For the purpose of this report, exploration subsidies include: national subsidies (direct spending and tax expenditures), investment by state-owned enterprises 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](image)

**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**

<table>
<thead>
<tr>
<th>Subsidy</th>
<th>Subsidy type</th>
<th>Targeted fossil-fuels</th>
<th>Estimated annual amount (million $)</th>
<th>Timeframe for subsidy-value estimate</th>
<th>Stage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tax expenditure</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Low lease rates for prospecting, research, and production (Legambiente, 2013)</td>
<td>Tax deduction (cheap access to government land)</td>
<td>Oil and gas</td>
<td>$407</td>
<td>2012</td>
<td>Extraction (including exploration)</td>
</tr>
<tr>
<td>Excise-duty reduction for natural gas used in fossil-fuel extraction operations (Ministry of Economics and Finance, 2014; Ministry of Economics and Finance, 2011)</td>
<td>Tax deduction</td>
<td>Oil and gas</td>
<td>$0.4</td>
<td>2014-2016</td>
<td>Extraction (including exploration)</td>
</tr>
<tr>
<td>Total annual national subsidies</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>$407.4</td>
<td></td>
<td>Extraction (including exploration)</td>
</tr>
</tbody>
</table>
Società italiana per le imprese all’estero (SIMEST), is another Italian agency set up to facilitate Italian foreign investment. While, once 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).

**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.

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 income-tax share of revenue of 27%.

Table 2 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

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**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**

<table>
<thead>
<tr>
<th>Company</th>
<th>Year</th>
<th>Equity share</th>
<th>Amount (million $)</th>
<th>Stage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fincantieri Oil &amp; Gas S.p.A</td>
<td>2013</td>
<td>100%</td>
<td>$10</td>
<td>Extraction (including exploration)</td>
</tr>
<tr>
<td>Vard Holdings Ltd.</td>
<td>2013</td>
<td>55.63%</td>
<td>$620</td>
<td>Extraction (including exploration)</td>
</tr>
<tr>
<td>Total CDP exploration financing, 2010 to 2013</td>
<td></td>
<td>$630</td>
<td>Extraction (including exploration)</td>
<td></td>
</tr>
<tr>
<td>Average annual CDP exploration financing</td>
<td></td>
<td>$158</td>
<td>Extraction (including exploration)</td>
<td></td>
</tr>
</tbody>
</table>

*Source: CDP, 2014*

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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.
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

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

<table>
<thead>
<tr>
<th>Project</th>
<th>Year</th>
<th>Country</th>
<th>Amount (million $)</th>
<th>Stage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Barzan Gas Field Development Phase I</td>
<td>2013</td>
<td>Qatar</td>
<td>$355</td>
<td>Extraction (including exploration)</td>
</tr>
<tr>
<td>Total SACE exploration financing, 2010 to 2013</td>
<td></td>
<td></td>
<td>$355</td>
<td>Extraction (including exploration)</td>
</tr>
<tr>
<td>Average annual SACE exploration financing</td>
<td></td>
<td></td>
<td>$89</td>
<td>Extraction (including exploration)</td>
</tr>
</tbody>
</table>

Source: IJ Global, 2014

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

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

Source: Rystad Energy 2014
was later reversed in favour of mine upgrades (BBC News, 2012).

References


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