SOGESID SPA
INGEGNERIA TERRITORIO AMBIENTE

MINISTERO DELL'AMBIENTE
E DELLA TUTELA DEL TERRITORIO E DEL MARE

G20 Peer Review on Fossil Fuel Subsidies
in-person meeting

Measuring and monitoring Fossil Fuels Subsidies: The Italian case

Gionata Castaldi – Expert in Environmental Economics

Italian Ministry of Environment, Land & Sea – T.A. Sogesid
DG Sustainable Development, EU & International Affairs

FFFSRs, 05 April 2019

G20 peer review on FFS – How it started

- G20 (Pittsburgh - September 2009): subsidies to tackle are "inefficient **fossil fuel subsidies** that encourage wasteful consumption, reduce our energy security, impede investment in clean energy sources and undermine efforts to deal with the threat of climate change".

- G20 Leaders Summit of Seoul (November 2010), where it was reaffirmed the will to "**rationalize and phase out over the medium term** inefficient **fossil fuel subsidies** that encourage wasteful consumption, taking into account the national circumstances while recognizing the importance of providing targeted support for the poorest".

G7 recommendations

- G7 (Ise-Shima - 26-27 May 2016): "Given the fact that energy production and use account for around two-thirds of global GHG emissions, we recognize the crucial role that the energy sector has to play in combating climate change. We remain committed to the **elimination** of inefficient **fossil fuel subsidies** and encourage all countries to do so **by 2025**."

- G7 Environment Ministers' Meeting (Bologna - 11-12 June 2017): We recognize and support effort by G7 and other countries interested in examining and removing incentives, particularly inefficient **fossil fuel subsidies**, not coherent with sustainability goals. We recognize the benefits of monitoring progress in the phasing out of incentives, including subsidies, not coherent with the sustainability goals, […] and we support existing initiatives underway such as the G20 voluntary peer review process.

The Italian Participation to the G20 Peer Review

G20 and APEC countries are contributing with self-reports on FFS: these peer reviews highlight the importance of transparency and accountability in this domain, where **environmental, climate, health and economic** issues are at stake.

Indeed, FFS cause excessive consumption of fossil fuels, exacerbate environmental pollution, result in loss of government income and have serious health damages on local population. Common and parallel action by G20 countries may mutually reinforce climate and economic policies.

The Participation to the G20 Peer Review: Why it is important

Several lessons can be learned by participating to G20 FFS self-reports:

- ❖ Countries are encouraged to look at their internal policies and measures in a systematic way;
- ❖ Lessons are to be learned from experts part of the peer review team providing feedbacks on the state of the art and on the way to reform FFS in a given country;
- ❖ Countries might achieve awareness on the environmental, social and economic impact of their fiscal policy sharing this knowledge base across Ministries;
- ❖ Revelation on the heterogeneity of approaches among different countries on the definition of "subsidy" might arise.

The Catalogue on EHS and EFS in Italy

The aim of the CES is to identify, classify and quantify the amount of subsidies that might imply any relevant environmental impact, both in harmful and friendly cases.

The definition of subsidy, as approved by the Italian Parliament, must be the widest possible in order to include “among others, incentives, tax benefits, preferential financial treatments and exemptions […]”. The CES must be transmitted to the Parliament annually by the end of July.

The first edition of the CES was transmitted to the Parliament in 2017 and identified 131 measures for a total financial effect of an estimated 41 bl. € (16.2 bl. € of EHS and 15.7 bl. € of EFS; FFS are estimated at 12.2 bl. €). Further research identified 161 measures for a total financial effect of 41 bl. € for 2017 (19.3 bl. € of EHS and 15.2 bl. € of EFS; FFS are estimated at 16.1 bl. € for 2016).

Definition of subsidy

A subsidy is…

… a **transfer** of money from the State to a private body (WTO)

… a State action providing an **advantage** in terms of revenue (income or minor cost) (OECD)

… a **difference** between the observed price and the marginal social cost of production, meaning the cost that internalizes the impact to society (IMF)

In our catalogue:

A subsidy is…

…a measure that keeps prices for consumers below market levels, or prices for producers above market levels, or that reduces costs for producers and consumers through direct or indirect support

(Source: OECD)

EFS
(Environmentally Friendly Subsidies)

EHS
(Environmentally Harmful Subsidies)

Subsidies' classification

First level classification	Second level classification (examples from CES)	Who pays the subsidy (and how)
Direct subsidies	Direct transfer of public resources to economic entities	Public administration (public expenditure)
	Potential transfer of public resources to economic actors	
	Direct transfer of resources collected through tariffs to public services	Users of public services (e.g. bills)
Indirect subsidies	Tax expenditure (any form of exemption, exclusion, reduction of the taxable amount or the tax, or preferential scheme resulting from existing legal provisions[1]): - selective exemption of categories of taxpayers from general principles and obligations resulting from existing legal provisions (e.g. exemptions from rates): - rate reductions (application of a reduced rate compared to a standard rate); - deduction from the tax base (e.g. amount deducted from total income, exemptions e.g. oil & gas royalties); - tax reduction (tax deductions, tax credits, substitute taxes); - tax refund; - tax deferral (measures allowing tax deferral); - friendly tax regimes (alternative tax regimes to ordinary regimes); - application of flat-rate criteria for determining the tax base which involve a waiver of revenue (e.g. fringe employee benefits for company cars).	Public administration (renouncement of potential revenue)

Subsidies' classification - 2

First level classification	Second level classification (examples from CES)	Who pays the subsidy (and how)
Indirect subsidies	Implicit subsidies for unequal treatment with respect to activities or equivalent products (excise duties on fuels used to generate electricity vs. industrial uses, differential excise duty between diesel and petrol, *underpricing* for the extraction of natural resources, etc.)	Public administration (renouncement of potential revenue)
	Regulatory forecasts for the internalisation of external environmental costs not fully implemented (e.g. taxes on polluting discharges)	Public administration (forfeiture of potential revenue) and citizens (transfer of environmental costs from polluters to affected parties)
	Facilitation or tariff exemptions for certain categories of users (cross subsidies) (e.g. energy-intensive, bonuses for disadvantaged families, etc.)	Certain categories of users of public services (unequal treatment leading to environmental distortions)
Outside the perimeter	Incomplete internalisation of external environmental costs in environmental taxation - Implicit financial transfers resulting from a lack of full cost pricing (external costs)	Public administration (forfeiture of potential revenue) and citizens (transfer of environmental costs from polluters to affected parties)

An example: Diesel excise duty reduction for freight and passenger transport services, starting from 2000 and for subsequent increases in excise duties.

Name of financial assistance	**Excise duty reduction on diesel fuel used by freight and passenger transport services companies: starting from 2000, increases in diesel excise duty are not applied**
Aim	This reduction was introduced to provide assistance to companies providing road vehicle based freight and passenger transport services.
Legal source	DPR n. 277/2000; art. 6, paragraph 2 of Legislative Decree n. 26/2007, and subsequent provisions; art. 61 paragraph 4, Decree Law n. 1 of 24th January 2012. Stability Law for 2015 (art 1 paragraph 233 of Law n. 190/2014) **excluded from the subsidy those diesel vehicles with Euro 0 emission standard or lower**. Stability Law for 2016 (art.1 , paragraph 645 of Law n. 208/2015) has further restricted the application field of the diesel excise duty reduction by **excluding Euro 2, or lower emission standard diesel vehicles** from 1st January 2016. In this way, law 208/2015 confirmed the subsidy phasing out strategy started the year before.
Type of subsidy	Reduced excise duty
Rate	Normal rate: gasoil : 617.40 €/1000 litres Reduced rate: gasoil 403.1622 €/1000 litres **(-34.7% discount)**
Co-financed by EU	No
Year of introduction	2001
Year of cessation (if sunset clause expected)	-
Level of reformability	National

Environmental, economic and social aspects

- ✓ This subsidy exists to protect competitiveness of freight and passenger transport services with respect to neighbouring countries. The tax discount protects as well competitiveness of those manufacturing sectors with a high demand of road freight transport.

- ✓ On the other hand, this subsidy encourages a lower effort for energy saving measures by transport companies as compared to the higher ordinary excise rate, increasing the environmental impacts of diesel vehicles.

- ✓ As widely documented in scientific literature, diesel fuelled vehicles produce high level of emissions, particularly NOx and thin PM, generating significant health externalities (IMPACT, 2008; Ricardo-AEA, 2014).

- ✓ Viable alternatives to diesel fuel for road transport are growingly available. The National Strategic Plans approved with legislative Decree n. 256/2016 (enforcement of Directive 2014/94/EU) promote the following alternative fuels: electricity mainly in urban passenger transport, CNG in both passenger and freight transport (low-medium mileage), LNG in freight transport (high mileage), and low cost sustainable biofuels and hydrogen for all transport modes in the longer term.

- ✓ The subsidy phasing out strategy implemented with the 2015 and 2016 Financial Stability Laws, can entail significant additional revenue for the State budget. In 2016, the Ministry of Finance estimated short-term revenues connected to these subsidy restrictions for about € 160 mln.

Summary table of results for the first edition of the Catalogue

Subsidy & Category		EHS	EFS	Neutral	Uncertain	Total (mln €)	Total (%)
Agriculture		154	2,231		4,068	6,453	15.7%
Energy		11,550	12,145			23,695	57.6%
Transport		202	200		65	468	1.1%
Other		700	1,079	3,538	1,634	6,950	16.9%
VAT		3,561	25			3,586	8.7%
Total	(mln €)	16,167	15,679	3,538	5,767	41,151	100%
	(%)	39.3%	38.1%	8.6%	14.0%	100%	

An ongoing process…

- Hopefully, the Peer-Reviews of Indonesia and Italy will help to keep up the momentum on the topic of the support on fossil fuels, that constitutes a major environmental, economic and social issue of our time. This work aims at sharing with countries, think tanks and international organizations, the state of the art of FFS in Italy and the huge potential for reform;

- Key G20 partners, such as Canada and Argentina, are already candidate to take on their own peer-review in 2019. Other Countries are likely to join.

- We are glad to have a vast participation of 9 countries (Arg-Can-Chile-China-Fra-Ger-Indon-Neth, NZ), 2 IGOs (OECD and UNEP), 3 Think-tanks and Universities (GBE, IISD, U. Pavia; EER);