

**2<sup>nd</sup> AIEE Energy Symposium**  
**“Current and Future Challenges to Energy Security”**

**“CARBON PRICING INSTRUMENTS FOR IMPLEMENTING  
THE OBJECTIVES OF THE PARIS AGREEMENT” (\*)**

**Mario Iannotti**

*Advisor, Energy Environmental Economist*

**Italian Ministry of Environment, Land and Sea – Sogesid T.A.**  
**Directorate General Sustainable Development, EU and International Relations**

(\*) The views expressed in this presentation are those of the author and should not be reported as or attributed to the Ministry or to the organizations with which he cooperates



## Aims of the presentation:

- ✓ to suggest, in line with the recommendations of International Organizations and Paris Agreement:
  - “the important role of providing incentives for emission reduction activities, including tools such as domestic policies and carbon pricing” (pr. 136 of Decision 1/CP.21) ;
  - a reform of the FFSs: removing FFSs (Fossil Fuel Subsidies) progressively and save these economic resources also to increase the competitiveness of the industrial sector.

# Outline of the presentation:

1. Carbon pricing and climate ambition
2. An estimation of the Environmentally Harmful Subsidies (EHS) in Italy
3. Conclusions

# Carbon pricing and climate ambition

- ✓ Climate change, Paris Agreement: 2°C or less – zero net emissions in the second half of the century.
- ✓ Carbon pricing as a tool to support a radical change in order to cut GHGs emissions.
- ✓ Benefits of carbon pricing:
  - Efficient, cost-effective and business-friendly way to integrate the core externality.
  - Raises revenue for governments.
  - Has to be implemented gradually.
  - Provides benefits to other local and regional objectives such as improving air quality.

# Carbon pricing and climate ambition (1)

Policy objective has to move in two directions:

## **I. Emission abatement**

- Carbon Pricing

## **II. Low-carbon transition**

- Policy alignment (e.g. market design).
- Investment in infrastructure and long-lived assets (strategic incentives).
- Role for energy efficiency regulation, direct investment support? Fiscal policy (EFR), industrial policy (environment policy?).

## International momentum for carbon pricing

23. We recognize the important role of carbon pricing in tackling climate change, including market-based approaches and we welcome the second Strategic Dialogue of the Carbon Market Platform that will take place in September.

**(G7 Bologna Environment Ministers' Meeting – Climate Change )**

2<sup>nd</sup> Strategic Dialogue on Carbon Market Platform-CMP  
(Rome 27<sup>th</sup>-28<sup>th</sup> September 2017).

✓ CMP was launched by Germany in 2015 (G7).

✓ The aims of CMP are:

1. Common rules, guidelines and best practices for using carbon markets.
2. Exploring options for the use of market mechanisms.
3. Developing carbon pricing and markets.

# G7 Bologna Environment Ministers' Meeting – Bologna 11-12 June 2017 (EFR & SD)

50. We recognize and support effort by G7 and other countries interested in examining and removing incentives, particularly **inefficient fossil fuel subsidies, not coherent with sustainability goals.**

51. We recognize the benefits of **monitoring progress in the phasing out of incentives**, including subsidies, not coherent with the sustainability goals, such as inefficient fossil fuel subsidies which encourage wasteful consumption and we support existing initiatives underway such as the **G20 voluntary peer review process.**

# G7 Bologna Environment Ministers' Meeting – Bologna 11-12 June 2017 (EFR & SD) (2)

52. We take note of the **OECD work** on these issues, and we recognize that OECD is considering further work for improving understanding of incentives, including subsidies.

53. We support G7 and all countries interested in exploring approaches to better **align fiscal systems with environmental goals**. In particular we intend to contribute to the implementation of the **commitment of our Heads of State and Government adopted in Ise-Shima in 2016** for the elimination of inefficient fossil fuel subsidies that encourage wasteful consumption **by 2025**.

54. Furthermore, we consider the **need to exchange views and information**, to better understand the impact of fiscal policies and measures on the achievement of our sustainability goals.

## Estimate of EHS (fossil fuels) in the world

The goal of EHSs identification is to remove or, at least, reform them in order to assure an efficient use of resources. Their removal may allow for example the reduction of income and corporate taxes.

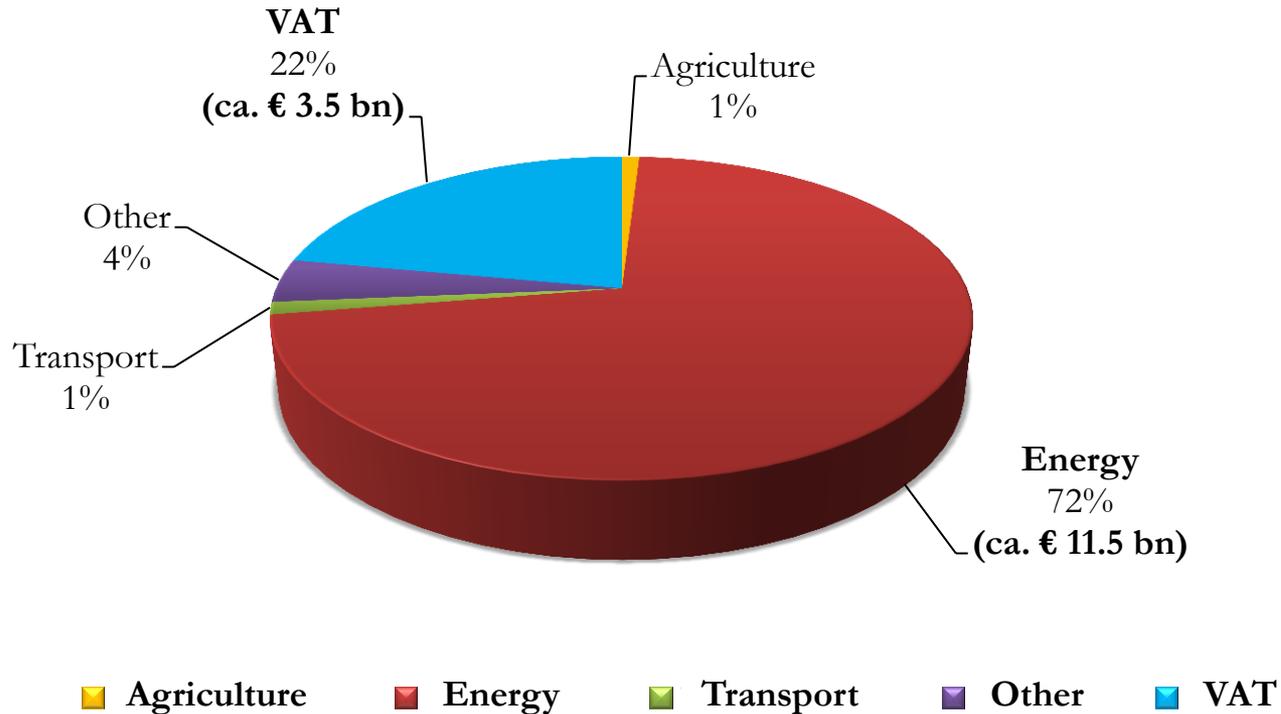
Some estimates of FFS:

- OECD: 160-200 billion \$/year for the years 2010-2014 for fossil fuels (40 Countries);
- IMF: 492 billion \$ in 2011 for fossil fuels (150 Countries);
- IEA: in 2014, 493 billions \$ for fossil fuels (40 Countries).

# 1<sup>st</sup> Catalogue on Environmentally Harmful and Friendly Subsidies in Italy

- 131 measures for 41 billion €;
- 5 categories (Agriculture, Energy, Transport, VAT, Other);
- 75 tax expenditures and 56 direct subsidies;
- about 22 billion € tax expenditures and about 19 billion € direct subsidies;
- **16,2 billion € EHSs**, 15,7 billion € EFS;
- 12,4 billion € FFSs.

## EHS (FFS) per Categories (€)



### Energy:

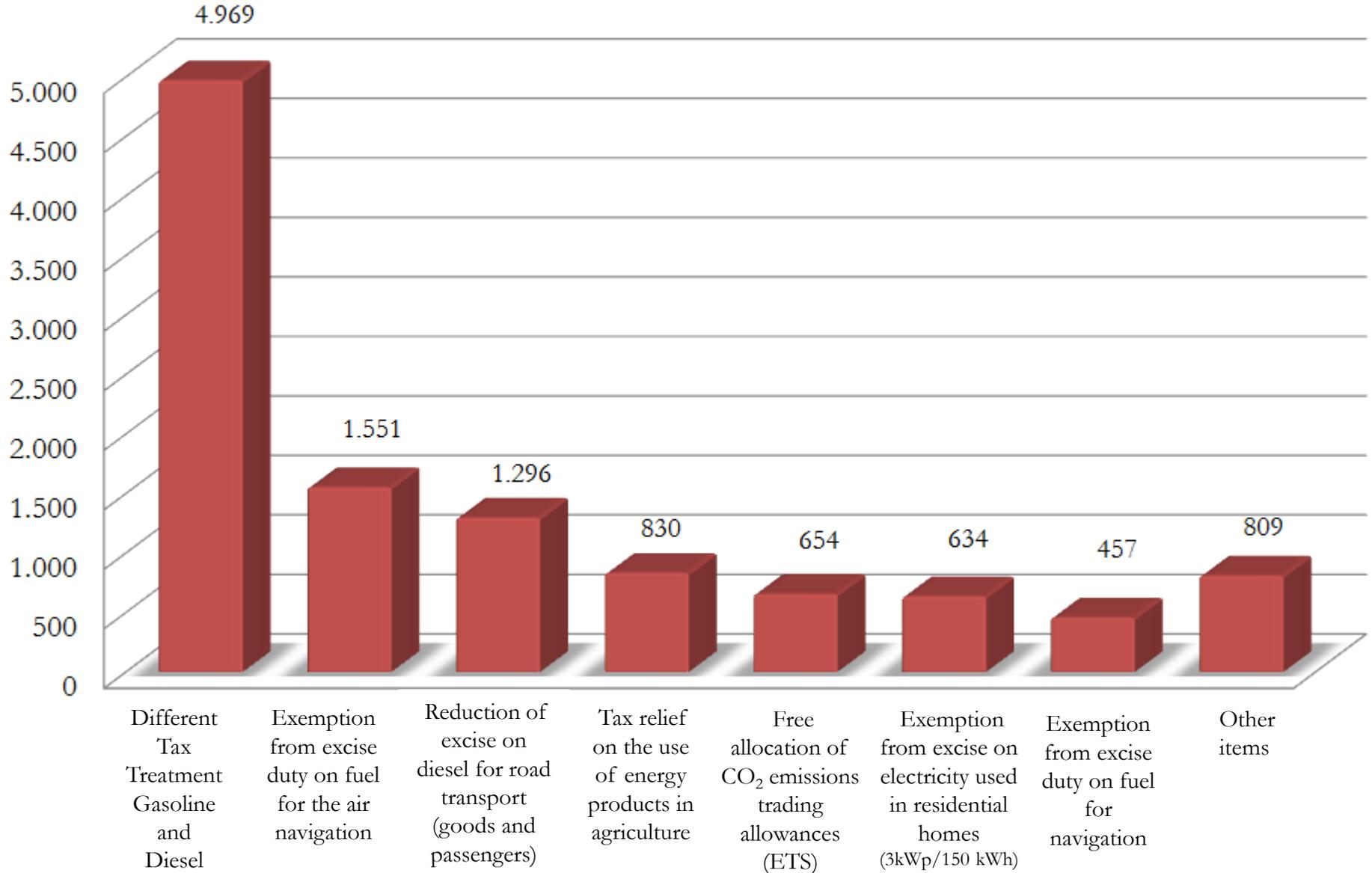
Tax expenditures = ca. € 11.2 bn (97%)

Direct Subsidies = ca. € 310 mn (3%)

### VAT:

Tax expenditures = ca. € 3.5 bn

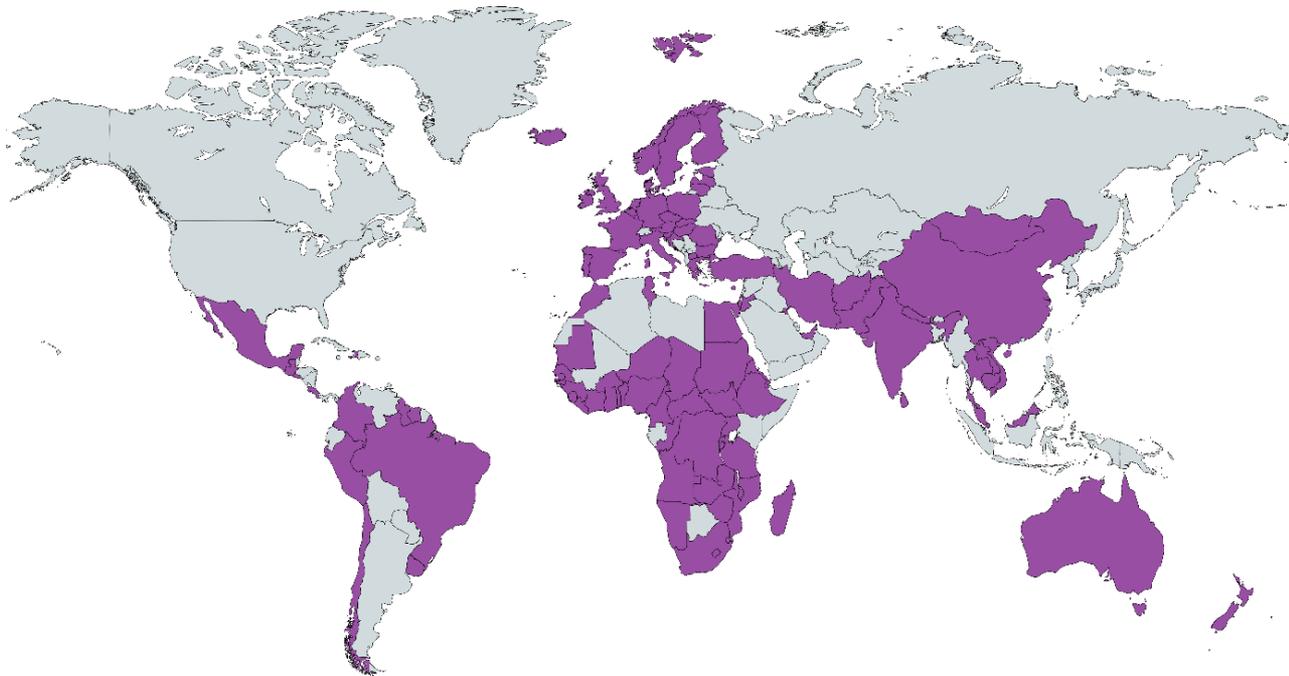
## EHS (FFS) Energy (€ bn)



# Conclusions

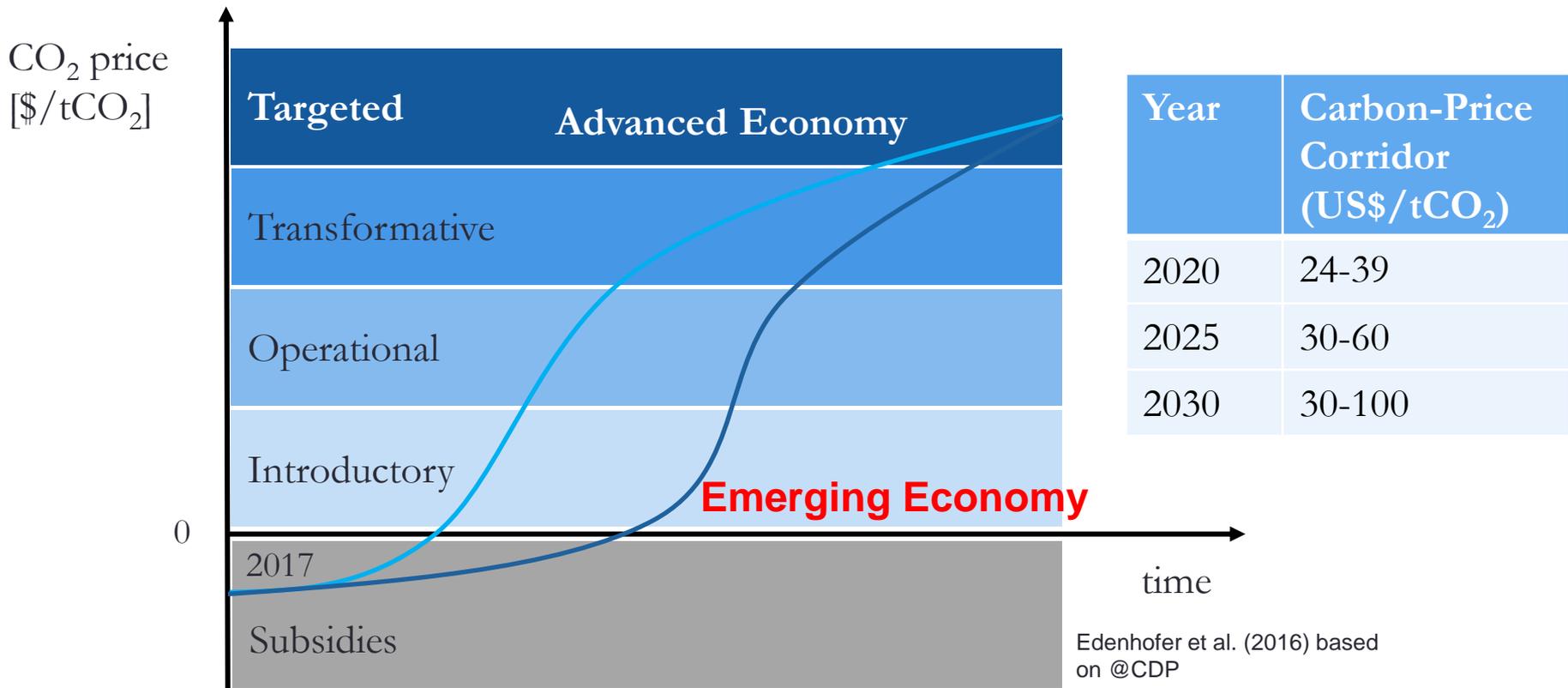
Carbon pricing and fiscal incentives in NDCs:

- More than 90 countries have included some form of fiscal policies in their NDCs (e.g. carbon pricing, fossil fuel subsidy reform, subsidies/incentives for renewables, clean technology, energy efficiency, transport).



## Conclusions (2)

From negative to positive carbon prices: Phasing out fossil fuel subsidies and carbon pricing (with taxes or emission trading systems) is essential.



## Conclusions (3)



European Council  
Council of the European Union

Ecofin Council Conclusions  
527/17  
10/10/2017

**UNDERLINES** that **carbon pricing** is a **key component** of an enabling environment for shifting investments towards green and sustainable production technologies, and for promoting innovative solutions. In this context, **SUPPORTS carbon pricing initiatives as well as initiatives promoting the phasing out of environmentally and economically harmful subsidies** and inter alia the continued phasing down of financing for emission intensive projects.