

WATER AND WASTEWATER SERVICES IN SERBIA

APPRAISAL OF DRAFT DECREE REFERENCE PRICE OF WATER

BELGRADE, SEPTEMBER 5, 2016

- ▶ Water Law
 - ▶ Five fees: Use, Discharge, Pollution, Drainage, Systems
- ▶ Reference Price of Water (Article 157)
- ▶ Two Fees
 - ▶ Water Use Fee (Article 155, 156, 158, 159)
 - ▶ Payable for abstractions
 - ▶ Water Discharge Fee (Article 160 – 163)
 - ▶ Payable for Direct AND Indirect discharges
 - ▶ Already applied in Serbia

ASSESSMENT CRITERIA

1. Legally correct
 2. Recovery of environmental and resource costs with adequate contributions from each main sector: household, agriculture and industry
 3. Contribute to the provision of adequate incentives for sustainable (efficient) water use
 4. Revenue generating capacity of the fees
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- ▶ *Practice in the EU is far from “perfect”*
 - ▶ *Increasing pressure from EU for Member States to improve*

1. LEGAL FORM AND CONTENT

- ▶ Positive:
 - ▶ Is correctly based on the Water Law (30/10, 93,12): Article 157
 - ▶ Does precisely what is mandated in the Water Law
 - ▶ Is clear and unambiguous
 - ▶ Describes precisely the method of calculation
 - ▶ References officially published (and updated) sources of data
- ▶ Key Issues
 - ▶ The objectives of the fees for which the Reference Price of Water is the benchmark are not specified
 - ▶ Pollution Fee is not addressed

2.1 ENVIRONMENTAL RESOURCE COST RECOVERY

- ▶ Recovery of environmental resource costs
- ▶ Water does not have the same economic value everywhere (scarcity/abundance)
 - ▶ Economic analysis of water use – River Basin Management Planning
 - ▶ No “de facto” standard: large variation in approaches to valuation
 - ▶ EU Practice: level of charge is often unrelated to environmental costs: “arbitrary”
- ▶ Proposed Decree:
 - ▶ Reference Price of Water related to cost of water supply services
 - ▶ It does not reflect the economic value of water in the catchment/basin
- ▶ Conclusion: Draft Decree does not meet the criterion

2.2 ADEQUATE CONTRIBUTIONS

- ▶ Adequate contributions from each main sector:
 - ▶ Household,
 - ▶ Agriculture
 - ▶ Industry
- ▶ Industry versus household: no discrimination / differentiation for water consumption
- ▶ Electricity generation: method of fee calculation not yet clear
- ▶ Agriculture versus others:
 - ▶ Article 156 of the Law on Water
 - ▶ 50% discount on water use fee under certain circumstances
- ▶ Conclusion: Some minor discrepancies

3. INCENTIVE EFFECTS 1

- ▶ Current Fees are very low and only account for a very small percentage of the cost of water
- ▶ Two questions:
 - ▶ How much? Volumetric Basis, Size of Fee in relation to total cost
 - ▶ Who pays? Abstraction Licence Holders and/or End Users
- ▶ Water Usage Fee estimation:
 - ▶ Following the methodology in the draft Decree
 - ▶ Reference Price of Water: 44.9 RSD per cubic metre
 - ▶ Minimum 10% (Article 156): 4.5 RSD per cubic metre
 - ▶ *Current prices are comparable with the Reference Price for Water*
 - ▶ *Size of fee is «self-adjusting» as it is linked to regularly updated statistics on wage rates*

3. INCENTIVE EFFECTS 2

- ▶ Water service providers
 - ▶ Volumetric basis
 - ▶ Pay the fee for all water abstracted, recover the fee from consumers for water sold
 - ▶ Generates some incentive for reduction in non-revenue water
- ▶ Consumers (Household, Institutional, Commercial)
 - ▶ Volumetric basis
 - ▶ Increase in cost of water of about 10%
 - ▶ Significant incentive, but water demand is not always price sensitive for small changes
- ▶ Agriculture
 - ▶ Based on area of land subject to irrigation
 - ▶ Price incentive not directly related to volume of water used
- ▶ Conclusion: Moderate (not large) incentive effect, with less impact on agriculture

4. REVENUE GENERATION

- ▶ Simple estimates of revenue generation
- ▶ ~ € 20 million per annum
- ▶ Conclusions:
 - ▶ Large increase in revenue
 - ▶ Amounts to ~€3 /c/a
 - ▶ Could help co-finance investments
 - ▶ Not enough on its own
 - ▶ Additional revenues from other fees (water pollution) and / or general taxation will be required

User	Amount Million RSD/Annum
Irrigation	112
Water Services (Use)	1,376
Water Services (Discharge)	765
TOTAL (ex. Others)	2,253

OVERALL APPRAISAL

	Appraisal	Comment
Legal Form & Clarity	Very good	Pollution Fee
Environmental Cost Recovery	Weak	But similar to MSs
Adequate Contribution	Good	Irrigation and HEP
Incentive effect	Satisfactory	Contributes, but
Revenue Generation	Moderate	Contributes, but more needed

CONCLUSIONS

- ▶ No legal obstacles / issues associated with adoption at this time (+)
- ▶ Objectives of the fees are not clearly defined (-)
- ▶ Scale of fee is unrelated to the economic cost of water resources (-)
- ▶ Volumetric approach – except in the case of agriculture (+)
- ▶ 50% exemption in the Law for certain irrigation users (-)
- ▶ Moderate incentive effect (+)
- ▶ Increased, but still comparatively low, revenue generation (+/-)
- ▶ The apparent lack of provisions for the setting of water use fees for uses that are not volumetric (e.g. power generation) (-)
- ▶ The absence of implementing measures for the Water Pollution Fee (-)
- ▶ The legal framework as proposed does not meet a number of the criteria

[DRAFT] RECOMMENDATIONS

- ▶ Aphorisms to bear in mind
 - ▶ Do not let the perfect be the enemy of the good
 - ▶ The art of the possible
- ▶ Practice in EU Member States is less than perfect
- ▶ European Commission pushing for increasingly rigorous implementation
- ▶ Adoption of the draft Decree in its current form would introduce a number of very important improvements (scale, updating)
- ▶ Subsequent adjustment / refinement likely to be needed
- ▶ Water Pollution Fee also needs to be addressed, especially given the large efforts needed to meet the requirements of the Urban Waste Water Treatment Directive

THANK YOU



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