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Country Study

Fossil fuel exploration subsidies: Italy

Shakuntala Makhijani

This country study is a background paper to the report **The fossil fuel bailout: G20 subsidies for oil, gas and coal** by Oil Change International (OCI) and the Overseas Development Institute (ODI).

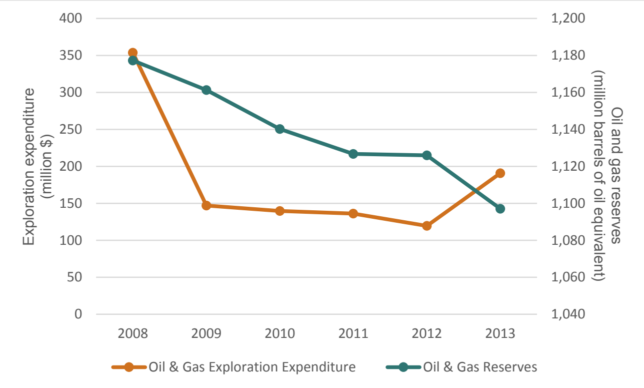
For the purpose of this report, exploration subsidies include: national subsidies (direct spending and tax expenditures), investment by state-owned enterprise and public finance. The full report provides a detailed discussion of technical and transparency issues in identifying exploration subsidies, and outlines the methodology used in this desk-based study.

The authors would welcome feedback on the full report and on this country study, to improve the accuracy and transparency of information on G20 government support to fossil-fuel exploration.

Background

Italy has very limited oil, gas and coal resources, and its remaining reserves are dwindling rapidly. As a result, public and private companies spend only a small amount on exploration within Italy (Figure 1) (Rystad Energy, 2014). However, Italy is home to the multinational oil giant Eni, which is 30% owned by the Italian Government and invests in major exploration projects around the world.

Figure 1. Oil and gas exploration expenditure and reserves in Italy



Source: Rystad Energy, 2014

National subsidies

Italy has two national subsidies that provide incentives for fossil-fuel exploration, totaling more than $400 million annually (Table 1).

Oil and gas companies in Italy are provided with cheap access to government land for oil and gas exploration and production via low lease rates. Legambiente, an Italian environmental NGO, estimates that updating leasing rates – including for prospecting and research activities – would have resulted in an additional $407 million of government revenue in 2012 alone (Legambiente, 2013).

The Italian Government also provides a reduction in the excise tax paid on natural-gas consumption for oil and gas field operations, including exploration. Because of the low level of oil and gas activity in Italy, this subsidy is relatively small, at about $400,000 per year (Ministry of Economics and Finance, 2014).

Public finance

Domestic

We did not identify domestic public finance for exploration in Italy.

International

Italy's public finance for fossil-fuel exploration is concentrated in overseas oil and gas. Through equity investments in oil and gas companies by state-owned bank Cassa Depositi e Prestiti (CDP) and export credit lending by Servizi Assicurativi del Commercio Estero (SACE), the Italian Government provided $985 million in exploration financing from 2010 to 2013 – an annual average of $246 million.

In 2013, Italian state-owned bank CDP purchased equity stakes, valued at a total of $630 million, in two oil and gas companies that engage in exploration (Table 2). Although CDP provides regular financing for fossil-fuel infrastructure projects, these appear to be the only exploration company equity investments since at least 2010 (CDP, 2014b).

Italy's export credit agency, SACE, was acquired by CDP in 2012 and lists oil and gas projects as a top priority for its project-lending portfolio (SACE, 2014). In 2013, SACE provided a $355 million loan for the development of the Barzan gas field in Qatar (Table 3) (IJ Global, 2014).

Table 1. Italy's national subsidies

Subsidy	Subsidy type	Targeted fossil-fuels	Estimated annual amount (million $)	Timeframe for subsidy-value estimate	Stage
Tax expenditure					
Low lease rates for prospecting, research, and production (Legambiente, 2013)	Tax deduction (cheap access to government land)	Oil and gas	$407	2012	Extraction (including exploration)
Excise-duty reduction for natural gas used in fossil-fuel extraction operations (Ministry of Economics and Finance, 2014; Ministry of Economics and Finance, 2011)	Tax deduction	Oil and gas	$0.4	2014-2016	Extraction (including exploration)
Total annual national subsidies			**$407.4**		**Extraction (including exploration)**

Società italiana per le imprese all'estero (SIMEST), is another Italian agency set up to facilitate Italian foreign investment. While, once again, again project details and financing amounts were not readily available, SIMEST has supported oil and gas projects that are likely to have included exploration in Kazakhstan and Mozambique over recent years (SIMEST, 2010; SIMEST, 2013).

Italy also contributed an annual average of $43.5 million to fossil-fuel exploration projects from 2010 to 2013 through its shares in the World Bank Group, European Bank for Reconstruction and Development, European Investment Bank, and Asian Development Bank which range from 1.8% to 16.1% depending on the institution (Oil Change International, 2014).[1]

Major companies

Oil and gas

Eni is by far the largest oil and gas company in Italy in terms of production, revenues and profits. In 2013, oil and gas companies made $7.3 billion in revenue from upstream operations in Italy. The net income for the Italian industry totaled $2.4 billion that year, and when companies that experienced losses are excluded, the profit amount increases to $2.7 billion.

Box 1. The role of the Italian Government in Eni exploration

The Italian Government owns a 30% share of multinational oil giant Eni, giving it the decisive (and veto) vote among Eni shareholders. Eni is based in Italy and has oil and gas exploration and production operations around the world (Eni, 2013a). The Italian Government's 30% share of Eni is held by two organisations. Cassa Depositi e Prestiti (CDP), a majority state-owned bank, holds a 26% stake in Eni that was worth more than $20 billion at the end of 2013 (CDP, 2014a). The remainder of the Government's share is held by the Italian Treasury.

Eni spent a total of $2.2 billion on exploration in 2013 and is engaged in deep water and ultra deep-water exploration in Angola, Brazil, Republic of Congo, Gabon, Nigeria and the Gulf of Mexico. Eni is also involved in major projects to explore for oil and gas resources in Australia, Indonesia, Kenya, Mozambique, Myanmar, Viet Nam and the Russian and Ukrainian frontier areas of the Black Sea. Additionally, in 2013 Eni began oil and gas exploration in the Arctic, in the Russian and Norwegian sections of the Barents Sea (Eni, 2013a; Eni, 2013b).

Table 2. CDP oil and gas exploration company equity purchases, 2010 to 2013

Company	Year	Equity share	Amount (million $)	Stage
Fincantieri Oil & Gas S.p.A	2013	100%	$10	Extraction (including exploration)
Vard Holdings Ltd.	2013	55.63%	$620	Extraction (including exploration)
Total CDP exploration financing, 2010 to 2013			**$630**	**Extraction (including exploration)**
Average annual CDP exploration financing			**$158**	**Extraction (including exploration)**

Source: CDP, 2014

Of the $7.3 billion in revenue, the Italian Government received $1.8 billion through income-tax payments (and $558 million in royalty payments), resulting in an effective corporate income-tax rate of 27%.[2] Table 4 displays these figures for the five largest oil and gas producers in Italy in 2013: companies that produced more than 1,000 barrels of oil equivalent (BOE) per day).

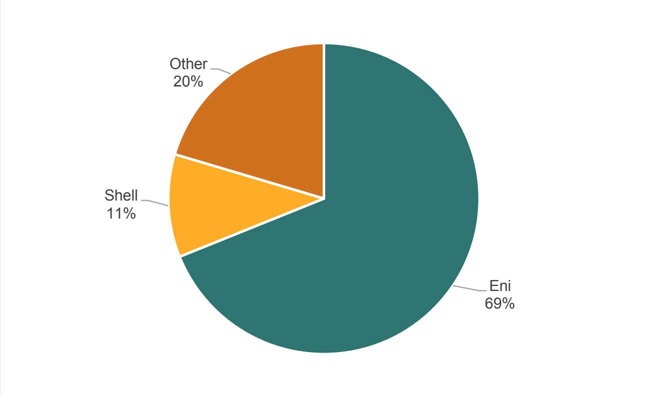
At the start of 2014, Italy had just over 1 billion BOE of oil and gas reserves. Two companies, Eni and Shell, held 80% of these reserves (Figure 2).

Exploration expenditure in Italy has varied over recent years, and is down from a high of $317 million in 2008 to stand at $206 million in 2013 (Figure 3). Eni has consistently been one of the top two companies investing

1 Data are based partly on shares of multilateral development banks (MDBs) held by each G20 country sourced from the respective MDB annual reports and replenishment agreements.

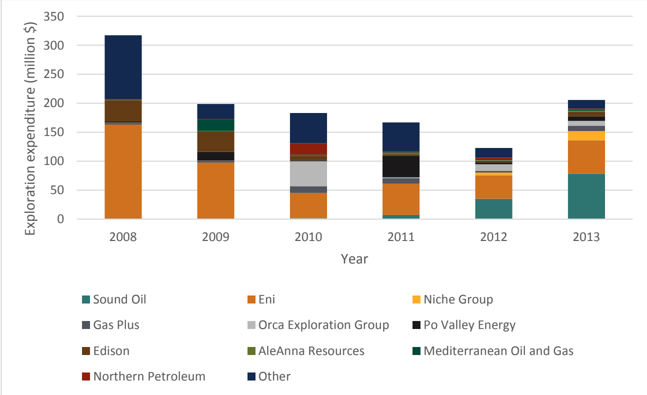
2 Income tax share calculated by dividing income tax by revenue, excluding royalties, bonuses, and government profit.

Figure 2. Italy's top oil and gas reserve holders' share of total reserves as of January 2014



Source: Rystad Energy, 2014

Figure 3. Oil and gas exploration expenditure in Italy



Source: Rystad Energy, 2014

in exploration in Italy, with Sound Oil emerging recently as the other key player (Rystad Energy, 2013).

Eni remains by far the largest producer and reserves holder in the relatively small Italian oil and gas industry, and also dominated exploration expenditure in the country until recently. As such, and as a result of the Italian Government's 30% stake in the company, it is likely that Eni is the major beneficiary of government support in Italy, in particular the low lease rates for exploration and production concessions. In 2013, however, Sound Oil became the largest exploration spender in Italy and is also likely to be benefitting from low exploration lease rates.

Coal

There is only one remaining active coal mine in Italy, owned by Carbosulcis, a company that is, in turn, owned by the Sardinian Regional Government (Carbosulcis, 2014). In 2012, coal miners went on strike to protest the Ministry of Industry's decision to close the mine, which was later reversed in favour of mine upgrades (BBC News, 2012).

Table 3. SACE fossil-fuel exploration finance, 2010 to 2013

Project	Year	Country	Amount (million $)	Stage
Barzan Gas Field Development Phase I	2013	Qatar	$355	Extraction (including exploration)
Total SACE exploration financing, 2010 to 2013			**$355**	**Extraction (including exploration)**
Average annual SACE exploration financing			**$89**	**Extraction (including exploration)**

Source: IJ Global, 2014

Table 4. Italy's top oil and gas producers' revenues, profits and income taxes, 2013

Company	Headquarter country	Revenue (million $)	Profit (million $)	Income-tax payments (million $)	Income-tax share of revenue
Eni	Italy	$5,264	$1,892	$1,312	27%
Shell	Netherlands	$1,419	$625	$488	38%
Edison	Italy	$372	$89	$36	10%
Gas Plus	Italy	$103	$32	-$17	-18%
Sviluppo	Italy	$64	$34	$16	27%

Source: Rystad Energy 2014

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Overseas Development Institute
203 Blackfriars Road
London SE1 8NJ
Tel +44 (0)20 7922 0300
Fax +44 (0)20 7922 0399
www.odi.org
info@odi.org

Oil Change International
714 G Street SE Suite 202
Washington, DC 20003 USA
Tel: +1 202 518 9029
Fax: +1 202 330 5952
www.priceofoil.org
info@priceofoil.org

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