By introducing the concepts of full cost recovery, incentive pricing and the polluter-pays principle, Article 9 of the EU Water Framework Directive (WFD) sets guidelines for establishing water pricing schemes that promote sustainable and efficient water use. However, Member States face a key challenge in setting up a functional pricing system that satisfies all three requirements to an adequate degree while keeping water services affordable. This project explores the extent to which the key economic principles of the WFD are being implemented by assessing the water pricing systems (covering households, industry and agriculture) across selected European countries.

The provisions included in Article 9 of the WFD call for a careful updating of national water policies across the EU. The aim of this is to mainstream a harmonized and functional concept of full cost recovery that internalizes environmental and resource costs (ERC). Member State progress in complying with these provisions has been found to be limited in most cases, even when the legal framework at the European level is in place. On this basis, the overall objective of this study is to analyze the challenge of implementing full cost recovery water pricing in the context of the WFD.

The structure of the project is divided into several interconnected tasks:

- Provisioning of a theoretical overview of relevant economic
instruments, with a focus on the concepts of incentive pricing, cost recovery and the polluter-pays-principle in the water sector

- In-depth analysis of water pricing, as it can serve as an economic instrument to achieve policy objectives like cost recovery and efficient use
- Comparison and assessment of the design of pricing schemes, governance structures, policies and strategies in the water and wastewater sectors of selected European countries and their experiences therewith
- Proposal and exploration of a standard international cost recovery reporting system based on existing European benchmarking initiatives
- Reflection on the importance of water supply for social welfare, since social dimensions need to be taken into account when policy decisions are made which affect the provision and pricing of water services

The approach of the analysis will allow for a comparison across the domestic, industrial and agricultural sectors within the selected countries.

This is a project funded by the European Environment Agency (EEA). Ecologic Institute leads the work on the specification of the current tariff structures and price levels of water services for the household, agriculture and industry sectors, the assessment of full cost recovery and incentive pricing, and the proposed options for reporting of ERC to enhance comparability and benchmarking.

Attachments

- Project report

Main Link

Project study: Assessment of Cost Recovery through Water Pricing

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