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ISRAEL

REMOVAL OF WATER SUBSIDIES DISCUSSED [Discussion model for Syria?]

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[Article by Ron Mosenson: "To End the Water Subsidy"]

[Text] The paucity of rain over the last 3 years, especially the current year, has brought the water crisis to the public's awareness with greater impact. The attention is focused on the emergency situation that exists and on its consequences: the serious results of a possible lack of supply, the damage that could be caused by reducing rations, and the danger of imminent destruction to major water sources and carriers.

The water crisis is just part of the agricultural and settlement crisis, and is even indicative of the overall economic crisis in Israel.

An Expensive Subsidy

Water in Israel is subsidized to the extent of $200 million a year. This subsidy is the cause of tremendous pressure on the water supply, and threatens the destruction of Mekorot. Any other item that was subsidized to such a degree would cause problems of similar severity. What's more, approximately three quarters of the above-mentioned subsidy is linked and unbudgeted. This results from the exclusion of capital costs from the national network when setting water rates, and from unrealistic pricing for the pumping of water from underground sources (whether this is done artifically, through drilling or not).

Therefore, the marginal energy cost of a cubic meter of water in the peak season in Southern Israel is approximately 30-40 cents, while the marginal output of each cubic meter is half this amount. In other words, water usage of this kind is suicidal for Makorot.

An increasingly large part of the water has over the years been used for extensive field crops, especially cotton, painting expansive areas of the country in green and white, but from the viewpoint of supplying jobs and settlement value, their benefit is low. A single settler who earns his living from field crops waters more than 200 dunams with more than 100,000 cubic meters of water a year. When the difference between the cost of water and its price is 20 cents per cubic meter, each settler is funneled more than

$20,000 in subisdies per year via water pipelines. Unintentionally, a sort of mechanism for absorbing the subsidy given with the water has been developed, in the low settlement value and the destruction of water sources.

Two main types of development activities are taking place: Development of additional water sources and investments in saving energy. The development of additional water sources, for example, the saving of water from the Yarmuk to the Sea of Galilee, is being conducted and examined under the assumption that there already exists a national system to transport the additional water to the users who are there, even if they are unknown and neither their addresses nor their locations are recorded. The increased demand on the limited capability of the national network makes the establishment of additional facilities worth while--a third line to the Negev, a fourth pumping station in the Sea of Galilee, etc.--to increase capabilities in those areas of pressure. These facilities would "pay for themselves," by virtue of the energy they would save. It is a circular process similar to the search for profitable investments in the face of rising costs.

The full cost of the development circle even today has reached in the vicinity of $1 per cubic meter--even before the advent of desalinization which waits around the corner.

It would not be correct to say that the water authorities just woke up to this degenerating situation in 1986. In 1983, for example, a plan was prepared for a hydrological balance, including, among other things, long term investments of more than $2 billion (approximately the cost of the Lavi project). For this purpose, doubling the development budget from approximately $70 million to approximately $140 million a year would have been required. This plan came into the world at the same time and season as the Israeli economy entered the phase of budget cuts and "economic recovery," and, as was the case with all development budgets, the water development budget was cut to approximately $30 million for each of the 3 years that have passed since. This budgetary drought caused a further deterioration in the emergency water situation.

Not Allocations

The simplest and most direct method after all is to deal with the shortage by administrative budgeting. To set this in motion requires no more than an increase in the power of the administrative budgeting bodies, which already exist. Taking this route, however, would mean a lack of distinction between the remedy and the illness, because the water-related problems previously mentioned and the hydrological shortage in general are the result of this administrative network, not the lack or weakness thereof.

Dealing with the hydrological shortage in this way would require removing some of the users from the ranks, leaving the rest of the users with rationing and with subsidies. Whether this solution would resolve the hydrological shortage or not, it would not represent a significant change in the overall water problem. Therefore, the right solution is not to support settlement by

subsidizing water, but rather to implement the general principle of a financial balance of accounts with real capital costs.

If this were accomplished, the water economy would be relieved of its current total dependence on the government's development budget, and the financial balance will also find its expression in the level of water prices which will be higher than it is now. Together with the change in price level, the structure of pricing must be changed in such a way that it reflects the cost of supply in each area and season. This would be a price structure similar to that of electrical supply and demand.

The principle is to operate the water authority based on the implementation of objective, pre-defined rules and thereby remove any arbitrariness and any possibility of establishing prices for the purpose of manipulating consumer behavior toward a goal established by the authority. The cost pricing will transfer completely objective information to the users, who will choose the method of use based on this information and based on their own opinions and tastes.

The above-mentioned price levels will also determine the value of water in every region. This value will be further determined by the cost of pumping and drilling. This price structure will also determine drilling and pumping activities throughout the national network, from a financial and operational point of view.

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