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THE FOSSIL FUEL SUBSIDIES ON ENERGY SECTOR IN ITALY

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Overview

The attention to environmentally relevant subsidies by the International Institutions, particularly Environmentally Harmful Subsidies (EHS), has grown in time. In the last thirty years, the environmental impacts of subsidies have been the subject of study and research by IGOs (International Governmental Organizations) such as OECD, International Monetary Fund (IMF), World Bank, G20, UNEP, FAO, European Environment Agency. In particular, for the energy harmful subsidies the International Energy Agency (IEA) has created an on line database in order to estimate how many fossil fuel subsidies there are in the energy sector in a significant number of countries. In order to reach the objectives of the Paris Agreement on Climate Change, subscribed by more than 180 countries in the world, the international community recommends “pursuing efforts to limit the temperature increase to 1.5 °C above preindustrial levels” by the end of the century. In relation to the European agreed climate objectives (-20% GHGs by 2020, -40% GHGs by 2030 and -80/95% GHGs to 2050 compared to 1990 levels), would certainly benefit from deleting progressively the Fossil Fuel Subsidies (FFSs) whether direct or indirect. In particular, Italy is analyzing and measuring its FFSs in form of tax expenditures for the energy sector, in order to conserve its economic resources and increase the competitiveness of Italian industry.

Method

An estimate of the financial impact of a specific subsidy is revealed by the loss of revenue to the respective tax authority. The basic assumption is that, when a subsidy is deleted, the contributory behaviour of individuals will remain unchanged. Essentially, the adopted methodology follows the cost-recovery principle in order to estimate the tax expenditures in the energy sector. Costs for the generation of electricity by a particular type of fuel such as gas, coal, oil, hydro or renewable are calculated by dividing the total cost of the fuel type by the total amount of electricity generated using that source. The economic estimates and financial impact of the tax expenditures have been sourced from Notes to the Accounts of Central-Government Budget, 2016-18 and the Italian Catalogue on Environmentally Harmful and Friendly subsidies.

Results

The estimated financial impact of FFS on the energy sector, in the form of tax expenditures, for the 2016-18 period accounts for approximately 6.4 € billion per fiscal year. The highest items of expenditure as a percentage of FFSs are:

- a) 29% - the exemption from excise duty on the use of energy products as fuel for the purpose of air navigation other than private pleasure craft and for instructional flights;
- b) 27% - the reduction of excise duty on diesel used as fuel for road transport goods and other passenger categories;
- c) 15% - the tax relief on the use of energy products in agriculture and similar works (livestock, forestry, fish farming and floriculture);
- d) 9% - the exemption from excise duty on fuel for navigation in Community Marine Waters (including fishing), with the exception of private pleasure craft and the exemption from excise duty for the fuel for navigation in inland waters, limited to the transport of goods and for the dredging of waterways and ports;
- e) other items - like the tax relief for the service stations or the exemption from excise duty on electricity used in residential homes with power up to 3kWp and monthly consumption up to 150 kWh – account for 20%.

Conclusions

Authoritative international organizations, such as the International Monetary Fund, include in the definition of subsidies the external costs of economic activities (cfr. IMF 2014). However, the analysis and the quantification of the implicit subsidies would require a special national monitoring mechanism of the external costs of economic activities, which is currently not available and could be prepared in the near future. Hence, it is recommended to:

- a) improve the knowledge base in support of spatial impact assessment of each type of aid including, direct subsidies, tax breaks and implicit subsidies associated with the incomplete application of the Polluter Pays Principle;
- b) FFSs expenditures amount to about 6.4 €billion for 2016, 2017 and 2018. These amounts should be cut progressively and could be used for one of the following targets (or a mix of them): the reduction of income taxation, in particular on jobs generated by green economy; innovation and diffusion of low-carbon technologies and products; financing of

sustainable patterns of production and consumption; the revision of the financing of energy production subsidies from renewable sources; increased financing of energy efficiency measures; the reduction of accumulated public debt.

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- 2050 Energy Strategy: <https://ec.europa.eu/energy/en/topics/energy-strategy/2050-energy-strategy> (EU Roadmap).

¹ In particular the article 68 “*Italian Catalogue on environmentally harmful and friendly subsidies*”.

² G20 Meeting of Finance Ministers, 14-15 October 2011.