

# ENERGY TAXATION IN ITALY: DESIGN EFFICIENCY AND DISTRIBUTIONAL IMPACT

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## OVERVIEW

Recent years have seen increasing attention being paid to the broad issue of energy security: the idea of a forthcoming fossil fuel depletion, geopolitical instability, competing energy demand from high growth countries and climate change costs are only a short list of emerging and long-standing issues. However, energy security is a complex and multidimensional concept (including physical availability, geopolitical security, price stability and consumer affordability) which includes, by its very nature, several trade-offs: as an example, the goal of differentiating gas and oil seller countries may imply higher costs and final prices in the purchasing countries.

Given the almost complete energy dependency and the consequently high sensitiveness to energy security in Italy, several policies have been employed in order to increase energy efficiency and to change the energy mix, among which market based instruments exhibit a significant role. Indeed the high Italian energy efficiency has been stimulated by relatively high energy prices and the economic system proved to be very reactive to selective monetary incentives. Notwithstanding these premises, the general coherence and efficacy of the current framework, a bundle of excise taxes, direct subsidies, feed-in tariffs and tax expenditure together with the launch of an auction-based ETS phase is highly questionable. Moreover, with the aim of minimizing adverse competitive impacts for firms, the energy tax system is currently strongly biased against consumers. The result is a system in which the final price of energy products is incoherent and unintelligible across agents and energy products (Oecd, 2013).

## METHODS & RESULTS

In this paper we discuss the use of market based instruments in the Italian energy policy, the relative burden for consumers and firms and the distributional impact for Italian consumers, by considering a microsimulation model for Italian households. As proved by previous studies with a microsimulation model for firms (Bardazzi, Oropallo, Pazienza 2012), we expect household heterogeneity to play a crucial role in determining price elasticities which are essential for policymakers to design effective energy tax rates and incentives. Moreover, the energy mix for transport and residential purposes should affect the results, therefore interfuel elasticities will be estimated as well.

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