Italy

The OECD Inventory of Support Measures for Fossil Fuels identifies, documents and estimates direct budgetary support and tax expenditures supporting the production or consumption of fossil fuels in OECD countries and eight partner economies (Argentina, Brazil, the People’s Republic of China, Colombia, India, Indonesia, the Russian Federation, and South Africa).

Energy resources and market structure

Italy produces small volumes of natural gas and oil but virtually no coal, so that domestic production only meets 22% of its primary energy needs in 2017. Yet the country counts among Europe’s largest energy consumers. Most of the country’s fossil-fuel supplies – as well as a significant share of its electricity – are therefore imported and increasingly so. Although the country’s oil imports are diverse, the more than 50% of the quantities originate from Azerbaijan, Iran, Iraq and Russia. To alleviate the country’s dependency on oil imports, the demand for natural gas has been steadily rising since 1973, exceeding domestic production. Ninety-two percent (92%) of domestic consumption of natural gas was met by imports in 2017, mostly from Algeria and the Russian Federation.

In 2017, Italy released a new National Energy Strategy (SEN) based on four pillars: fostering the competitiveness of the Italian economy, protecting the environment, promoting green growth, and strengthening the security of energy supply. In practice, the government made the natural gas market more competitive, promoted the development of a European-integrated electricity market and the increase of fossil fuels production in the country, as well as the restructuring of the downstream oil market. The state still holds about 30% of four important players in the energy and electricity market: Snam S.p.A., who dominates the downstream gas market; Eni, which leads the oil industry from extraction to marketing and the upstream gas sector; Enel, which accounts for 25% of the production of electricity; and Terna S.p.A., the primary owner and operator of the national high-voltage transmission grid. Small generators account for 35% of the total national generation. Electricity trade with Malta started in 2015, following the opening of the Malta-Sicily submarine power cable during the same year.

Although the Italian oil and gas market is fully liberalised, it is dominated by Eni, which retains about 85% of total extraction activities and 30% of the oil-refining market. In a similar vein, more than 90% of the physical gas infrastructure, including almost the entire transmission network and underground gas storage capacity, but also the leading local distribution-network operator, is controlled by Snam S.p.A.

Energy prices and taxes

Italy has liberalised its electricity and gas sector progressively to conform to EU directives. Transmission and distribution of natural gas and electricity have been unbundled and a regulator, Autorità di Regolazione per Energia Reti e Ambiente (ARERA)—which succeeded the AEEG authority in 2018—supervises access to networks and regulates tariffs. Electricity consumers have a choice of supply from
incumbent suppliers at regulated tariffs or from alternative suppliers at market rates. VAT and excise taxes account for 33% of the price of electricity for residential consumers. Multiple pricing schemes exist to encourage the production of electricity from renewable resources and are managed by the Energetic Services Manager (Gestore Servizi Energetici), under the full ownership of Italy’s Ministry of Finance.

Since 2013, gas users have the same choice between regulated and market prices as for electricity. Natural gas is subject to a VAT rate of 22%, an excise tax that varies according to whether it is a household or a business user, and additional regional taxes. Oil products are not subject to regional taxes.

**Total support for fossil fuels in Italy by fuel type (left) and support indicator (right)**

Note: CSE=Consumer Support Estimate; PSE=Producer Support Estimate; GSSE=General Services Support Estimate.

**Recent developments and trends in support**

Hovering at a stable level, the amount of support dedicated to fossil-fuel consumption in Italy appears to have risen sharply since 2009. This is mainly a result of the lack of the data necessary to estimate the value of certain measures prior to 2009. The year 2012 marked several developments leading to a further increase in support: a nominal increase in diesel tax credits for lorries; release of earliest revenue forgone estimations of carbon allowances and; VAT reductions on electricity for domestic use. Other contributing measures that have also seen increases since 2012 are related to support on fuels in the agriculture sector as well as in air transportation and marine navigation within EU waters.

While there has been a rise in nominal terms for fossil fuel support since 2012, these increases are mainly due to the progressive increases of these fuels’ excise tax rate, which resulted in a nominal increase of the differential between the full excise rate and the zero excise rates.

No data are available on the fiscal costs of the subsidies supporting the production of fossil fuels in Italy.

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<tr>
<th>Examples of measures</th>
<th>Description</th>
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<tr>
<td><strong>Royalty-Free Thresholds</strong> (1996-)</td>
<td>Lower rates of royalties apply to offshore-production and the first 20 000 tonnes of oil produced onshore every year. A similar provision applies to natural gas for the first 25 million cubic meters extracted.</td>
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<tr>
<td><strong>Tax Relief for Ambulances</strong> (2003-)</td>
<td>This provision grants ambulances a 60% reduction in the excise tax normally levied on sales of petroleum products in Italy.</td>
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