



The Role of Economic Policy Instruments in the Blueprint to Safeguard Europe's Waters

Lukasz Latala,

EC Directorate General ENVIRONMENT,
Protection of Water Resources Unit



Agenda

- **Blueprint to safeguard EU waters**
- **implementation of Art 9 in RBMPs**
- **Economic instruments in the context of Blueprint**
- **Example of last study related to water economics commissioned by DG ENV, Water Unit**
- **Financing of Blueprint measures**
- **How EPI-Water Policy Think Tank can contribute to the Blueprint?**



What is the Blueprint?

The Blueprint to Safeguard Europe's Water Resources is a strategy how to tackle with the challenges presented in the State of Water Report:

- **with the long-term aim to ensure sufficient availability of good quality water for sustainable and equitable water use.**

The Blueprint is closely related to the EU 2020 Strategy and in particular to the recent Resource Efficiency Roadmap.

- **The Blueprint will be the water milestone on that Roadmap. However, the analysis underpinning the Blueprint will in fact cover a longer time span up to 2030-2050.**



Why a Blueprint?

Improving the implementation of current EU water policy

- **making full use of the opportunities provided by the current framework;**

Fostering the integration of water and other policies

- **managing trade-offs through a better understanding of the costs and benefits of both economic activities and water resources management;**

When necessary, seeking the completion of the current policy framework

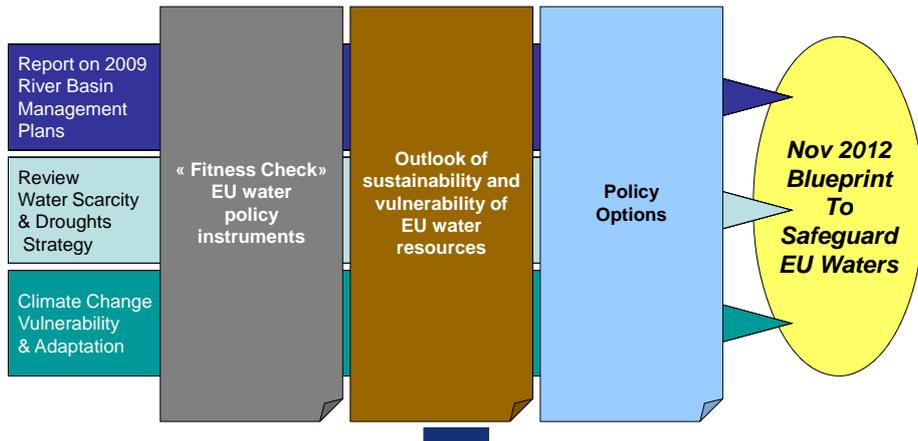
- **Specially in relation to water efficiency and adaptation to climate change.**





Synthesis of policy recommendations building on on-going assessments

Impact Assessment



The base line: an assessment of implementation of the Art 9 „Water pricing” in RBMP

Preliminary results:

problems in implementation of the Art 9:

- **adequate contribution of water users to cost recovery of water services (reflecting Polluter Pays Principle)**
 - environmental and resource costs in cost recovery
 - financial costs in cost recovery (lack of transparency)
- **incentive pricing**



Economic instruments in the context of the Blueprint:

Economic instruments of the WFD:

- **water pricing – Art 9**
 - cost recovery
 - environmental and resource costs
 - incentive pricing

Other economic instruments – come from different studies performed within the Blueprint, ex. Water pricing in agriculture study.



Most significant conclusions from Water pricing in agriculture study - 1

1. *pricing scheme needs to **reflect local and regional circumstances**, such as water use, water availability, farm sizes and crops grown, possible alternative crops, technologies....*
2. *proper levels of **equity, fairness and social compatibility** of the pricing scheme should be assured*
3. ***supporting measures** in order to soften economic hardships for strongly affected farmers*



Most significant conclusions from Water pricing in agriculture study - 2

4. **Volumetric pricing** has to be considered as one of the most effective water pricing tools with regard to actually providing incentives for water saving

5. **Water metering**, however, represents a significant investment, and is not yet employed to its full potential in the European agricultural sector

6. Water pricing should be recognised as one of several possible policy instruments in a **well-balanced policy mix** and with regard to regulations in related policy fields such as the CAP to promote conservation of water resources



Conclusions from case studies - 1

1. **Technological improvements** combined with metering have had **mixed results** - such programs need to be accompanied by **strict criteria requiring net savings** (ex. Spain)

2. **Environmental costs** are not fully taken into account in cost recovery

3. **High prices** do not necessary result in water savings but rather a shift in crop production to higher value crops ensuring or lower income.



Conclusions from case studies - 2

4. **High CAP payments** for cereals have provided a negative incentive in the past, and CAP still makes high payments in areas that suffer from over-abstraction and nitrates pollution, possibly stimulating pressures.

5. **Restrictions on water use** during dry times significantly impacts farmer incomes and there is a need to **notify farmers as early as possible** to enable them to change their cropping patterns/behavior.



Financing Blueprint measures:

1. *self financing economic measures: ex. water pricing, allocation*

2. *financing water infrastructure: Cohesion Fund, structural funds, EIB loans...*

3. *financing payments for environmental services: environmental taxes, CAP-payments, environmental and resource costs payments*



EPI Water Policy Think Tank project's input to the Blueprint:

Contribution to the Blueprint Impact Assessment (the end of April 2012)

- transactional costs of different policy options calculation
- development of scarcity, water saving indicators (coordination)
- social equity and acceptability calculation for different policy options
- assessment of the most effective payments for environmental services
- evaluation of economic policy instruments (EPI) using Cost-Benefit Analysis (CBA)
- choice of the most effective policy options using CBA

Promoting implementation of economic policy instruments