

# Environmental User Fee System for Laguna de Bay

*Adelina C. Santos-Borja*

## Overview of Program

Implementation of the EUFS started in January 1997 as Phase 1 of the National Program. It was designed in a manner that integrates and harmonizes command and control (CAC) and economic instruments with the objective of generating mechanism to improve environmental enforcement and compliance status of firms located in the Laguna de Bay Region. The system now forms an integral part of LLDA's Environmental Management Program.

The EUFS is primarily aimed at reducing the pollution loading into the Laguna de Bay. It makes all dischargers of liquid waste directly accountable for environmental damages brought about by their day-to-day operations by internalizing the cost of environmental degradation and enhancement into their business decisions and actions. Eventually, the foremost goal of the EUFS is to limit point sources wastewater discharges to a level that would ensure that water bodies within the Laguna de Bay system would be protected and made suitable for their intended uses.

The fee system is composed of a fixed fee and a variable fee. The fixed fee covers the administrative costs of implementing the system based on volumetric rate of discharge, while the variable fee depends on whether the BOD concentration is above or below the concentration threshold which corresponds to the existing effluent standard for BOD of 50 mg/L, regardless of total BOD load. This scheme has induced firms to be more cost effective in trying to comply with standards and in effect made the EUFS a model of mixed regulatory and economic instrument. An enterprise is required to obtain a Discharge Permit (DP), renewable annually, from the LLDA. The DP is a legal authorization for the enterprise to discharge their wastewater of acceptable concentration set under DENR DAO 35 to the lake or its tributary rivers.

The EUFS is planned to cover all water pollution sources from industrial, commercial, domestic and even agricultural sources. As a matter of strategy LLDA cautiously implemented the EUFS by stages. A budget of about P27 M taken from LLDA's corporate funds was initially allocated to support implementation requirements including acqui-

sition of additional fleet of vehicles and some laboratory equipment.

During the first year of the EUFS implementation in 1997, imposition of user fee was based only on the BOD content of industrial wastewater and was applied to around 120 industrial firms located within the LLDA's area of jurisdiction. These firms belong to five industrial sub-sectors that were estimated to account for nearly 90% of the total organic load into the lake: food-processing firms, pig farms and slaughterhouses, beverage manufacturers, firms engaged in dyes and textiles, and paper and pulp mills.

The following year, all industries that generate process wastewater were covered and on the third year, residential subdivisions and commercial establishments including food chains and restaurants that discharge wastewater into the environment were likewise, covered.

The EUFS is being implemented by the LLDA through its Pollution Control Division (PCD) as the lead unit with the support from the Environmental Quality Management Division for the analysis of the wastewater samples collected by the inspectors. A Public Hearing Committee (PHC), whose secretariat is the Legal Division, gives support in the adjudication and litigation of cases including cases related to non-payment of environmental user fees. Studies are underway on the use of other water quality parameters as basis for the imposition of user fee.

Aside from the EUFS, the traditional regulatory system of the LLDA is still in place. All industrial establishments are required to register and those with wastewater discharge are required to have a Pollution Control Officer (PCO) that shall be accredited by the Authority. The LLDA has developed a training program for PCOs for accreditation purposes, which includes lectures such as on clean technologies. Aside from generating a modest income for the Authority, it has also become a vehicle for disseminating the plans and programs of the Authority and the pollution laws being implemented in the Laguna de Bay Region.

This program has gained wide acceptance from the industrial sector and there are a number of cases where they themselves request for a special training schedule.

## Lessons Learned

The LLDA's experience in the implementation of the EUFS taught two important lessons: (i) start simple and build experience; and (ii) the battle cry should be "READY, FIRE, AIM" rather than "READY, AIM, FIRE". Thus, it is better to start simple, just fine tune as experience builds up.

The right way forward for pollution charges/ user fees that emerged are:

- Simple, modest approach;
- Sector-based pilot run to help in understanding feasibility aspects, administrative convenience, institutional arrangements, acceptability by all stakeholders;
- Pick one to two controllable parameters;
- Revise charges based on results of monitoring;
- Strong and credible regulatory arm with multi-stakeholder orientation;
- Pollution charges at all levels from zero discharge and increasing above the effluent standards.

The Environmental User Fee System has created a strong incentive for regulated firms to reduce the BOD concentration of wastewater discharged into the lake. Unfortunately, it has also created an incentive for firms to dilute their discharges. This is a potential weakness of the system, and it suggests the importance of properly pricing input water to avoid perverse responses to EUFS.

Since the EUFS is implemented to complement the existing command and control approach for pollution control and abatement, administering the system vis-à-vis the existing regulatory system was administratively complex and difficult to enforce. In response to this concern, the LLDA had to introduce policy refinements and clarifications into the existing rules and regulations to ensure effective implementation of the System and enforcement of existing policies and regulations.

It is the policy position of LLDA that Market Based Instruments (MBIs) should not replace traditional regulatory systems. Rather, they are to be used as complementary tools for promoting efficient use of resources. To leverage its unique experience in MBIs, the strategy is for LLDA is to expand the Environmental User Fee System (EUFS) using four strategies:

- Revising the existing formula for industrial EUFS by introducing other parameters in addition to Biochemical Oxygen Demand (BOD)
- Exploring arrangements to include the households in the coverage of the EUFS
- Exploring the opportunities for introducing EUFS for raw water extracted from the Lake
- Public Disclosure Program

Drawing on international and local experiences, a public disclosure program will be in place to create incentives for pollution control and improve the environmental performance of industrial polluters. This program is aimed to introduce the concept of public disclosure to LGUs and include them in a program of monitoring and disclosure of environmental performance that will encourage them to invest in improving their environmental management performance.