

Phytosanitary Product Tax in Italy¹

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Brief summary of the case

In Italy, phytosanitary products are taxed, in accordance with federal law, at the point when they are placed on the market, with the tax paid by those authorised to put the products on the market. The current rate of taxation is 2% of the product value. The tax base is restricted to products which are classed as posing particular hazards. Revenue from the tax is on average EUR 3 million per year. This money is distributed on an annual basis to projects supporting organic agriculture. The tax was a first step in a wider strategy for supporting organic agriculture, and had cross-party support, as well as the support of organic agricultural associations, who had input into the design of the instrument and supported it. However manufacturers of the products were dissatisfied with the attempts of the relevant Ministries to define the scope of the tax, which led to synthetic fertilizers, which should also be covered by the tax, being removed from the scope of the tax in practice.

From 2000, when the tax was introduced, until 2013, the total tonnage of phytosanitary product sold has declined by 25%. The amount of land in organic cultivation as a proportion of all utilised agricultural land has almost doubled in the same period, from 6.7% to 11.5% between 2000 and 2014. However, the role played by the tax in these shifts is difficult to establish.

The legislation, the tax, and the wider strategy for organic agriculture are undergoing a lengthy revision process, including the proposed end of earmarking the revenues. This presents an opportunity for civil society organisations to address many issues that have arisen in the implementation of the tax, such as scope, lack of transparency, changes in, delays to and fairness of the revenue's disbursement.

1 Description of the design, scope and effectiveness of the instrument

1.1 Design of the instrument

The stated aim of the instrument is to promote the development of high quality and organic farming, as well as to pursue the reduction of risks for human and animal health, and the environment. The tax was initially established by Law No 488/1999 (Art. 59) (Parlamento Italiano, 1999) at 0.5% of the sale price of all phytosanitary products¹ manufactured and sold with the following risks: R33 ("with risks of cumulative effects"), R40 ("limited evidence of carcinogenic effect"), R45 ("may cause cancer"), R49 ("may cause cancer by inhalation") and R60 ("may impair fertility"); to be paid by both the parties placing the products on the market and onward vendors (i.e. totalling 1% of sales revenue related to those products (MIPAAF, 2001). In the case of phytosanitary product imports, a flat tax of 1% over the final price was introduced. This was revised in 2000 by Law No 388/00 (Art. 123) (Parlamento Italiano, 2000)

¹ 'Phytosanitary products' ('Prodotti fitosanitari') has a wide ranging definition, encompassing pesticides and herbicides utilised for plant protection (Minambiente, 2013).

to a flat tax of 2% (i.e. doubling the tax rate), applicable to a wider range of phytosanitary products and, newly, synthetic fertilizers.² In addition, those licensed to place products on the market were the ones who became liable for the tax, with end-users directly importing products also no longer liable. The tax is payable in six-monthly instalments, due by the 15th of the month following each period. No reductions or exemptions are known (other than those which fall outside the above hazard bands, although the lack of implementation of the tax on fertilizers is also of interest).

1.2 Drivers and barriers of the instrument

The legislation was supported by the Minister for Agriculture at the time, an MP for the Italian Green Party, which strongly lobbied for the tax, and had cross-party political support, as well as support from associations for organic agriculture. The law, which also included obligations for public institutions to use organic and quality products in their canteens, was a first step to support the development of sustainable agriculture, and followed the adoption of provisions espousing the precautionary principle on food safety (in a post-BSE and anti-GMO climate). A broader strategy however did not take shape until several years after, with the National Action Plans for the Development of Organic Agriculture for 2005 and subsequent years. Furthermore, trade interests, such as manufacturers of the products concerned, were strongly opposed. As a result of this, the precise scope of the products liable was never completely defined by the Ministry of Health and the Ministry of Agriculture, as required by the legislation, and this led to the tax never being levied on synthetic fertilizers.³ See section 1.3 for further difficulties encountered in the implementation of the tax.

1.3 Revenue collection and use

The average yearly revenue is around EUR 3 million (MIPAAF, 2016). Those paying the tax are now those placing products on the market. The fund into which the revenue is paid was also bolstered in the updated law by a direct contribution from the state of 15bn Lira (around EUR 7.75 million at the time), each year in the period 2001-2003.

The income raised by this levy is used to develop organic farming and quality products. Under the Ministry of Finance, the Italian Government created a “Fund for the development of organic farming and quality products” and a “Fund for research in the sector of organic agriculture and quality products”⁴ in order to finance the following measures under national and regional programmes:

1. Support for the development of organic agricultural production through incentives to farmers who convert their production method as well as through appropriate technical assistance and agricultural good practice codes for proper use of plant protection products;
2. Informing consumers about foods from organic production methods, on typical and traditional foods, as well as on those with protected designation of origin.

² Additionally R23 - Toxic by inhalation, R24 - Toxic in contact with skin, R25 – Toxic if swallowed, R26 – Very toxic by inhalation, R27 – Very toxic in contact with skin, R28 – Very toxic if swallowed, R50 – Very toxic to aquatic organisms, R62 – Possible risk of impaired fertility.

³ Communication with stakeholder (Organic Agriculture Trade Association)

⁴ Latest stipulations for the funds as reported here derive from Law No. 38/2003, Art. 3 (Parlamento Italiano 2003), which amended Law No. 488/1999 and Law No. 388/2000

3. Financing annual regional and national research programmes on organic agriculture and the healthiness and safety of foods.

However, the disbursement of the funds has been beset with delays and uncertainty over the last 15 years. EU infraction procedures investigating whether the tax constituted anti-competitive subsidy unfairly benefiting national interests, led to funds being frozen until 2003 (MIPAAF, 2006).

The procedure for the release of funds from the Ministry of Finance is lengthy, involving for many years, the issuing of Ministerial Decrees to approve the release of funds for each project (e.g. MIPAAF, 2007a).⁵ The funds are only available from one calendar year post-collection, and changes to the procedure caused restrictions with respect to the amounts that could be disbursed each year, which was the cause of the funds being incompletely disbursed in some years (MIPAAF 2006, 2007a).

Guidance as to how the funds should be granted for research was delayed for years after the legislation came into force (MIPAAF, 2007b), and has also been subject to changes (MIPAAF, 2013). General guidance on the method for allocating funds for incentives and communications was never forthcoming. In many years, there is evidence that most of the funds available derived from the tax (rather than from direct payments into the funds by the government) were eventually disbursed (MIPAAF, 2011), however the absence of an easily available and consistent record of the actual revenues collected year on year makes this hard to ascertain over the entire period.

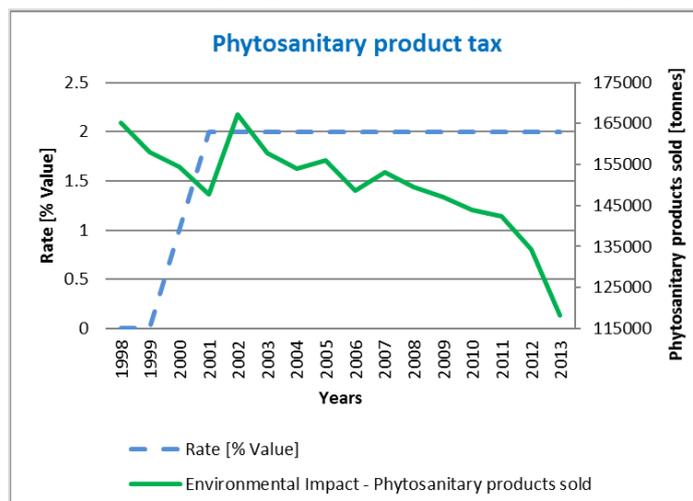
Some of the reporting (itself obligated by law) on the implementation of the legislation, has also been much delayed (by 5 years in the latest example), which highlights further issues around the transparency of the implementation (Senato, 2015). In 2016, 17 national and 7 international projects funded by this instrument were underway (MIPAAF, 2016). These align with the recently approved national strategy on organic agriculture, and the national action plan for the sustainable use of plant protection products.

1.4 Environmental impacts and effectiveness

In evaluating the impact of the phytosanitary product tax, we assume that the amount put on the market is closely related to the amount applied in the field. From 2000, when the tax was introduced, until 2013, the total tonnage of phytosanitary product sold has declined by 25%.

⁵ The modifications made to the existing law by Law 388/2003 were intended to address the Commission's concerns; the Commission was notified of the modifications and provided no comment within the 180 day deadline for response, bringing the infraction proceedings to a conclusion.

Figure: Rate and effectiveness of instrument since its introduction



Source: ISTAT (2009) p11 [Distribuzione dei Prodotti Fitosanitari](#)
 ISTAT (2013) p2 [Distribuzione dei Prodotti Fitosanitari](#)
 ISTAT (2015) Tavole, [Distribuzione di Fertilizzanti e Fitosanitari](#), Tab “Prodotti fitosanitari”

However, the level of the tax is very low, and only affects a subset of the market. Although it may have had an impact on reducing sales of some products, and did fund some activities supporting organic agriculture, it is likely that it had a supporting role rather than a driving one. The share of agricultural area utilised by organic agriculture has increased considerably from 6.7% to 11.5% between 2000 and 2014.⁶ Similar trends are observed in Member States all over the EU; the EEA (2015) attributes this to a range of national and EU legislation. Policies implemented include, for example, national policies for organic farming, quantitative targets such as increasing the percentage of land area under organic production, the number of organic producers, and the range of organic food products in public canteens. The EU has also provided additional financing for organic production (via agri-environment payments).

1.5 Other impacts

Regarding economic impacts, between 2005 and 2013, agricultural output has not decreased overall, which is a risk of increasing the proportion of less intensive farming styles ([Eurostat, 2016](#)). Valued at between EUR 40-50bn, the revenue is small compared to other sectors, such as the IT sector; hence there would be no macro-economic effects from a tax of this kind. This also highlights the small impact that a EUR 3m tax could be expected to have in terms of transforming a sector of worth tens of billions. The social impact of the broader transition to organic agriculture is likely to be significant in supporting a society which values food as an important and substantial part of its cultural resources.

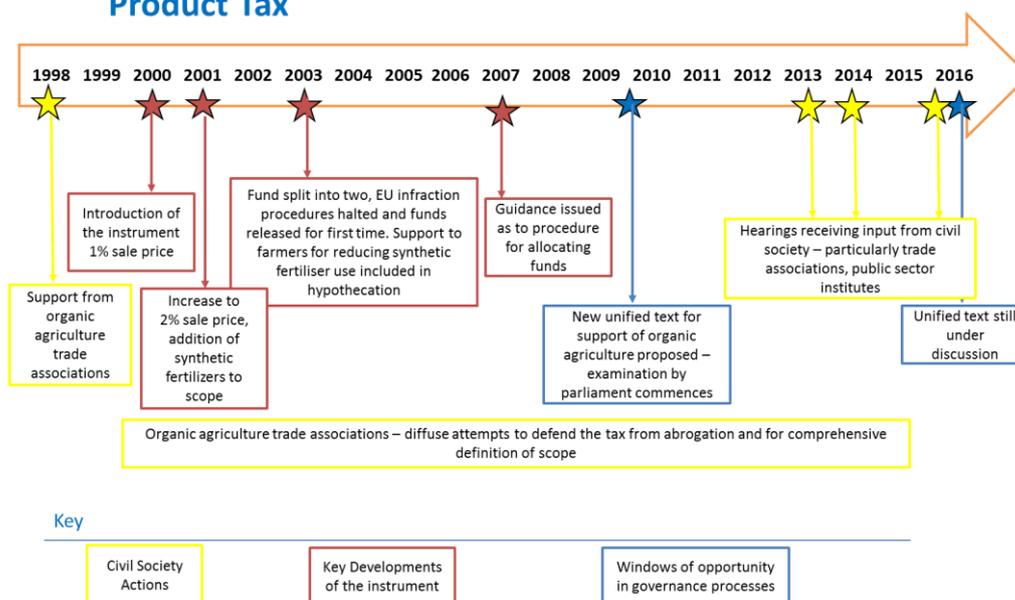
⁶ Share organic agriculture: [Eurostat](#)

2 Stakeholder engagement

In addition to political stakeholders such as the Italian Green Party, key stakeholders included trade associations such as those representing organic agriculture (AIAB - Associazione Italiana per l'Agricoltura Biologica, FIRAB – Fondazione Italiana per la Ricerca in Agricoltura Biologica e Biodinamica, Federbio) and the chemical manufacturing industry (Federchimica). Public sector research institutes have also been consulted on revisions to the instrument. It has been difficult to understand precise actions and their timing because the instrument was introduced some time ago. In particular, other civil society organisations such as Greenpeace Italy and WWF Italia stated, variously, either that they were not working on this topic at the time, or it is not known who was involved at the time – constituting a loss of institutional knowledge. Despite this we understand that organic trade associations had an important role in the legislative proposal and supported its implementation, especially in defending it from attempts to abrogate the law and lobbying for its full scope to be implemented. The chemical industry successfully made the case that definitively classifying eligible products, in particular synthetic fertilizers, was difficult, and this was conceded by the Ministry for Agriculture, either out of passivity or fear that the implementation of the law could be impeded entirely.

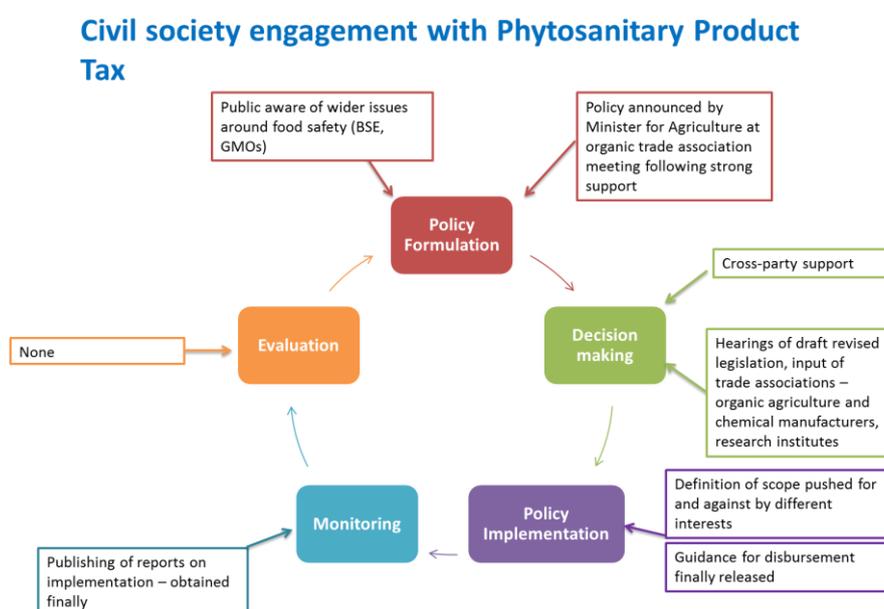
The law is perceived as being less effective than it could have been, resulting in much lower revenue than it could potentially have raised, with issues around the transparency and fluidity of fund allocation. Because of the existence of the fund, it was perceived that research in organic agriculture had difficulty accessing other national funds which could have been allocated to it; even though the disbursement of the funds was stalled for years, at points. The difficulties surrounding the disbursement of the funds meant that organic trade associations and other external organisations were marginalised with respect to the allocation of funds, which tended to be allocated by direct award to governmental research institutes.

Timeline of Key Developments in the Phytosanitary Product Tax



3 Windows of opportunity

It is significant that support for the legislation was available from a broad base of stakeholders – the public, organic trade associations, and when it came to decision making, diverse political parties. The views of a wide range of civil society organisations are being sought as part of the ongoing revision process of the legislation, although it is not clear whether the original law was consulted upon as widely. During the implementation of the legislation, there were efforts made by different interests to define the scope of the law, in terms of taxable products, in different ways, and this was held to have favoured the definition of scope as per of the interests of the chemical industry rather than the environment. The definition of scope is therefore an area which the environmental lobby can seek to input in the ongoing revisions. In the past, guidance as to how funds are to be disbursed and records of how this was carried out, was successfully obtained after some delay, with interested parties making requests for information. Timely reporting therefore represents an area that can be lobbied for by civil society organisations.



As noted in the figure, there has been no overall evaluation of the implementation of this tax *post ex*, this is a further item that can be pushed for or indeed, the research could be carried out independently by civil society organisations, in collaboration with the Ministry for Agriculture.

4 Insights into future potential/reform

4.1 Actual planned reforms and stakeholder engagement

A new unified text for “New regulations for the development and the competitiveness of organic agricultural production” and “Regulations on Organic Production” was agreed in 2009, however the legislative proposal (C. 302) is, as of 2016, still undergoing review in

parliament.⁷ The text is comprised of 55 Articles covering the entire sector, from the organisation of production and the market, to the forming of national and regional authorities for inspection and certification. The two funds will be replaced by the “Fund for research in the organic agricultural sector” (Article 18) and the “Fund for the development of organic agriculture” (Article 19), which will operate according to new principles – i.e. direct governmental funding - EUR 7m was planned for the latter fund for 2013 and EUR 15m for 2014 and 2015 each. The tax itself, however, will remain in place, as only the Articles on the earmarking of the levy will be revoked. In the period between 2010 and 2016, informal hearings have been conducted with representatives of the agricultural sector, the organic sector, the food industry, seed and livestock organisations, producers of phytosanitary products and fertilizers, researchers and organisations active on the topic of food production.

4.2 Suggestions for future reforms – instrument design and civil society engagement

The tax needs to be defended from the perceived ever-present threat of its withdrawal. There is concern that the amount of money set aside for funding research and other initiatives will be eroded, to this end, earmarking should be supported, unless the amount of money provided by direct government contribution is ample and guaranteed (which it is currently not).

The tax rate could be raised to increase its impacts, and it could be taxed on the weight of active ingredient. At present, it is those selling the product that pay the tax; we do not know if this cost is simply passed on to the consumer. If not, it can be argued that the end user should bear the cost of the tax as it is their behaviour that must be influenced.

The scope of the tax should be better defined. It should be clear how many phytosanitary products fall within its rebate based on the hazard criteria, and what proportion of the market in terms of value and quantity this represents. Synthetic fertilizers should also be included.

The revenue generated from the tax, plus total products sold (i.e. both those within and outside the tax regime) should be reported, so that the instrument can be properly evaluated; to the same end, in the case that earmarking continues, disbursement should be reported consistently and in a timely fashion. The existence of specific funds for supporting research into organic agriculture should not impede the availability of other national research funding for this topic, which has been the perception in the past.

Some of these amendments could be supported by civil society organisations in the context of the implementation of National Plan of Action for the Sustainable Use of Phytosanitary Products, adopted in 2014 (MIPAAF et al, 2014), or, the new unified text on measures to promote sustainable agriculture (C. 302).

4.3 Suggestions for replicability

The instrument is highly replicable in other Member States, although effectiveness might be more readily secured through a more comprehensive tax, and one set with reference not to value, but to an indication of environmental impact (as in Denmark and Norway). Some finance Ministries might not look so positively on prospects for earmarking of revenues for

⁷ <http://www.camera.it/leg17/126?tab=4&leg=17&idDocumento=302&sede=ac&tipo=>

use in support of a transition to more sustainable agriculture, although this might have enhanced the effectiveness of the package of measures in the Italian case.

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ⁱ This case study was prepared as part of the study ‘Capacity building, programmatic development and communication in the field of environmental taxation and budgetary reform’, carried out for DG Environment of the European Commission during 2016-2017 (European Commission Service Contract No 07.027729/2015/718767/SER/ENV.F.1) and led by the Institute for European Environmental Policy (www.ieep.eu). This manuscript was completed in December 2016.