The background features a semi-transparent globe on the right side, showing the continents of Europe, Africa, and Asia. On the left side, there is a grey, semi-transparent illustration of an oil spill. A large oil drum is tilted, pouring a thick, dark grey liquid that spreads across the ground in several puddles of varying sizes.

Reporting fossil fuel subsidies in the context of the *SDG 12.c.1*: the case of Italy


Chiara Antonelli
Gionata Castaldi
Ministry of Economy and Finance

SDG Indicator 12.c.1 training – May 23, 2022

The views expressed in the presentation are those of the authors and do not necessarily reflect those of the MEF

Enhancing Transparency on FFS: reporting tools

- ❑ The Catalogue of EHS and EFS in Italy
- ❑ The G20 Peer Review on FFS: Italy and Indonesia
- ❑ The pilot test on the indicator SDG 12.c.1
- ❑ Looking to specific subsidies as potential case studies



The goal of the Catalogue

Definition of a subsidy

- ❑ The Catalogue is a **technical tool at the service of Parliament, Government and the scientific community**; it attempts to report all the information made available and the possible and legitimate various evaluations of experts and public bodies. The final evaluations expressed in the Catalogue remain the responsibility of the Ministry for Ecological Transition.
- ❑ The definition of a subsidy, as provided by the law mandating the Catalogue, is wide, including **incentives, benefits, tax exemptions and credits concerning taxes** related to environmental protection.

Definition of a subsidy

First level classification	Second level classification (case studies)	Who covers the subsidy and how
Direct subsidies	Direct transfers of public resources to economic agents	Public bodies (public expenditure)
	Potential transfer of public resources to economic agents	
	Direct transfers of resources withdrawn through tariffs on public services	Public service users (e.g. electricity bills)
Indirect subsidies	<p>Tax expenditures (any form of exemption, exclusion, reduction of tax base or rate as a consequence of current regulations):</p> <ul style="list-style-type: none"> - Selective exemptions of specific categories of beneficiaries deviating from general principles and obligations, as provided by current regulations (e.g., exemption from tax rates or duties) - tax rate reductions (implementation of a reduced tax rate); - tax base deduction (e.g., deduction from total revenue, reliefs, e.g. royalties oil & gas); - reduction of taxation (deduction, tax credit, substitute taxes); - reimbursement of taxes; - tax deferrals; - favourable tax regimes (tax regimes alternative to ordinary ones); - implementation of a flat-rate criteria to determine the tax base and that can potentially bring to foregone revenue (e.g. fringe benefit for company cars). 	Public bodies (foregone revenue)
Indirect subsidies	Implicit subsidies arising from different fiscal treatment of comparable and equivalent activities or products (excise duties on fuels used for electricity production vs industrial uses, different tax treatment among diesel/gasoline, underpricing of natural resources, etc.)	Public bodies (foregone revenue)
	Tariff benefits or exemptions to specific categories of consumers (cross-subsidies) (e.g. bonus to poor families, etc.)	Specific public service users (treatment inequality that determine environmental damage)
Out of Scope	Implicit financial transfers resulting from a lack of full cost pricing (external costs)	Public bodies (foregone revenue), citizens (burden of environmental costs from polluters to collectivity)

The Catalogue at its Fourth Edition: Main Results

Sector	2019		2020	
	Number of measures	Financial effect (mln €)	Number of measures	Financial effect (mln €)
Agriculture & Fisheries				
	53	7.408,62	52	7.278,75
Energy				
	48	23.527,65	48	21.567,42
Transport				
	14	1.478,75	17	2.479,71
Other subsidies				
	38	7.690,74	42	7.910,23
Reduced VAT				
	21	14.900,07	21	14.966,03
Total IV CSA	174	55.005,73	180	54.202,14
of which FFS	41	15.014,65	40	13.060,21

Source: *The Italian Catalogue on EHS and EFS – 4th Edition*

The G20 Peer Review on FFS

□ Different elements:

- Experts from 9 countries: Indonesia - China - NZel - Chile - Argentina - Canada - Germany - France - Netherlands + IGOs + Think Tanks; the largest team to date
- Argentina and Canada, former Presidencies of the G20 and G7, entered the Peer Review exercise. Netherlands joined and published.
- 39 FFSs reported by Italy divided by level of reformability.
- Indonesia and Italy decided not to focus on the term “inefficient”
- The involvement of at least three communities is crucial: energy and industry, economy and finance, environment and climate.

OECD Fossil Fuels Support Inventory Database

Two main sources for the identification and evaluation of the financial effect of FFS

Italian Ministry of Ecological Transition

- Identification of FFS (*via* the Catalogue)
- Financial evaluation of non fiscal subsidies (e.g., Royalty-Free Thresholds)

Italian Ministry of Economy and Finance

Financial evaluation of fiscal subsidies *via*:

- Annual tables on fiscal expenditures
- *ad hoc* computations (VAT rates, diesel differential, ETS)

Road to the Reporting Template

- ❑ November 2020: the OECD proposed to implement data collection for SDG 12.c.1 leveraging on the “Fossil Fuel Support Inventory Database”. To this end, Member countries were invited to join the Informal Task Team on Measuring Fossil Fuel Subsidies.
- ❑ June 2021: ITT-FFS asked countries to participate to a pilot test on checking the reporting template with data coming from the *Inventory*.
- ❑ **Opportunity**: Data in three different database (Catalogue, Inventory and SDG 12.c.1) fully consistent.

The reporting template: elements and characteristics

- ✓ Template to identify and report on subsidy measures, according to the Methodology of SDG Indicator 12.c.1.
- ✓ Subsidy measures listed per row and classified according to the different categories.
- ✓ Name of the subsidy, description, sources, start and end date, and the values of the subsidy for the different years entered manually.
- ✓ Inclusion of historical data from 2015 as to identify trends, given that the value of fossil fuel subsidies can be volatile depending on different factors, such as the price of oil in international markets.
- ✓ Only actual values reported - estimates or projections for a given year excluded.
- ✓ Values reported in local currency in nominal values and using millions as units.

Main elements included:



- | | |
|---|--|
| <input type="checkbox"/> Description of subsidy | <input type="checkbox"/> Fuel sub-type |
| <input type="checkbox"/> Level | <input type="checkbox"/> Recipients |
| <input type="checkbox"/> Sources | <input type="checkbox"/> Stage of support |
| <input type="checkbox"/> Scope of data reported | <input type="checkbox"/> Incidence |
| <input type="checkbox"/> Current status | <input type="checkbox"/> Comments |
| <input type="checkbox"/> Start date | <input type="checkbox"/> Currency |
| <input type="checkbox"/> End date | <input type="checkbox"/> Financial value (2015-2020) |
| <input type="checkbox"/> Typology, Category | |
| <input type="checkbox"/> Typology, Sub-category | |
| <input type="checkbox"/> Fuel type | |

A hands-on example: the template layout (overview)

Name of subsidy	Level	Current status	Start date	End date	Typology, Category	Typology, Sub-category	Fuel type	Recipients	Stage of support	Incidence	2015	2016	2017	2018	2019	2020
Energy Tax Breaks for Agriculture	Central/ Federal	Ongoing	01-01-1993	--	Tax expenditures	TAX EXPENDITURES - Tax breaks and revenue foregone	Petroleum products	Consumption	END	Direct Consumption	843,22	864,8	913	938,7	935,4	942,7
Tax Relief for Trucking Companies	Central/ Federal	Ongoing	01-01-2001	--	Tax expenditures	TAX EXPENDITURES - Tax breaks and revenue foregone	Petroleum products	Consumption	END	Direct Consumption	1292,3	1264,4	1587,5	1319,9	1361,8	1293,8
Royalty-Free Thresholds	Central/ Federal	Ongoing	01-01-1997	--	Tax expenditures	TAX EXPENDITURES - Under-pricing of non-energy government-owned natural resources or land	Petroleum products	Production	EXTRAC T	Land and natural resources	85,6	52	52	52	52	152,8
Fuel Tax Exemption on the Electricity Used by Households with Installed Capacity up to 3kW and Monthly Consumption up to 150kWh	Central/ Federal	Ongoing	01-01-2007	--	Tax expenditures	TAX EXPENDITURES - Tax breaks and revenue foregone	Electricity	Consumption	END	Direct Consumption	634,08	586,4	586,7	591,8	578,6	582,2
Differential Excise Tax Treatment for Diesel Fuel	Central/ Federal	Ongoing	01-01-1995	--	Tax expenditures	TAX EXPENDITURES - Tax breaks and revenue foregone	Petroleum products	Consumption	END	Direct Consumption	3034,8	3069,3	3034,2	3183,1	3144,9	2610,6

Case study: Diesel differential – implicit subsidy

Sector:	Energy					
Subsidy name	Differential Excise Tax Treatment for Diesel Fuel					
Duration:	1993 - ongoing					
Description:	Diesel fuel benefits from a reduction of 23% of the excise tax vis-à-vis motor gasoline. This measure effectively subsidises the consumption of diesel fuel at the detriment of motor gasoline.					
Type of subsidy:	Indirect subsidy - revenue foregone					
Rate:	Gasoline rate: 728,4 €/1000 lts			Diesel rate: 617,4 €/1000 lts		
Level of reformability:	National					
Motivation:	<ul style="list-style-type: none"> • The difference in the fiscal treatment between diesel and gasoline is an implicit subsidy given the unequal treatment with respect to equivalent activities or products. • In Italy the excise duty applied to diesel is considerably lower than that of gasoline and this is not justified. • Italy has a differential for diesel of approximately 85%, while the externalities associated with diesel are higher than with petrol and this would justify a higher taxation. 					
Financial effect (mln €)	2015	2016	2017	2018	2019	2020
	3034,85	3069,36	3034,24	3183,15	3144,93	2610,68

Case study: ETS free allowances and the benchmark

Sector:	Energy					
Subsidy name	ETS quotes distributions					
Duration:	2005 - ongoing					
Description:	As a result of transitory norms for the implementation of measures necessary to fulfil the Paris Agreement, some emission quotas under the ETS are distributed free of charge.					
Type of subsidy:	Induced transfers - Price support, including through market regulation					
Rate:	Ordinary: 15 €/tCO ₂			Reduced: 0 €/tCO ₂		
Level of reformability:	EU level					
Motivation	The allocation of emission allowances free of charge constitutes a form of subsidy for industries subject to the ETS, which is harmful to the fight against climate change and in contrast with the objectives of reducing emissions on a global scale deriving from Paris Agreement.					
Financial effect (mln €)	2015	2016	2017	2018	2019	2020
	654	370.83	394.63	980	n.a.	n.a.

Case study: Classifying and relating VAT to FFS

Sector:	Reduced VAT					
Subsidy name	VAT Reduction on Electricity for Domestic Use					
Duration:	1972 - ongoing					
Description:	This measure grants a VAT of 10% instead of 22% to the domestic consumption of electricity.					
Type of subsidy:	Reduced Rate - Indirect subsidy			NOT a tax expenditure		
Rate:	Ordinary: 24,32 €/tCO ₂			Reduced: 0 €/tCO ₂		
Level of reformability:	National					
Motivation	Reduced VAT rate on electricity, gas and other fossil fuels does not encourage an efficient use of polluting energy sources. It is a fossil fuel subsidy for the share of electricity production related to fossil fuels.					
Financial effect (mln €)	2015	2016	2017	2018	2019	2020
	1429,92	1606,40	1663,79	1765,14	1779,98	1944,06

Case study: Case-study: Classifying Fringe Benefit

Sector:	Transport					
Subsidy name	Tax concessions on fringe benefits in favor of the worker who uses the company car in a mixed manner					
Duration:	2010 - ongoing					
Description:	Income tax applied for a range spanning from 25% to 60% of the amount corresponding to a conventional mileage of 15,000 kilometers multiplied by a kilometer operating cost in relation to the period of the year of use.					
Type of subsidy:	Flat Rate criterion that brings to a different tax base - Indirect subsidy					
Rate:	Ordinary: n.a.			Reduced: n.a.		
Level of reformability:	National					
Motivation	Since the fringe benefit tax treatment is a flat-rate type, if the distance actually traveled each year in a personal capacity is greater than the amount of km covered by the percentage threshold, the additional benefits for the employee are not taxed (subsidy).					
Financial effect (mln €)	2015	2016	2017	2018	2019	2020
	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.

Defining the tax benchmark

Name of subsidy (tax expenditure)	Type of benchmark used	Value of benchmark used	Value of tax measure	Year
ETS quotes distributions	Conceptual approach	15 €/tCO ₂	0 €/tCO ₂	20,18
Differential Excise Tax Treatment for Diesel Fuel	Conceptual approach - Setting the benchmark on the structural features of the tax system	Diesel: 797,80 €/1000 lt* € 728.40 / 1000 liters)	Diesel: 617,40 €/1000 lt	2021
VAT Reduction on Electricity for Domestic Use	Conceptual approach	22%	10%	2021
VAT Reduction on Electricity, Natural Gas and LPG used in Some Manufacturing, Agricultural and Extractive Activities	Conceptual approach	22%	10%	2021
VAT Reduction on Oil Products Used in Electricity Production and Some Manufacturing and Agricultural Activities	Conceptual approach	22%	10%	2021
VAT Reduction on Oil Products Used by Agricultural Enterprises and Fishing Enterprises Operating in Internal Waters	Conceptual approach	22%	10%	2021
VAT Reduction on Natural Gas and LPG Used for for Cooking and Water-Heating Purposes	Conceptual approach	22%	10%	2021
VAT exemption on taxi used for urban transport	Conceptual approach	n.a.	0%	2021