation to integration

While water policy was recognised early on as an important topic for European environmental policy and coordination, it has undergone fundamental changes over the last three decades and moved from a regulation-centred policy framework to one of integration. Three distinct phases can be distinguished, when assessing the evolution of European legislation on water (EUROPEAN COMMISSION 2009, BLÖCH 1999). The first phase was mainly concerned with reducing or preventing water pollution through standard setting for Community waters and related uses.[5] The directives enacted during this phase, which entered into force between 1975 and 1980, are characterised by a regulatory approach towards water management. They specify environmental quality targets or limit values for individual parts of the aquatic ecosystems, categorised by a specific function (e.g. the Surface Water Directive 75/440/EEC 'for drinking water') or by the function attributed to them ('shellfish' and 'fish water') (HOLTMEIER 1997, MOSTERT 2003). In retrospect, the first phase of Community water protection policy is criticized for its scattered legislative framework, providing different regulatory and management requirements for different water types. This led to implementation difficulties for the responsible administrative agencies and hampered a coherent implementation process across Member States.

5 The first phase of European legislation on water was initiated by the European Commission's five-year Environmental Action Programmes (EAP) of 1973, which lay down the objectives and principles of European environmental policies (EUROPEAN COMMISSION 2002). The evolution from a regulatory to an integrative stance towards water and environmental policy in general can also be witnessed by the changing focus of the EAPs over the following years: the fourth EAP (1987–1992) widened the perspective of environmental policy to other EC policy fields, while the fifth EAP (1993–2000) recognised environmental protection as an equally integral and important element for decision-making as social and economic considerations.