



ITALY: INVENTORY OF ESTIMATED BUDGETARY SUPPORT AND TAX EXPENDITURES FOR FOSSIL-FUELS

Energy resources and market structure

Italy produces small volumes of natural gas and oil and virtually no coal, so most of the country's fossil-fuel supplies—as well as a significant share of its electricity—are imported. They are augmented by local production of energy from renewable sources. Import dependence has been increasing in recent years. Oil and natural gas each account for around 40% of Italy's total primary energy supply, the rest coming from coal (8%), combustible renewables and waste (4%), hydro and geothermal energy (both 3%) and imported electricity (2%). In total, indigenous production meets only 16% of the country's primary energy needs.

The role of the state in the Italian energy sector has been greatly reduced by a programme of privatisation that was launched in the 1990s. Until 1995, Eni, the dominant oil and gas company in Italy, was fully state-owned; by 2001, the state's share of the company had been reduced to just over 30%. The company has retained a dominant position in the Italian upstream oil and gas sector, although a number of privately owned Italian and foreign companies have also established a significant presence. Eni remains the leading refining and marketing company, with about 30% of the market. The Italian oil market is fully liberalised. The government intervenes only to protect competition and to avoid abuse of dominant position.

Eni is also a leading player in the downstream gas market, through its 50% ownership of the main gas group, Snam Rete Gas, which controls most of the physical gas infrastructure in Italy. This includes almost the entire transmission network (Snam Rete Gas), a liquefied natural gas import business (GNL Italia), almost all the underground gas storage capacity in Italy (Stogit), and the leading local distribution network operator (Italgas). These businesses are functionally and legally unbundled.

The state has retained a 31% stake (21% directly and 10% through the majority state-owned bank, *Cassa Depositi e Prestiti*) in the former national electricity company, Enel, which continues to enjoy a dominant position in the national market. Despite government measures to encourage wholesale competition, the company is still Italy's largest power generator, controlling just over half of total capacity, and is among Europe's largest generators measured by installed capacity. The other leading generators are Edison (in which the French company, EDF, has a majority stake), E.On Produzione (formerly Endesa Italia, majority owned by Germany's E.On) and Enipower (a subsidiary of Eni). Terna, in which Cassa Depositi e Prestiti holds a near 30% stake, is the primary owner and operator of the national high-voltage transmission grid. There are a large number of distribution companies, many of them owned by municipalities. Enel remains by far the largest distribution network operator, distributing approximately 86% of total distributed volumes.

Italy has liberalised its electricity and gas sectors progressively in conformance with EU directives. Transmission and distribution of natural gas and electricity have been unbundled and a regulator, *Autorità per l'Energia Elettrica e il Gas* (AEEG), set up to supervise access to networks and regulate tariffs. Since July 2007, all electricity consumers are free to choose their supplier, while retaining the right to be supplied at regulated prices. Switching rates are low among household customers: Enel and Eni still account for the bulk of electricity and gas sales.

Prices, taxes and support mechanisms

The prices of all forms of energy other than electricity are set freely by the market. Electricity consumers have a choice of supply from incumbent suppliers at regulated tariffs or from alternative suppliers at market rates. There are no regulated tariffs for gas, but the AEEG has put in place a public service reference price for gas for all domestic customers and small businesses, based on the actual price of gas at entry points to the Italian transmission system.

Italy applies different rates of VAT and excise tax on energy at the national level. Oil products are subject to excise tax and VAT (at a rate of 21%) for gasoline, diesel fuel, light fuel oil and LPG. Natural gas is subject to excise tax and VAT, as well as additional taxes at the regional level. A lower rate of VAT, currently 10%, is applied to sales of natural gas up to 480 cubic metres a year, and 21% for the remaining consumption. Different rates of excise tax are levied on gas according to whether the consumer is a business or a household and to the level of consumption (higher taxes are applied to higher consumption levels for households and vice versa for industry). The household tax rates are lower in the south of the country. For electricity, households pay a 11% rate of VAT; excise tax is not charged on the first 150 kWh per month of consumption (where capacity is up to 3 kW). For consumption above that volume, excise tax is charged at a fixed rate, which is slightly higher for secondary residences. For industrial consumers, excise tax is charged at a fixed rate on consumption over 200 kWh per month.

There are a number of excise-tax exemptions, reductions and rebates for specific fuels and sectors. These include (but are not limited to) shipping (inland and maritime); rail transport; certain end users in the agriculture, horticulture, aquaculture and forestry sectors; diesel fuel used in public passenger transportation and by ambulances; fuel used by trucking companies; and LPG and heating oil sold in certain regions, such as those not served by a natural-gas distribution network. There is also an excise-tax rebate on automotive fuels for people living in oil-producing areas.

Support to energy production includes cheap loans and grants to encourage natural gas production in depressed regions and relief from royalty payments on the first tranche of production of oil and gas.

Data documentation

General notes

Following OECD convention, amounts prior to 1999 are expressed as “euro-fixed series”, meaning that we applied the fixed EMU conversion rate (1 EUR = 1 936.27 ITL) to data initially expressed in the Italian Lira (ITL).

The fiscal year in Italy runs from 1 July to 30 June. Following OECD convention, data are allocated to the starting calendar year so that, for example, data covering the period July 2005 to June 2006 are allocated to 2005.

Producer Support Estimate

Royalty-Free Thresholds (no data available)

Italy’s royalty regime is set out in a legal act which was adopted in November 1996 (*Decreto Legge* No.625) but rates have recently been increased for onshore production (10% as of January 2009). The additional revenues thus collected are meant to finance a reduction in fuel prices for those consumers living in areas where oil and gas extraction takes place. Meanwhile, the overall royalty framework remains characterised by lower rates applicable to offshore production (4% for oil and 7% for natural

gas). Royalty revenues are generally divided between different jurisdictions with the central government retaining between 30% and 45% of the total.

The 1996 act also provides for a royalty relief on the first 20 000 tonnes of oil produced onshore per year (50 000 tonnes in the case of offshore production). A similar provision applies to natural gas for the first 25 million cubic meters (80 million cubic meters in the case of offshore production).

No estimates of the revenue foregone due to the royalty relief are available.

Sources: Ministero dello Sviluppo Economico (2011), Parlamento Italiano (1996).

Consumer Support Estimate

Fuel-Tax Exemption for Shipping (data for 2005-)

This provision exempts the use of fuel for navigation purposes from the excise tax that is normally levied on sales of petroleum products in Italy. It applies specifically to the transportation of goods and passengers along national waterways and within EU waters. The measure also encompasses the use of fuel in the fisheries sector.

We allocate the annual amounts reported by Italy's Department of Finance to diesel fuel and heavy fuel oil on the basis of the IEA's Energy Balances for the fisheries and domestic-navigation sectors.

Sources: Dipartimento delle Finanze, IEA.

Tag: ITA_te_01

Fuel-Tax Reduction for Rail Transport (data for 2005-)

Rail transport in Italy benefits from a 70% reduction in the rate of excise tax that normally applies to sales of diesel fuel.

Sources: Dipartimento delle Finanze.

Tag: ITA_te_02

Energy Tax Breaks for Agriculture (data for 2005-)

The agriculture, horticulture, forestry, and aquaculture sectors in Italy benefit from a reduced rate of excise tax for their use of diesel fuel and gasoline. The reduction with respect to the benchmark rate amounts to 78% for diesel and 51% for gasoline.

Data from the IEA's Energy Balances for the agriculture and forestry sectors indicate that the use of diesel dwarfs that of gasoline, with the latter accounting for less than 1% of total energy use in those sectors. For that reason, we allocate this measure entirely to diesel fuel.

Sources: Dipartimento delle Finanze.

Tag: ITA_te_03

Tax Relief for Public Transport (data for 2005-)

This measure provides public transportation in Italy with a reduction in the rate of excise tax normally levied on sales of petroleum products. This rate varies according to the energy product used and refunds correspond to fixed amounts of fuel. The reduction also applies in a few instances to boat transfers whenever road transport is not available. Rail transport is, however, excluded (see “ITA_te_02” above). Various caps are set on the amounts of fuel to which the reduction applies, with these caps depending on population density on a regional basis.

We allocate this measure entirely to diesel fuel.

Sources: Dipartimento delle Finanze.

Tag: ITA_te_04

Tax Relief for Ambulances (data for 2005-)

This provision grants ambulances providing assistance or first-aid a reduction in the excise tax normally levied on sales of petroleum products. Refunds correspond to fixed amounts of fuel.

We allocate this measure entirely to diesel fuel.

Sources: Dipartimento delle Finanze.

Tag: ITA_te_05

Tax Relief for Certain LPG Users (no data available)

The use of LPG in certain industrial plants and buses used for public transportation purposes is subject to a 90% reduction in the excise tax levied on sales of petroleum products.

No estimates of the revenue foregone due to this reduction are available.

Sources: Dipartimento delle Finanze.

Tax Relief for Trucking Companies (data for 2005-)

Trucking companies operating in Italy can obtain partial refunds on the amount of excise tax paid for their fuel purchases. Refunds usually correspond to a fixed amount of fuel.

We allocate this measure entirely to diesel fuel.

Sources: Dipartimento delle Finanze.

Tag: ITA_te_06

Tax Relief for Industrial Users of Natural Gas (data for 2005-)

Large industrial users of natural gas can benefit from a reduction in the rate of excise tax usually levied on sales of natural gas in Italy. The reduction equals 60% and applies to those users whose consumption volumes exceed 1.2 million cubic meters per year.

Sources: Dipartimento delle Finanze.

Tag: ITA_te_07

Tax Relief for Users Living in Disadvantaged Areas (data for 2005-)

This provision is meant to benefit those users of fuel who reside in poor, remote areas where provision of natural gas can prove challenging. Relief is provided by means of a set of reductions on the excise tax that normally applies to sales of petroleum products.

We allocate the annual amounts reported by Italy's Department of Finance to LPG and diesel fuel on the basis of the IEA's Energy Balances for the residential sector.

Sources: Dipartimento delle Finanze, IEA.

Tag: ITA_te_08

Sources

Policies or transfers

Ministero dello Sviluppo Economico (2011), *Gettito Royalties Anno 2010*, Direzione Generale per le Risorse Minerarie ed Energetiche, Italian Government, Available at: unmig.sviluppoeconomico.gov.it/unmig/royalties/royalties.asp.

Parlamento Italiano (1996), *Decreto Legislativo 25 novembre 1996, n. 625*, Leggi, Available at: www.parlamento.it/parlam/leggi/deleghe/96625dl.htm.

Energy statistics

IEA (2011), *Energy Balances of OECD Countries*, International Energy Agency, Paris.