



Open Method of Co-ordination (OMC): a viable option for Environmental Tax Reform (ETR) in the EU

Updated version, November 30, 2006.

The rationale:

“Ensure that prices reflect the real costs to society of consumption and production activities and that polluters pay for the damage they cause to health and the environment” is one of the guiding principles of EU’s environmental policy, laid down in the EC Treaty, and in the new EU Sustainable Development Strategy. Environmental Taxes are a recognized tool to achieve this objective. In order to reduce resistance against its introduction, to address potential undesirable impacts on lower income groups, and to respect the principle of tax income neutrality, the introduction and increase of environmental taxes should go together with reduction of income taxes and/or other payments households and companies make for public services. The combined exercise is called Environmental Tax Reform. ETR can bring a double benefit of a cleaner and healthier environment, reduced natural resource use and increased employment opportunities as labour costs will go down.

A uniform EU environmental tax reform is hard to realise due to a combination of the unanimity requirement for such decisions and the different taxation and income (re)distribution systems and policies in each Member States. Therefore the EEB proposes a different approach: the Open Method of Coordination.

How OMC can stimulate, promote and achieve ETR in the Union:

The Open Method of coordination, in contrast to the “Community method”, **aims at coordination rather than harmonisation of national policies**. It commits all Member States to work together towards shared goals while respecting legitimate national diversity. It is also more inter-governmental and voluntary than the traditional EC methods (e.g. legally binding Directives etc). EEB proposes using the OMC to:

- establish a **common EU objective** and timeframe for ETR: e.g. **“achieve a 10% tax shift from labour to natural resource pollution in a period of ten years”**
- agree on a set of common (possible) EU measures/actions to be translated and undertaken at the national level (acknowledging national diversity)
- **fix guidelines** for the Union and its Member States on how to achieve the common objective of a 10% tax shift, with **specific timetables** for the short, medium and long term pointing at the broad range of tax instruments available
- establish, where appropriate, quantitative and qualitative **indicators and benchmarks** tailored to the needs of different Member States and sectors as a means of comparing best practice;
- provide a platform (e.g. contact point or common website or joint events like a regular item on the agenda of ENVECO¹ – with possible access for NGOs) where Member States can **exchange information** on best practice – raise stakeholder awareness at the national regional and local levels and highlight effective combinations of measures);
- **translate** these European guidelines into **national and regional policies** by setting specific targets and adopting measures, taking into account national and regional differences. **Enhanced co-operation** could be a useful tool to give interested Member States an opportunity to cooperate with each other on how to translate the European guidelines into their national, regional and local policies; and provide for such Member States to exchange information and share practical experiences on the most effective combination of measures;
- provide for **periodic monitoring**, evaluation by Commission and possibly also through peer review, as a mutual learning process.

¹ This is a group of the COM where experts from the ENVironment and the ECONomics/Finance Ministry meet twice a year to discuss issues concerning both Ministries like eco-taxes or environmental economics.

The OMC has been applied across a growing range of policies e.g.; employment, social inclusion, pension reforms and its application varies across policy areas; in some cases Commission and the Council may issue joint recommendation to the Member States on how to implement specific policies (e.g. European Employment Strategy and the Broad Economic Policy Guidelines), while in other sectors, common benchmarks and indicators have been established (e.g. economic policy, structural reforms, employment, social inclusion and education).

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