

Executive summary

Italy's economy, the sixth largest in the OECD, is highly dependent on imports of energy and raw materials. It is also diverse, with a more economically advanced, richer North and a less developed, poorer South. Regional differences and disparities have been reinforced by a major devolution of legislative and administrative responsibilities. Italy's average annual growth between 2000 and 2007 was the lowest among OECD countries. From 2008, the economy was deeply affected by the global economic crisis. Economic policy has increasingly been driven by the need to promote growth while consolidating the public budget.

Italy's environmental performance has been shaped by some of the broader economic and institutional challenges it has faced. There have been many positive environmental initiatives, particularly in some regions and business sectors. However, the relatively low priority assigned to the environment by the national and some regional governments over much of the last decade, coupled with a highly decentralised governance system, has made it difficult to scale up positive environmental initiatives. Overall, the environmental policy framework has been fragmented and reactive and has not provided sufficient incentives to promote green growth. Further efforts are needed to make the environmental management system more coherent and effective, and to exploit potential synergies between policies to promote economic recovery and to protect the environment. Recent initiatives, for example to promote a green economy, are a step in the right direction.

Strengthening environmental performance

Italy's environmental performance in the last decade has been mixed, with marked regional variations:

- Reductions in emissions of local air pollutants were among the largest in any OECD country, but more than half the 30 most polluted cities in Europe are in Italy.
- Greenhouse gas (GHG) emissions were 6.2% below 1990 levels in 2010, compared to the Kyoto target of a 6.5% reduction in 2008-12, including GHG absorption by forests and reflecting the sharp decline in emissions due to the economic crisis.
- The overall quality of waterways has been stable, while river quality has improved. However, national averages mask significant regional differences, with regions in the South performing less well than those in the North.
- The share of municipal waste treated in landfills has fallen, while good progress has been made in reducing and managing landfills and illegal waste dumps. However, there are important regional variations (notably in Campania, Lazio and Sicily). Unlike in many

other OECD countries, municipal waste generation has increased more rapidly than GDP and private final consumption, at least up until the 2008 economic crisis.

- The share of land covered by Natura 2000 is higher than the EU average (with relatively greater coverage in the South) and the number of endangered vascular plants is low compared to that in other OECD countries. However, threats to mammals, freshwater fish and amphibians are higher than in many other OECD countries.
- Italy is subject to a range of natural hazards: earthquakes, floods, landslides and forest fires. Risks to the population, and associated costs, are aggravated by poor spatial planning and weak oversight of housing development.
- According to opinion polls, the Italians appear to be among the least satisfied of any Europeans with their country's environmental quality.

A strengthened technical information base has provided important support for the development and implementation of Italian environmental policy in the last decade. Communication with the public has been made more user-friendly. A solid framework for managing traditional pollutants is now in place, with streamlined administrative requirements for the small and medium-sized enterprises that make up a significant fraction of Italian industry. Measures to promote compliance with environmental requirements have been better targeted and strengthened.

Despite these advances, additional measures are needed to strengthen the coherence and effectiveness of Italy's environmental governance. National strategies are needed that, while not impinging on the prerogatives of regional and local governments, provide clear direction for issues that require common or consistent approaches (e.g. water and waste management, climate change, and environmental compliance assurance). Those strategies should be supported by more effective mechanisms for co-ordinating environmental policies vertically. However, these objectives will be difficult to achieve unless the capacity of the Ministry of the Environment, Land and Sea is strengthened: its budget was cut by 48% between 2006 and 2011. In particular, the Ministry's capacity for economic analysis should be strengthened. It also needs to further promote the constructive participation of social partners in decision making by engaging them at a sufficiently early stage, and by encouraging consideration of alternative options.

Towards green growth

While initiatives to mainstream the environment into decision making have not been very successful, some recent developments provide a basis for progress. The Economic and Finance Document (DEF), the core economic policy document endorsed each year by the Parliament, currently gives some indications of the government's strategic priorities in regard to the environment. However, the DEF provides only a limited and unstable basis for guiding Italy's environment-related priorities. A long-term green growth strategy is needed to spur the environment-related productivity improvements, investment and innovation needed for green growth. Such a strategy should be developed by a body with responsibility for economic policy, such as the Inter-Ministerial Committee for Economic Planning.

In 2010, revenue from environmentally related taxes as a share of GDP and of tax receipts was higher than in the OECD as a whole. While the role of environmentally related taxes declined during the last decade and the real tax burden on energy decreased, the tax burden on energy (including tax rates on petrol and diesel) is among the highest in Europe.

This makes increasing energy taxes politically difficult. However, restructuring energy taxes, expanding the use of other environmentally related taxes, and removing environmentally harmful tax concessions (estimated at 0.2% of GDP in 2010) could help achieve fiscal consolidation. It could also help make the tax system more growth-friendly by reducing taxes on labour and businesses. The recently announced comprehensive fiscal reform provides a good opportunity to pursue these goals.

Public and private expenditures on waste, wastewater and water resource management have remained virtually stable at around 2.2% of GDP. There are some indications that expenditures in these areas have been better targeted, and that provision of waste and water services has progressively become more market-oriented. While investment in the waste and water sector amounted to less than EUR 5 billion in 2010, investment in renewable energy was estimated at EUR 21 billion in 2011, largely driven by various support programmes. Italy is now reportedly among the leading countries in terms of investment, turnover and employment in the renewable energy sector. Energy efficiency schemes have also helped stimulate the emergence of a dynamic energy services market. However, most turnover and employment in “clean energy” is in the downstream segments (e.g. installation, operation and maintenance of renewable energy equipment). Despite some progress, Italy’s performance in the more upstream segments of the environmental goods and services sector and in eco-innovation is weak. In part, this reflects its weak innovation capacity more generally.

Since 2007, Italy has assigned higher priority to environmental issues in the context of official development assistance (ODA). The average share of environment-focussed aid is high compared to that of many other members of the OECD Development Assistance Committee (DAC). Various other measures have been taken to mainstream environment into ODA and to promote policy coherence among aid-related policies. However, recent progress should be seen in the context of weak overall ODA performance: ODA as a share of gross national income (GNI) is well below the OECD-DAC average and the 2010 EU target of 0.51%.

Multi-level environmental governance: Water

Water management in Italy was subject to significant reform before 2000. This included the pioneering introduction of a river basin management approach, and consolidation of water supply and sanitation services. Despite these advances, water governance remains overly complex, emergency-driven, and oriented towards short-term problem solving. To address these challenges, there is an urgent need to formulate a strategic vision for the water sector.

In the 2000s, transposition of the EU Water Framework Directive (WFD) provided a further push to consolidate water-related legislation, streamline water-management institutions and increase water-use efficiency. However, the measures implemented have also complicated the water governance system. Proposals developed by the government have been subject to legal challenges on various grounds, sometimes including lack of appropriate consultation with regions. The arrangements put in place using emergency powers have made governance arrangements even more complex, with some river basins managed by multiple authorities. The river basin management plans subsequently produced to implement the WFD reflected the existing institutional uncertainty and provided little value-added compared to river basin management plans prepared by the regions.

The consolidation of water utilities has helped achieve economies of scale and improve planning. Some utilities are now operating on a more commercial basis, but many are not, while tariffs in many regions are below sustainable cost recovery levels. Overall, the quality of water service provision is weaker than in many other OECD countries. The amount of water unaccounted for is relatively high, and access to efficient wastewater treatment infrastructure is relatively low. Governance of the water supply and sanitation sector remains weak and is characterised by uncertainty and ambiguity. In particular, relations between water utilities and the bodies that oversee them (and between utilities and municipalities) are unclear. Further uncertainty has been created by the 2011 water referendum, which significantly reduced the role of the private sector. The recent designation of the Regulatory Authority for Electricity and Gas (AEEG) to regulate the water sector is a potentially positive step. Drawing on the experience of managing utilities in other sectors, the AEEG could strengthen the financial management of water utilities and help create a more stable investment framework.

Climate change

Italy's climate change policy has largely been developed in the framework of EU climate and energy policies. While climate change did not have high political priority during most of the last decade, it was given renewed impetus more recently. Since 2011, progress in meeting international GHG emission reduction commitments has been reported in the annual Economy and Finance Document. In 2012, the Ministry of the Environment, Land and Sea presented a comprehensive plan for achieving the 2020 target set within the EU, which entails integrating the measures foreseen in national plans for renewable energy and energy efficiency as well as regional actions supported by EU and national funds for regional development. A national climate adaptation strategy is also being developed.

The EU Emissions Trading System (EU ETS) covers about 40% of Italy's GHG emissions. This is a lower share of emissions than in other large EU economies, leaving most emission abatement to be achieved through domestic measures in non-ETS sectors. There is scope to complement the ETS with a carbon tax on energy products used in the non-trading sectors, so as to establish a consistent carbon price across the economy. While energy taxes are high and have recently been increased, the rates do not fully or consistently reflect CO₂ emissions and other environmental externalities across fuels and energy uses.

The transport sector, particularly road transport, should be a priority as this sector remains the main energy end-user and the second largest source of CO₂ emissions. Progress has been made in developing integrated urban transport systems and implementing low-emission zones in many of the larger cities. However, public transport systems in most cities, especially in the South, remain insufficiently developed to provide an adequate alternative to use of private vehicles. Similarly, further financing and regulatory efforts are needed to develop the infrastructure of medium- and long-distance rail and multi-modal transport, and improve service quality. Further investing in alternatives to road transport would reinforce the environmental effect of fuel taxes and of a future carbon tax.

Italy's strategy for achieving climate mitigation goals has relied heavily on increased use of renewable energies. Feed-in tariffs and tradable renewable energy certificates (green certificates) have driven a dramatic increase in electricity generation from renewable sources: 28% of electricity generation in 2011, up from nearly 19% in 2010, and above the

intermediate target set by the Renewable Energy Action Plan. Italy is on track to meet its 2020 target of 17% of renewables in gross final energy consumption. However, this progress has been achieved at a high cost. In a welcome move, recent policy changes have better aligned incentives rates with the decreasing costs of renewable technologies, especially solar energy, and with better control of electricity costs for consumers in the period to 2020.

A mix of regulatory and economic instruments has helped to achieve energy savings above the intermediate target set by the national Energy Efficiency Action Plan, mainly in terms of reduced electricity use in the residential sector. Progress in the transport and service sectors has not met expectations and additional measures should be applied. Analysis suggests that energy efficiency measures have been cost-effective, particularly the market for energy efficiency certificates (White Certificates). Italy is a front runner in the development of smart grids.

Despite progress and the achievement of national targets, Italy's renewables and energy efficiency policies have lacked a general long-term vision. Management of the incentive systems for these policies involves a number of different agencies and institutions, resulting in co-ordination difficulties and increasing transaction costs. There has been a multitude of overlapping measures, which have also changed several times within a few years. This has created unnecessary complexity and regulatory uncertainty. A long-awaited national energy strategy was released for consultation in 2012 and provides the opportunity to address all these issues in a comprehensive way.



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