



## **LEGAMBIENTE**

**Legambiente published the report "Stop fossil fuels and environmentally harmful subsidies".**

**Despite the commitments made by the Italian Government there are delays on the cut of many harmful incentives and subsidies.**

**35.7 billion euros are subtracted every year from investments in environmental innovation and useful investments for emerging from the economic and social crisis, while Italy falls to 27th place in the Climate Change Performance Index 2021 according to the Germanwatch report.**

The year 2020 is going to end without cuts on subsidies to fossil fuels; in the budget law presented by the Government, the issue is not foreseen, despite the fact that an "Interministerial Commission for the study and development of proposals for the ecological transition and for the reduction of environmentally harmful subsidies" was established this year. **A total of 35.7 billion euros is estimated to be subsidized, of which over 21.8 billion in direct subsidies and around 13.8 billion in an indirect way.**

We included all the incentive measures, which intervene on goods and processes, to reduce the cost of using fossil fuels or exploiting natural resources. The complete picture of the figures is available in the new report presented by Legambiente.

A large part goes to businesses, over 23 billion, and 12.5 billion to households. The largest share of direct subsidies concerns the transport sector, for 11 billion; followed by energy with 10.6 and agriculture with 0.1.

The report combines different sources including the Catalog of the Ministry of the Environment, the State budget, Terna, Arera, GSE and Ministry of Economic Development data.

Some of these subsidies have been introduced in 2020, such as the “capacity market”, which provides 20 years of very generous incentives for new gas power plants, justified by system security reasons, when for the flexibility and security of the system there are cheaper, more efficient alternatives with reduced or zero greenhouse gas emissions. The paradox of subsidies to fossil fuels, as pointed out by Fatih Birol, chief economist of the International Energy Agency, is that today they are the main obstacle to the development of renewables and energy efficiency interventions that would be competitive all over the world, but which instead they see preference with coal, gas and oil, artificially made cheap by public aid.

**“There is no excuse linked to Covid-19 - said Edoardo Zanchini, vice president of Legambiente - because the climate emergency is becoming increasingly serious and because every euro no longer given to polluters can trigger investments in environmental innovation and release the country with an economic and social crisis.** In the proposals we are presenting, we demonstrate how it is possible to intervene immediately on subsidies for fossil fuels and the extraction of natural materials, while the Italian Recovery Plan will have to set the reforms and timing to cancel all subsidies by 2030”.

In 2017, the Ministry of the Environment presented the first "Catalog of environmentally harmful and favorable subsidies", updated in 2019; the topic is finally in the political debate, but the results so far are disappointing, with a limited intervention to adjust the fees for the extraction of fossil fuels and the elimination of the reimbursement of diesel excise duties for trucks with euro 3 and euro 4 emissions standards.

Environmentally harmful subsidies are direct loans to power plants that use oil, gas and coal, which pollute and produce greenhouse gas emissions, such as the Brindisi Sud and Fiumesanto or San Filippo Mela power plants, which remain active only because they receive generous subsidies otherwise they would be largely out of business.

There are diesel power stations in the smaller Italian islands that could be replaced by much cheaper and more efficient solar and wind power plants. They are discounts on taxes (excise duty, VAT and tax credit) for a huge range of uses of petrol, diesel, gas, etc. in transport, in heating, in industries. For the sake of clarity, these discounts benefit households and businesses, so a simple cut would have negative effects from an economic and social point of view, for the poorest families and businesses in economical difficulty. Therefore we can and must make these discounts on consumption become incentives for investments in efficiency and self-production from renewables, with structural results in terms of savings as well as environmental benefits.

There are low fees for the extraction of raw materials, for the bottling of water, and limited taxes for those who throw recyclable waste in landfills. They are also loans to motorways, components, fertilization plants and funds for research on coal, gas and oil, in Italy and abroad.

**"With this report we want to make our contribution in demonstrating how urgent it is to**

**change the subsidy system that is benefiting so many polluting activities in our country** - said Katuscia Eroë, head of the energy department of Legambiente - **Not everything can be canceled overnight but it is certain that it is necessary to intervene, starting from the most absurd, polluting loans.** Harmful subsidies are a boulder on the possibility of pushing widespread innovation; these are resources subtracted from investments that are enormously needed to get out of the economical crisis: they could go to hospitals, schools, research, investments in the green economy and in the reduction of inequalities. Today there are cheaper alternatives from renewable sources in many fields, while in others efficiency in the use of fuels should be promoted instead of making discounts".

## **The summary by sector**

### **Energy sector**

**15 billion euros** went in 2019 to subsidize the fossil energy sector in Italy; which will become 15.8 billion by 2020. Twenty-six different subsidies, of which at least 14 could be eliminated immediately, with a value of 8.6 billion euros.

Furthermore, 6.3 billion euros of subsidies should be reshaped, as they are closely connected with strategic production or consumption sectors, such as those of the smaller islands or geographically disadvantaged areas or even the reduction of VAT for businesses and domestic users.

In particular, **drilling** received indirect subsidies for 576.54 million euros, due to the inadequacy of royalties and fees. Contributions to fossil fuels power plants cost Italian taxpayers 1,316.4 million euros in 2019; of which 412.4 million euro went to the so-called "essential plants" on land and in the **smaller islands**; 500 million euros in compensation went to interconnectors, electricity lines financed by private entities.

The **Capacity Market**, in 2020, receives 180 million euros of direct subsidies, while **CIP6** continues to receive subsidies of 682 million per year. **Loans and public guarantees** (CDP and SACE) for operations to support investments in Oil&Gas amount to 3,756 million euros.

### **Transport sector**

The sector is subsidized for a total of **€16.2 billion**, of which 5,154 million euro for the **different tax treatment between petrol and diesel** and 3,757 million euros for that **between methane, LPG and petrol**; the exemption from excise duty on fuel for **air navigation** amounts to 1,807.3 million euro; 1,587.5 million go to the reimbursement of excise duties on diesel for transport, 400 million subsidize **palm oil in biofuels**.

### **Agricultural sector**

The **CAP** (Common Agricultural Policy) gets subsidies for 2,117.47 million euros. Exemptions and reductions for energy products amounted to 939.2 million. Among indirect subsidies, SACE provides loans and guarantees for €155.6 million for a **fertilizer**

production plant in Russia.

## **Building sector**

The **tax credit for the purchase of capital goods**, generally associated with high energy consumption and emissions, is worth 617 million euros. The IMU (very similar to a council tax) exemption for new buildings amounts to 38.3 million euros, subsidizing land consumption rather than encouraging renovations.

## **Inadequacy of fees on environmental assets**

The inadequacy of concessions and fees is equivalent to a subsidy of 509 million, including mineral waters (262), maritime state property (150) and quarries materials (97).

## **Legambiente's requests to the government**

The situation must change now; Legambiente asks the government to stop making referrals on this fundamental issue to get Italy out of the economic, social and environmental crises. The consumption of fossil fuels is not only the cause of climate change but also of the pollution in cities and towns, with dramatic consequences on health, due to exposure to PM<sub>2.5</sub>, ozone, nitrogen dioxide which are estimated at 60,000 deaths at year in Italy by the European Environment Agency.

There are three choices to be made in the coming months:

1. **Include in the Recovery Plan to cancel all fossil fuels subsidies by 2030.** The first action to be implemented should be to clarify the taxation on the different types of fossil fuels and to cancel all the exclusions from existing excise duties, according to the "who pollutes pays" principle by linking taxation to greenhouse gas emissions. The second intervention must be to transform the exemptions from excise duties for the consumption of petrol and diesel in transport, for the excise duty and VAT of gas consumption in civil heating and in industry into incentives for energy efficiency measures to produce a reduction of consumption and self-production of energy from renewable sources.
2. **Scrap immediately direct subsidies for fossils fuels and for the exploitation of environmental assets, update the Catalog of subsidies.** The government must speed up the work of the Commission of the Ministry of the Environment set up last year and broaden the range of subsidies to be cut immediately, because it makes no sense to consider only those relating to fuels. Those benefiting the Oil&Gas sector are large, such as those for fees for the extraction of materials, public funding through the SACE group, essentials, and funds for research on gas, coal and oil. Outside the energy sector: different tax treatment between petrol and diesel or the VAT concessions for plant protection products or all the subsidized fees in extraction activities. In our report we identify 13.8 billion on which action can be taken between now and 2025. It is also crucial to update the Catalog of subsidies by inserting the 13 missing items (found by Legambiente) for a total of 11.7 billion euros.

- 3. Immediately review taxation on fossil fuels to bring transparency and link taxation to greenhouse gas emissions.** In Italy, the taxation of fuels and motor fuels is not linked to greenhouse gas emissions. The objective of energy and transport policies must be to reduce the CO<sub>2</sub> emissions produced. For this reason, taxation must be connected to fossil carbon emissions in each tax step (from property tax for cars, to the purchase of transport fuels and sources for heating, etc..).