



Evaluating Economic Policy Instruments for  
Sustainable Water Management in Europe

## First review report of EPI-Water Policy Think Tank

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## Executive Summary

This deliverable summarises the first input from the members of EPI-Water Policy Think Tank (PTT) into the EPI-Water research activities. It builds on:

- **Written reactions** by selected PTT members on the first three consultation notes prepared by EPI-Water for collating reactions and feedbacks on a) the research project's communication and dissemination activities, b) the assessment framework and c) the WP3 case studies;
- Contributions from selected **PTT members who attended the Berlin Annual conference** of the research project where results of the *ex-post* assessment of WP3 case studies were presented and discussed. In particular:
  - PTT members who attended the event were asked to present their expectations vis-à-vis the EPI-Water assessments during plenary sessions of the conference ;
  - A specific PTT meeting was organised on January 27 for discussing first reactions on results presented so far, possible improvements in the interaction and exchanges between EPI-Water research/researchers and PTT members and possible opportunities for sharing and presenting EPI-Water first research results.

The present note summarises the different contributions from PTT Members, including guidance on how to focus WP4 ex-ante research activities so they are policy relevant. This note is sent to all PTT members who contributed so far for comments prior to the finalisation of the document.

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## Table of Contents

1	Background .....	1
2	General feedbacks from PTT Members on the consultation process established.....	2
3	Responses to consultation notes on communication and dissemination.....	2
4	Responses to consultation notes on the assessment framework.....	4
5	Responses to consultation notes on WP3 <i>ex-post</i> assessment.....	5
6	Preparing for WP4 <i>ex-ante</i> assessment.....	6
7	Conclusions.....	7

## 1 Background

The EU-funded EPI-Water research project aims at assessing the effectiveness and the efficiency of Economic Policy Instruments (EPI) in achieving water policy goals, and identifying the preconditions under which they complement or perform better than alternative (e.g. regulatory or voluntary) policy instruments.

To guide its research activities and strengthen their policy relevance, and to facilitate the dissemination of research results to policy makers, the EPI-Water consortium has launched a dedicated EPI-Water Policy Think Tank (PTT).

Composed of representatives from Member States (MS) state administrations, stakeholder representatives and European water policy experts<sup>1</sup>, the PTT will review EPI-Water research results and deliverables and participate in EPI-Water conferences and workshops. To facilitate the PTT member's review of EPI-Water deliverables, it was proposed to develop specific PTT consultation notes raising key questions to which answers from PTT members<sup>2</sup>. During the second semester of 2011, three consultation notes were prepared by ACTeon and submitted, along with key deliverables, to PTT Members. These include:

- Consultation Note N° 1 dealing with the information & communication activities proposed by the EPI-Water consortium<sup>3</sup>;
- Consultation Note N° 2 dealing with the EPI-Water assessment framework presented in Deliverable D 2.1 of the EPI-Water project ("Overall Assessment Framework")<sup>4</sup>;
- Consultation Note N°3 dealing with the selection of case studies for *ex-post* assessment<sup>5</sup>.

Deliverable 6.2 summarises the main feedbacks and suggestions made by EPI-Water PTT members following these first three consultation notes. It also includes specific suggestions on the organisation of feedbacks (see chapter 2) and on the planning of WP4 case studies for *ex-ante* assessments.

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<sup>1</sup> See the following deliverable for the list of PTT members and the proposed organisation of exchanges with the PTT.

The EPI-Water Policy Think Tank: objectives, tasks and proposed members. Working note of the EPI-Water research project. July 15, 2011

<sup>2</sup> These consultation notes, initially not foreseen in the project proposal, are additional deliverables of the EPI-Water project.

<sup>3</sup> EPI-Water Policy Think Tank. Consultation Note N° 1. Information & communication. September 15, 2011 (available at the [www.epi-water.eu](http://www.epi-water.eu))

<sup>4</sup> EPI-Water Policy Think Tank. Consultation Note N° 2. The EPI-Water assessment framework. September 15, 2011 (available at the [www.epi-water.eu](http://www.epi-water.eu))

<sup>5</sup> EPI-Water Policy Think Tank. Consultation Note N° 3. Case studies for *ex-post* assessment. September 15, 2011. (available at the [www.epi-water.eu](http://www.epi-water.eu))

## 2 General feedbacks from PTT Members on the consultation process established

Overall, the format of consultation (i.e. consultation notes with key questions raised) is found satisfactory by members who responded to the consultation notes.

- The consultation notes should however avoid abbreviation and propose a limited number of questions;
- They might be complemented by a one-hour web-conf to ensure dedicated, effective and timely input by PTT Members. So far, only a half of the PTT members responded to the first three consultation notes, and with quite some delays.

To strengthen interaction between PTT members and researchers of EPI-Water, email exchanges by email between PTT meetings should be promoted so feedbacks from PTT members arrive in time for due consideration by EPI-Water researchers (in particular during the WP4 implementation).

It was suggested to invite the representatives from the European water service sector for the EPI-Water conferences as a key target audience of EPI-Water research. Invitations had been sent to EUREAU when preparing the PTT meeting, but with no reaction or confirmation of interest. Invitations will be sent again for the forthcoming EPI-Water events.

## 3 Responses to consultation notes on communication and dissemination

Different on-going initiatives which could be linked to EPI-Water research activities (organization of regular information flow/exchange, or common workshops) have been identified by PTT Members. These include:

- A project undertaken by the Swedish European Protection Agency on tradable permits for discharge of nutrients<sup>6</sup>;
- The French-funded research project EAU&3E<sup>7</sup> that is currently working on the use of water tariffs to curb water demand;
- A project undertaken by the Romanian authorities on the identification of an adequate financial system for flood protection in Romania (expected deadline: end 2012). The activity aims at creating the financial equilibrium for

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<sup>6</sup> For more information on the project, to contact Mats Ivarsson, PTT Member at [mats.ivarsson@havochvatten.se](mailto:mats.ivarsson@havochvatten.se)

<sup>7</sup> See <http://eau3e.hypotheses.org/>. For more information on this project, to contact Bernard Barraqué, PTT Member, at [barraque@centre-cired.fr](mailto:barraque@centre-cired.fr)

flood protection with a step by step approach. The approach includes 3 main phases: Inventory of current costs and key figures; Blue print for a new Financial system; Pilot testing. Deadline expected: end 2012<sup>8</sup>.

- A project undertaken by the Romanian authorities for improving the economic mechanism related to the qualitative management of water resources. The main activity consists of the allocation of costs related to surveillance and operational monitoring (expected deadline: beginning 2012)<sup>9</sup>.

The PTT members stressed their interest in policy workshops that would be organized (or co-organised) by EPI-Water. In particular:

- European workshops similar to the Review workshop organized in Berlin, January 2012;
- Workshops organized in selected Member States, in particular when discussions are on-going on some of the EPIs covered in WP3. There is for example an interest for organizing such workshop in France (Montpellier or Paris – linked to ONEMA/CIREN/BRGM/IRSTEA), Germany, Romania (in the context of a workshop for the dissemination of the results of the study on the financial system for flood protection in Romania).
- Transboundary river basin workshops – e.g. in the Danube (that could take place during the first semester of 2012 for example).

In addition to what is already planned, the PTT members suggest that:

- "ad hoc" policy briefs are prepared rapidly for feeding into the EU Water Blue Print process. Indeed, there is an unique window of opportunity for feeding research results to EU policy;
- A separate policy consultation is organized for the lessons and recommendations from the WP3 comparative assessment. A specific consultation note could be prepared and shared with 30+ policy makers (PTT members, experts consulted during the WP3 assessments, decision makers from other Member States, key stakeholders not represented in the PTT, etc.), and their feedbacks collected for "consolidating" recommendations and assessing their acceptance in other policy contexts.
- Outcomes of the comparative assessment are published in water related magazines.

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<sup>8</sup> For more information on this project : to contact Cristian Rusu, PTT Member, at [cristian.rusu@rowater.ro](mailto:cristian.rusu@rowater.ro)

<sup>9</sup> For more information on this project : to contact Cristian Rusu at [cristian.rusu@rowater.ro](mailto:cristian.rusu@rowater.ro)

PTT members also identified specific events where EPI-Water results could be presented. In particular:

- The World Water Forum. An invitation for a presentation by the EPI-Water consortium has been made by the OECD for a specific WWF session.
- The 2012 Green Week organized by the European Commission<sup>10</sup>;
- The RIO 2012 *Earth Summit 2012: Vision, Cooperation, Transformation*<sup>11</sup>;
- During the stakeholder events proposed for the preparation of the “Blueprint to safeguard Europe’s waters”. This might be a good opportunity to inform about the EPI project.
- Events organized by the European Innovation Partnership on water efficiency.

The PTT members stressed that it is not easy to mobilize policy makers around “single instrument” as their interest might lie with the best options for tackling specific water management issues.

## 4 Responses to consultation notes on the assessment framework

The assessment framework proposed by the EPI-Water consortium was considered as relevant and covering most of the relevant issues.

- The discussions stressed the difficulty to establish limits between the 7 dimensions of the framework;
- The framework could also be seen as “too loose” with not sufficiently clear guidance that would strengthen the comparability of case studies, in particular with regards to the “economic assessment criteria” that listed different options without emphasizing priorities between these options.
- The coherence of the document could still be improved.

Dimensions of the assessment framework that were considered as “priority dimensions” included:

- The environmental outcome (indeed, the instrument is expected to contribute to achieving environmental objectives and “water balance”);

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<sup>10</sup> <http://ec.europa.eu/environment/greenweek/>

<sup>11</sup> <http://www.unwater.org/rio2012/>



- Institutional background and Policy implementability;
- Economic outcome, integrating cost effectiveness, costs and benefits (as limited info today on this), but also distributional effects (2 x) and risk;
- The link between the instrument and innovation
- The “costs of information” (as sub-category of costs).

Additional clarification was required on: a) transaction costs; b) on the possibility to include a “threat” analysis (what are the main threats along the policy development and implementation process) into the assessment; and c) on the adaptive character of the instrument.

All PTT members stressed the importance that:

- The framework is thoroughly revised following the first experience of WP3 assessment;
- The framework is revised again following the experience of the WP4 assessment ;
- All lessons from the application of the framework are translated into some type of “guidance”, stressing in particular the “minimum requirements” and “good practice” for each dimension of the assessment framework;

## 5 Responses to consultation notes on WP3 *ex-post* assessment

The wide diversity of WP3 case studies, including non-European case studies, was seen as a clear advantage of EPI-Water *ex-post* assessments. Particular interest from PTT members covered PES, water pricing (and its impact on the competitiveness of economic sectors), water quality issues and diffuse leakage of nutrients from agriculture., voluntary agreements between agriculture and urban areas, trading water, water tax and instruments related to agriculture and wastewater treatment sector, etc.

The possibility to enlarge the EPI-Water “case study database” was raised, e.g. to provide opportunities to present case studies from other projects (e.g. such as the IWRM.Net funded as CAP&Trade, or case studies of the EAU&3E (ANR – Ville Durable) research project) in the same format.

It was suggested that the results and recommendations of the comparative analysis be confronted to what exists in other research projects and the literature, to check to

robustness of these results and recommendations. “Illustration boxes” from other projects could then be included in the EPI WP3 comparative assessment to highlight messages and results that are a) confirmed by other research or b) contradicted by other research.

Overall, PTT members felt the key messages of the WP3 case studies and comparative assessment could: a) be made clearer in terms of conclusions, b) discuss “transferability” of results (to other contexts, e.g.) and c) better describe the expected benefits arising from the implementation of a given instrument. Key dimensions of the assessment framework that are seen as of direct relevance to the on-going assessment of Blue Print policy options include the assessment of benefits, costs and in particular transaction costs.

## 6 Preparing for WP4 *ex-ante* assessment

WP4 of EPI-Water foresees to address 4 key water management issues: water scarcity and drought, management of excess water, water quality and ecology/status of ecosystems. It will be essential to link these issues. Questions dealing with specific instruments raised by PTT members include:

- The potential for PES in particular in relation to the forthcoming CAP reform;
- Contracts with bonus for collective action;
- Resource taxations/taxation of natural resources;
- Incentive tariffs and their impact on distributional issues.

The PPT members raised the question of the focus of WP4 assessments: Is there an interest in a single EPI? Or more interest from “policy makers” on a package of instruments? It would be more beneficial to assess how a single instrument (EPI) can add value to a reform of an existing policy. Thus, each WP4 *ex-ante* case study should focus on:

- Addressing a policy issue – and not an economic instrument. The case study should start with “a crisis” that needs to be solved;
- Reform of the existing system to respond to this crisis, and what could new instruments add as compared to what is already in place?
- Specify how new EPIs would interact with existing policies?

## 7 Conclusions

Overall, the results presented so far from WP3 case studies are seen as very interesting by PTT members who attended the EPI-Water Berlin Conference, the level of interest depending on the current priorities of PTT members. There is however a general demand to discuss the “transferability of research results and recommendations” in a systematic manner.

On the science-policy interface, key steps need to be followed to feed these results into the policy process.

- First, consolidate the “key messages” of the comparative assessment of WP3 case studies;
  - Develop the comparative assessment “policy messages”, integrating references and “illustrative boxes” from non-EPI-Water case studies for confronting results to what others have done so far (as check on the robustness of results);
  - Send these results to a series of decision makers and stakeholders for reactions and comments;
  - Adapt and revise accordingly.
- Second, feed into the EU Water Blue print policy process
  - Do the first step fast – so the consolidated note can feed into the policy options and impact assessment (end of march at the latest)
  - Give access to the WP3 detailed case study to the group performing the Blue print policy option impact assessment so key issues can be addressed using EPI-Water up-to-date information (e.g. transaction costs).
- Third, share results (presented in a specific policy brief) more widely, in particular:
  - The World Water Forum
  - The 2012 Green Week
  - Specific events such as workshops in the Danube, France, workshop in Germany, etc.

Overall, the assessment framework will need to be revised before being applied for WP4 case studies. WP4 case studies should focus on assessing a package of instruments (including EPIs) that is designed to reform existing policy to address a well-defined policy issue and “crisis”, as opposed to analyzing an economic instrument *per se*.