

Workshop: “Economic Analysis according to the WFD: Status of Implementation – An international Exchange of Experience”

20 – 21 November 2003, Berlin

Synthesis of the workshop

A. Background of the workshop

Ecologic, the Institute for International and European Environmental Policy, organised an international workshop on the “Economic Analysis according to the EU Water Framework Directive: Present status of Implementation” on behalf of the German Federal Ministry for the Environment, Nature Conservation and Nuclear Safety (BMU).

More than 50 persons participated in this workshop. These included representatives of the national competent authorities for the implementation of the Economic Analysis of Member States and first round Accession Countries (hereafter: EU Countries), representatives of international river basins, experts of German co-ordination areas at River Basin level as well as representatives of selected pilot projects. In addition, representatives of the BMU, of the German Federal Environment Agency and of the European Commission participated in this workshop.

A background report providing information on the current implementation status (October-November 2003) of the main elements of the economic analysis for 2004 in the different EU-countries has been prepared for this workshop. This report is based on information gathered through questionnaires as well as through personal interviews with the national experts of the EU Countries nominated for this workshop. It highlights important issues on the current implementation status which can be of value to the persons involved with the implementation of the economic analysis at present. In addition, it compiles and identifies the most relevant open questions which served as “starting points” for the exchange of views and discussions at the Berlin workshop.

This background report as well as additional material of this workshop can be found on the workshop website:

<http://www.ecologic-events.de/economicanalysis/en/index.htm>

B. Content and Results of the workshop

In general, this workshop aimed at and succeeded in supporting the international exchange on national approaches of EU Countries for the Economic Analysis 2004 at a point in time at which improvements and adjustments based on the approaches chosen and experiences made in other countries are still possible. In this sense, the workshop facilitated further co-operation at the “working level” between EU countries. The participants presented and discussed their own difficulties and successes in implementing the Economic Analysis and at the same time developed ideas and exchanged experiences on how to overcome them, while a special focus was placed on the situation of the EU Accession Countries. It has to be noted that the workshop did not “take decisions” on how to deal with specific issues, which was, however, also not the aim of the workshop.

Furthermore, the workshop dealt with the issue of co-operation in international river basins with regard to the Economic Analysis 2004 and its possible linkage and support to the decisions needed after 2004 with regard to the selection of sets of measures that are cost-effective at the river basin scale. Since the topic of selecting sets of measures within international river basins has not been discussed in great extent so far, this workshop can be seen as a starting point for further work on this important issue.

Overall, the workshop showed once again that the Economic Analysis 2004 is not (only) an issue of compliance with the WFD requirements. First, it should be performed in a way that is integrated with other elements of the WFD (IMPRESS etc.). Second, it should support the implementation of the “crucial” provisions of the WFD between 2004 and 2009 (selecting measures etc.).

In more detail, each of the main elements of the Economic Analysis (economic importance of water uses, baseline scenario, cost recovery, preparing the selection of cost-effective sets of measures esp. in the international context) was presented¹ and discussed both in the plenary and in a working group session. This exchange was based on a series of issues identified and presented in the background report of the workshop – complemented by more general leading questions including:

¹ For each main topic, a summary of the background report was presented as well as two presentations on national approaches to the subject.

- a. How is the Economic Analysis being implemented in the different EU Countries?
- b. How are technical and economic factors integrated for the 2004 requirements?
- c. How will we use the Economic Analysis after 2004?
- d. What is important for international river basins when thinking about the economic aspects of the WFD?

In the following, a short summary of the discussions on each of the main topics of the economic analysis will be given.

B1. Economic Importance of Water Uses

In general, this part of the economic analysis does not seem to pose major concerns for 2004 reporting – although the usefulness and pertinence of this analysis for supporting policy decisions may not always be clear for experts performing the analysis. Certain limitations in availability and quality of the required data do exist, which vary significantly from country to country. The scale of reporting has not been clarified in some countries so far, but there was consensus that the linkage of economic and environmental data as well as the availability of data should determine the reporting scale.

There was agreement that it is necessary to look at water uses in the economic analysis in a way that provides a basis for the assessments needed for WFD implementation after 2004 (selecting measures etc.). At the same time, the approach for water uses should be a “broad” one at the beginning (looking at a variety of water uses first) and then narrowing down to the significant, most important uses. In this context, it is crucial to link the work done on “pressures and impacts” and economics for the 2004 reporting in order to identify the main needs. The content of the economic analysis of water uses should be driven by the information needs for answering related questions after 2004 as well as by the availability of data. Besides the quantitative analysis, qualitative assessments are needed in some cases in order to give a complete picture and describe the economic dimensions of key water management issues.

Data management systems could be a valuable means for increasing the usefulness of data collected for after 2004 (changing scale etc.) and avoiding the danger of a “one-shot-approach” for the 2004 information collection that is not used for further work thereafter. Stakeholder communication and involvement in this topic has

generally been low up to now, but was perceived as necessary in order to explain why data are needed and what they will be used for after 2004. Within international river basins, differences in scale and definition of available data pose problems which will need to be overcome in order to have a common understanding for the work to be done after 2004. Efforts should however concentrate on economic data describing significant water management issues that are common to neighbouring countries, in order to support the development of a common socio-economic understanding of the river basin.

B2. Baseline scenario

Agreement was reached that integrating “certain significant changes / developments” expected for 2015 into the risk assessment (water bodies being at risk for failing the environmental objectives of the WFD) is a key element of WFD implementation. At the same time, there are different approaches for dealing with the uncertainties connected with such an approach. Therefore, some countries do develop a baseline scenario and integrate it into the risk assessment for 2004, while others do not. Especially for international river basins, this difference might cause difficulties for work after 2004, so a common understanding on this issue would be desirable. A trend assessment using expert (qualitative) judgement for projections of the main relevant drivers could however be a possible starting point for 2004.

The discussions have shown that significant methodological challenges remain on how to develop a baseline scenario, e.g. on combining existing projections (with different time horizons, scales and underlying methodologies) and on clarifying the relationship between “driving force” and “pressure”. At the same time, “good practices” on how to develop a practicable approach can already be found in some of the implementation activities, with transparency on the methodology used being a crucial element. The issue of uncertainty could be dealt with by developing optimistic/pessimistic scenarios, while both “bottom-up” (i.e. starting from issues and trends defined by local stakeholders and experts) and “top-down” (i.e. starting from national forecasts that are then made regional or local using expert knowledge) approaches are considered useful.

Stakeholder participation appears as key to the development of the baseline scenario. It can provide information and refine assumptions used and also increase acceptability of the baseline scenario developed. A possible approach is to develop

first assumptions to be used for the baseline scenario and present/discuss them early with an “interest group”, thus stabilising the assumptions made before opening up more to a wider public (useful information on public participation procedures can be found in the relevant guidance document of the European “Common Implementation Strategy” process).

B3. Cost Recovery

Substantial efforts are being currently undertaken in most EU countries on the issue of cost recovery, while the approaches used vary to a large extent. The results up to now are also mixed, with most reported problems relating to the quality and coherence of available data, scale and confidentiality issues. Less work has been done so far on “self-services” (esp. in agriculture) since the focus so far has been on water supply and wastewater services. Both the issues of the contribution of water uses to the costs of water services and the extent and coverage of environmental and resource costs have not been treated extensively in most countries.

With regards to the level of analysis required, there has been agreement on the fact that just “reporting the law” (i.e. relevant legal requirements dealing with cost recovery) is not sufficient. At the same time, the extent to which existing information is analysed regarding possible uncertainties (e.g. on subsidies, cross-subsidies) as well as possible follow-up activities for after 2004 are developed in order to improve these assessments differ among countries. For 2004, reporting at the national scale (based on existing information/extrapolations) seems sufficient, while a work programme needs then to be established in order to move to a river basin analysis after 2004.

On environmental and resource costs, there has been agreement that work up to 2004 should focus on the usefulness of mitigation costs as an initial element for extrapolation. It was also proposed to start computing environmental impact from key water uses (as investigated by IMPRESS) and link them to the actual financial contribution to the costs of services developed for mitigating those environmental impacts. In addition, it was discussed if additional environmental charges after 2004 for internalising environmental and resource costs could be used for financing the measures needed for reaching the environmental objectives of the WFD.

Overall, communication with stakeholders and the public on what the meaning of investigations into cost recovery actually is, remains one of the biggest challenges to be tackled in order to raise the acceptance of this aspect of the WFD.

B4. Preparing the selection of measures/The role of international co-operation

In most EU Countries, some information exists on unitary costs of measures (mainly on “traditional” ones) as well as some experience with the use of cost-benefit and cost-effectiveness analysis, but mainly on project level. At the same time, the overall methodological development of how to select cost-effective sets of measures for each river basin is not seen as a priority for most countries before 2004. This explains the limited attention given to the preparation of the selection of measures for 2004. There are some exceptions, in which a first approach to the selection of measures is developed as a basis for follow-up discussions and methodological developments after 2004. These efforts have shown that the IMPRESS analysis is a good starting point for the future selection of measures. Overall, there was agreement that more work is needed on this issue soon, since its complexity and importance within the WFD implementation is high.

This also applies to international river basins. Although special working groups on the economic side of the WFD implementation have been established in many international river basins (as part of the international river commissions), work on the selection of measures has been limited. It was stressed that comparability of the assessments of costs (financial as well as macro-economic costs) and effects of measures (based e.g. on both modelling and expert judgement) in different countries of the same river basin will be needed in order to establish the cost-effective set of measures for the whole river basin. At the same time, many methodological questions (issues of scale, common understanding of the “polluter-pays” principle within the context of cost-effectiveness) as well as the issue of allocation of costs still need to be discussed in order to develop a common understanding for the selection of measures. In this sense, early exchange “between neighbours” seems vital for a timely and efficient selection of measures in order to reach the WFD objectives.

C. Next steps /Follow-up of the workshop

In general, the discussions and results of the Berlin workshop should be integrated into the national and river basin work for the implementation of the Economic Analysis 2004 as well as for the preparation of work after this date.

At the same time, a number of main potential follow-up activities have been identified at the workshop:

- The background report to this workshop will be completed by adding information on the EU countries missing so far in time for the “Lille IV”-conference²;
- In addition, the “German handbook on selecting cost-effective sets of measures” will be translated into English and made available for “Lille IV”;
- Until the conference in Lille, it seems important to clarify the relevance, importance and function of the baseline scenario development for the WFD implementation, risk-assessment and the related requirements for the 2004 report;
- The current activities at the European level³ should integrate the positive implementation examples identified at the workshop as well as consider the answers found and questions that still remain unresolved in their current work in order to support the implementation activities of the EU Countries. Overall, it is important that the activities and results of the EU drafting groups are rapidly shared with a wider audience of experts to ensure they will help countries to deliver the 2004 requirements;
- At the European level, a need for support capacity building, training and research has been identified for both before and after 2004, mainly on the issue of baseline development;

² The 4th conference "Europe of Water, Water of the Europeans" will take place on the 5 and 6 February 2004 in Lille (France), dedicated to “The implementation of the economic elements of the WFD: progress report, which difficulties and which solutions”.

³ Currently, after the restructuring of the CIS-working groups, two drafting groups of the WG 2B ("Integrated River Basin Management") are dealing with economic issues. These are:

- **DG eco1**, aiming at the improvement of the “integration of economics” with other disciplines for the WFD implementation. The focus is on Article 5 requirements (characterisation of the River Basin, baseline scenario, cost recovery) until the end of 2003 and the cost-effectiveness of measures in 2004 and
- **DG eco2**, aiming at providing support on the issue of environmental and resource costs.

- In addition, a number of issues have been identified as potential work at the European level in the future:
 - Possibly common projections (but for sure common references on which projections are based) in baseline development in order to support internationally comparable results/methodologies are needed;
 - Start developing common definitions of costs of measures, depreciation rates/life of certain installations, potentially common database on costs of measures (by also reporting on the key factors influencing costs, agree on a checklist for transparent reporting) in order to prepare the selection of measures after 2004;
 - Develop common definitions to be used for cost recovery calculations (depreciation rates to be used, practical definition of subsidies etc.).

D. Conclusion

Overall, this workshop was highly appreciated by the participants since it facilitated exchange between the EU Countries and provided input to a number of follow-up activities. So, a number of issues were identified for the Lille IV conference.

Based on this positive feedback, a similar workshop to this Berlin workshop is planned by the German Federal Ministry for the Environment, Nature Conservation and Nuclear Safety (BMU) to take place in June 2004, offering a last forum for exchange on the implementation of the Economic Analysis before the end of 2004.