

# The Italian Catalogue of environmentally harmful and environmentally friendly subsidies

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Wednesday, 13 June 2018



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# Overview

- Why the Catalogue
- Definition and classification of environmentally subsidies
- Overview of the Catalogue's main results
- Conclusions and main recommendations
- The Catalogue as a work in progress



# Why the Catalogue

- Through Article 68 of the Law 28th December 2015, n. 221, the Italian Parliament has asked the Italian Ministry of Environment, Land and Sea (MATTM) to provide a **Catalogue of environmentally friendly and harmful subsidies**.
- According to the Law *“the subsidies are considered in their broader definition and include, among others, incentives, benefits, subsidized loans, exemptions from taxes directly related to environmental protection”*. It is a definition which matches with the OECD definition, widely shared by most of the scientific community
- The Ministry, through its Directorate General for Sustainable Development and International Affairs (DG-SVI) and the technical assistance of Sogesid s.p.a., has ensured the first version of the Catalogue presented here, with the cooperation of other Italian administrations.
- The Catalogue will be updated and enriched yearly, within the 30th June of each year.



# The context – International commitments (G7 and G20)

- G20 (Seul - November 2010): “rationalize and phase out over the medium term inefficient fossil-fuel subsidies that encourage wasteful consumption”.
- 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.”



# The context – OECD recommendations

- Starting at the end of the 90s, OECD developed different reports and methodological tools to identify and reform EHSs, in particular phasing-out FFS;
- Warning on subsidies «inertia»: in OECD countries, 2/3 of EHSs have been introduced before the year 2000 (OECD, 2015);
- Introduce a systematic monitoring system of (current and in the pipeline) direct and indirect subsidies, in view of their potential environmental impact.



# Subsidies' classification

<i>Description</i>	<i>Classification</i>	
Direct transfers of funds	On-budget	Direct subsidies
Potential direct transfers of funds		
Tax exemptions and rebates	Off-budget	Indirect subsidies (Tax expenditures, tax credits, etc.)
Regulatory support mechanisms		
Foregone revenues		
Selective exemptions of government standards		
Implicit income transfers resulting from a lack of full cost pricing		



# How did we classify our subsidies

- **EFS: Environmentally Friendly Subsidy** (aimed to protect the environment and possibly justified through scientific literature)
- **EHS: Environmentally Harmful Subsidy** (justified through scientific literature, impact indicators, guidebooks on external costs evaluation...)
- **Uncertain:** Either positive and negative environmental impacts. Further investigations are needed
- **Neutral:** namely, not impacting significantly on the environment



# Subsidies examined by the first edition of the Catalogue

- **131 forms of subsidies examined**, for an overall financial impact on budget of **€ 41 billion**;
- classification of subsidies into **5 categories** (Agriculture, Energy, Transport, reduced VAT rates, Other);
- **75 tax expenditures** examined, with a budget impact of about **€ 22 billion**
- **56 direct subsidies** examined, with a budget impact of about **€ 19 billion**





# Main results

Table 2. Values of SADs, SAFs, SANs, “uncertain,” by subsidy category (millions of Euros)

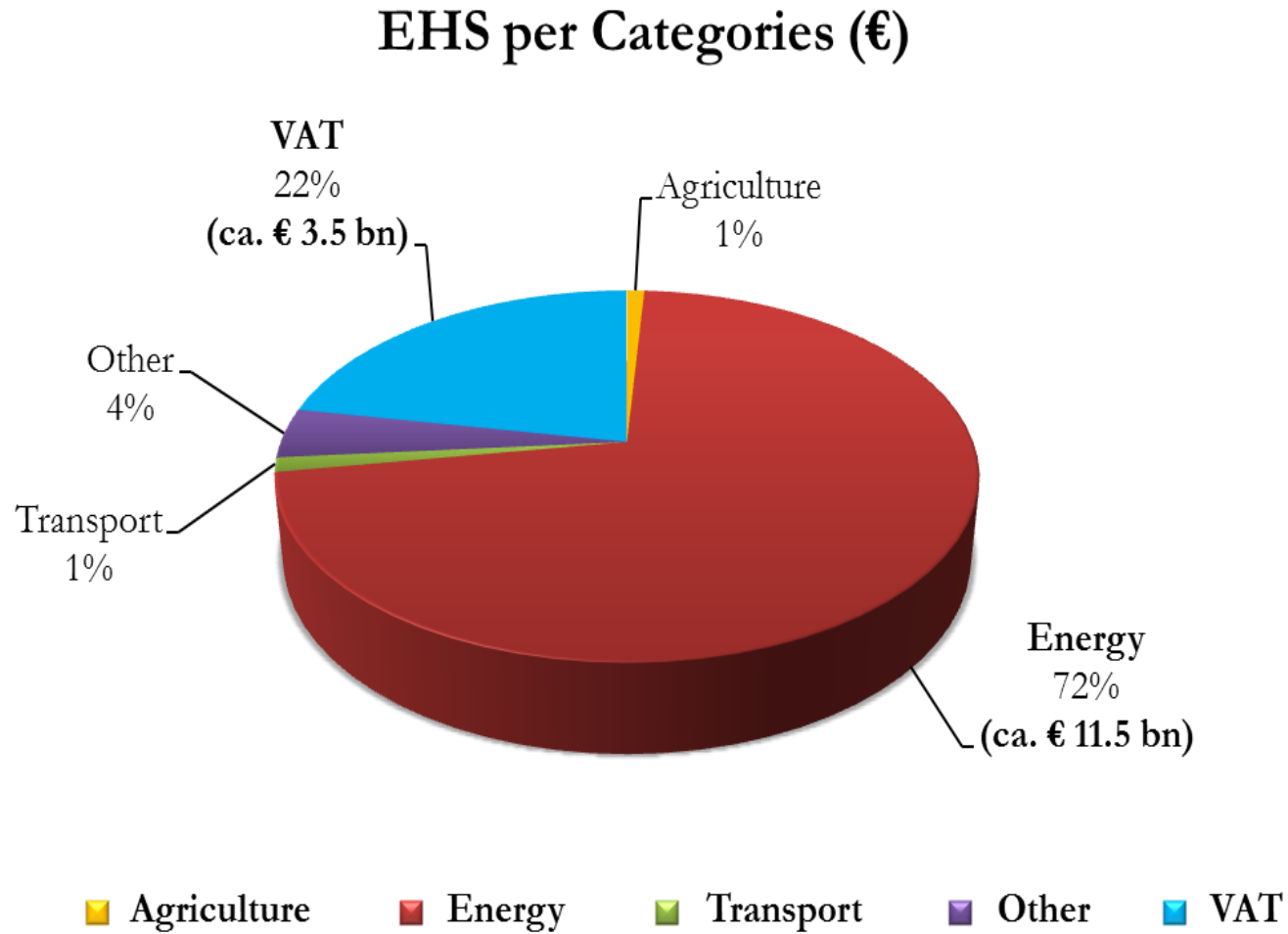
Subsidy Category	EHSs - SADs	EFSs - SAFs	ENSs - SANs	Uncert ain	Total (mln €)	Total (%)
Agriculture	154	2.231		4.068	6.453	15,7%
Energy	11.550	12.145			23.695	57,6%
Transport	202	200		65	468	1,1%
Other	700	1.079	3.538	1.634	6.950	16,9%
VAT	3.561	25			3.586	8,7%
Total (mln €)	16.167	15.679	3.538	5.767	41.151	100,0%
Total (%)	39,3%	38,1%	8,6%	14,0%	100,0%	

Source: MATTM - UAT Sogesid (2017) for 2016

As a general rule, all public subsidies should either be “environmentally friendly” or “neutral” (namely, not impacting significantly on the environment). However, according to the *Catalogue*, environmentally **harmful subsidies (EHSs - SADs) totalled 16.2 billion Euros**. The so-called “uncertain” subsidies, which entail both positive and negative environmental impacts, account for **5.8 billion**.

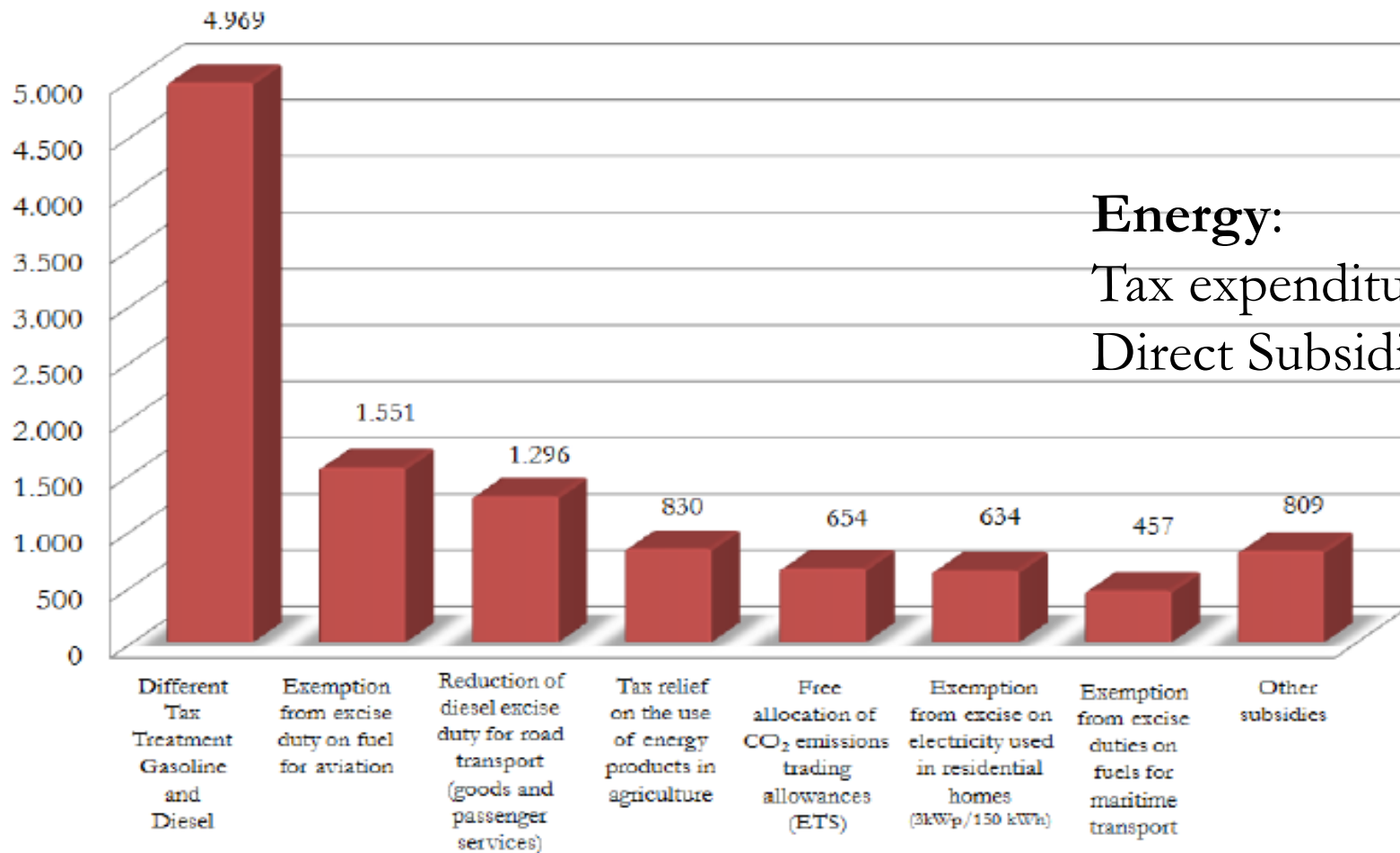


# Main results – where do EHSs hide?



# Main results – Energy EHS

Figure 2 – Energy EHSs breakdown (millions of Euros)

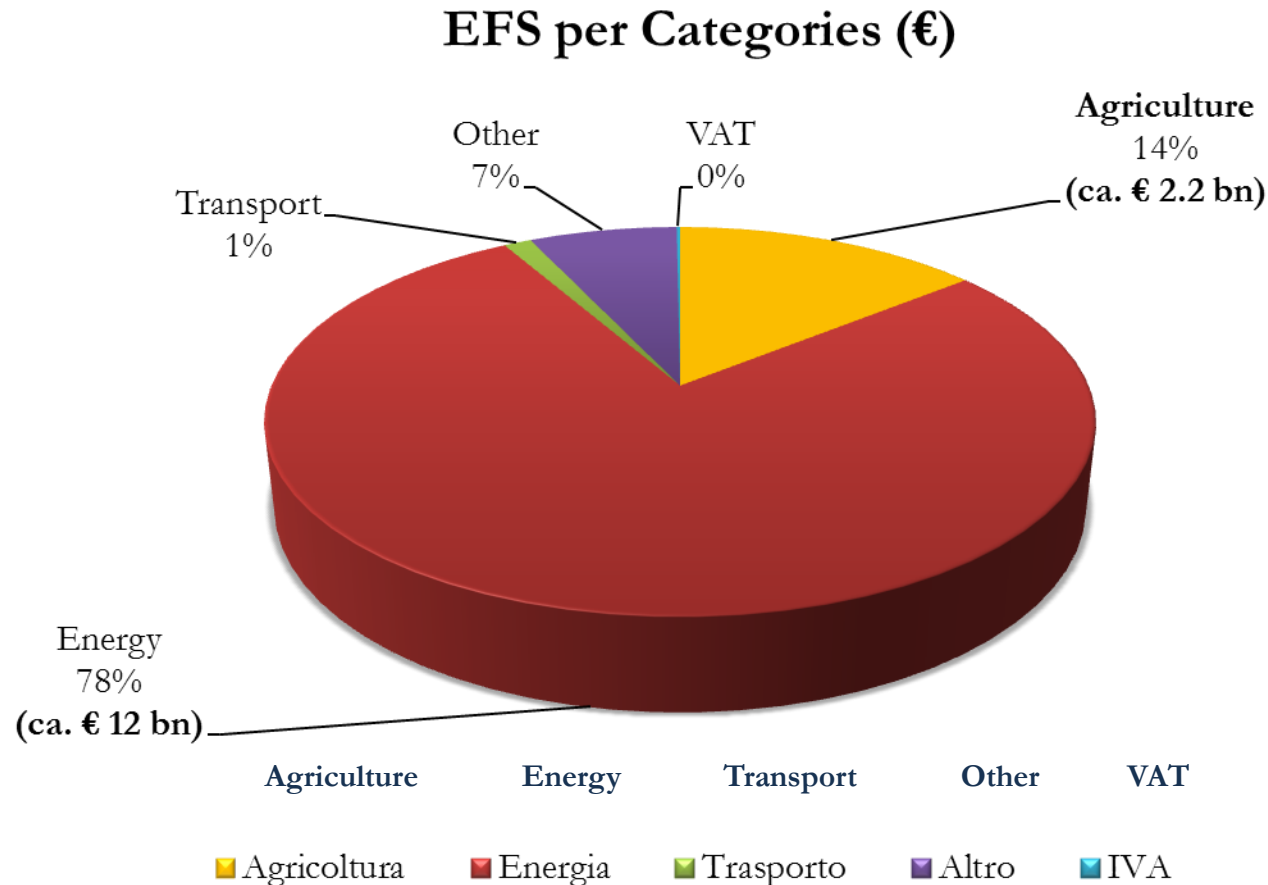


## Energy:

Tax expenditures = ca. € 11.2 bn (97%)

Direct Subsidies = ca. € 310 mn (3%)

# Main results – where do EFSs are allocated?



## Energy:

Direct Subsidies = ca. € 12 bn (99%)

Tax expenditures = ca. € 86 bn (1%)

## Agriculture:

Direct Subsidies = ca. € 2.2 bn (99.8%)

Tax expenditures = ca. € 4 mn (0.2%)



## Conclusions and recommendations – How to build up on the Catalogue

- ✓ The Catalogue is an **informative instrument**: it should be properly disclosed.
- ✓ **Institutional monitoring of the environmental impacts and of the related external costs of subsidized activities must be strengthened.**
- ✓ **The introduction of specific environmental requirements/conditionalities in each subsidy regulation can improve subsidy performance (from «uncertain» or «neutral» subsidies to «friendly» subsidies).**
- ✓ **Calling upon fiscal allowances and tax expenditures seems to have facilitated the approval of measures clashing with the environment, while opting for direct transfers apparently makes such measures more easily consistent with their environmental goals. Towards an ex ante environmental compatibility assessment of new subsidies?**



# Towards the second edition of the Catalogue

- **The Catalogue must be conceived as a work in progress:**
  - continuous update of the financial impact of subsidy schemes;
  - gradual extension of the scope of analysis to consider new forms of subsidies to be classified as EHS or EFS and quantified;
  - improvements in data collection;
  - stable cooperation with the Expert Commission on tax erosion, with the Ministry for Economy and Finance and with other central public bodies (responsible for sectoral public expenditures).

