USDA Foreign Agricultural Service

GAIN Report

Global Agriculture Information Network

Template Version 2.09

Voluntary Report - public distribution

Date: 3/25/2005

GAIN Report Number: IT5010

Italy

Trade Policy Monitoring

Biodiesel Fuel/Bioethanol Production Prospects in Italy Update

2005

Approved by:
Ann Murphy
U.S. Embassy

Prepared by:
Sandro Perini

Report Highlights: Recent Italian legislation cut the amount of biodiesel production eligible for tax relief from 300,000 tons to 200,000 tons per year beginning 2005. The reduction is due to budget constraints and the desire to favor alternative energy sources coming from domestically produced agricultural raw materials. The same legislation allocated 219 million Euros to fund the tax relief for the production of one million hectoliters per year of bioethanol. While biodiesel is obtained mainly from imported oils (rapeseed and soybean oil), bioethanol will be obtained mainly from surplus distilled wines, as well as sugarbeets and corn produced in Italy.

Includes PSD Changes: No
Includes Trade Matrix: No
Unscheduled Report
Rome [IT1]
[IT]

Unlike in other EU member countries, Italian production of biodiesel fuel, obtained from oilseed oils, is forecast to decrease dramatically this year and in the near future. The Italian budget law for 2005 unexpectedly reduced biodiesel tax relief from the previous 300,000 tons per year to 200,000 tons. Last December, when discussions in the Italian Parliament on that law were in progress an amendment was introduced and quickly passed. Tax relief was cut, according to Government sources, due to budget limitations. This action clashed with the previous policy which had increased the amount of biodiesel eligible for subsidy from 125,000 tons in 2000/01, to 300,000 tons per year for the three-year period 2001/02 to 2003/04. Given the extremely high consumption tax on gasoline and any petroleum products in Italy, the only way to make biodiesel competitive with fossil products is the establishment of a tax relief policy, supported by environmental considerations. As a result of the subsidy, production (and consumption) of biodiesel in Italy has grown as follows (1,000 metric tons):

Year	1999/00	2000/01	2001/02	2002/03	2003/04
Consumption Tons (thous)	70	120	174	270	310

The table above shows that in 2003/04 biodiesel production actually exceeded the quantity for tax relief, as unused amounts from previous years could be utilized in subsequent time periods. Most observers were expecting the trend to continue, and that this year the quota would have been raised to at least 400,000 tons, following the rising concerns about pollution and its impact on human health. Biodiesel has been increasingly used by the petroleum industry, mixed in a blend from 5 to 30 percent with petroleum based diesel fuel, and to a lesser extent for heating purposes.

The effect of this developing production of biodiesel fuel on Italian agriculture, however, has been minimal. Italian biodiesel is mainly produced from rapeseed oil, directly imported into Italy from France and Germany, as the domestic rapeseed crop is negligible, as is the soybean crop. About one fifth of the total volume of biodiesel produced in Italy has been from soybeans, whether imported for that purpose or obtained locally from mostly imported soybeans. Because most agricultural raw materials used in the production of biodiesel are imported, Post believes pressure was put on the Italian Government and Parliament to switch the budget allocations from biodiesel to bioethanol produced from domestic inputs.

As a major follow-up to international agreements (such as the Kyoto Protocol) several EU white papers have promoted renewable energy sources, and have invited the member states to utilize up to 7 percent of their total fuel consumption in alternative, agricultural origin fuels by 2010. This figure would reach 20 percent by 2020. To accomplish this, different EU Directives allowed the member states to grant tax relief on a series of products, including ethyl alcohol. The reform of the Common Agricultural Policy for the wine sector introduced in 1999 a major change to the distillation programs, subject to a final target of bioethanol production. Although Italian legislation had allocated special funds for tax relief for bioethanol production in Italy as early as 2000, the implementing rules were issued in 2004, thus delaying any actual production. Finally the same 2005 Budget Law, which cut the tax relief allocation for biodiesel, revitalized the bioethanol project, allocating 73 million Euros per year for the three year period 2005-2007. This fund will be used for the tax relief of about one million hectoliters of ethanol (produced from wine alcohol, sugarbeets and grains) per year, to be mainly processed into ETBE, an additive that can replace the MTBE of fossil origin. For the first year of implementation (2005), wine alcohol will be the main source of production of bioethanol, using old stocks held by the State Agricultural Intervention Agency (AGEA). AGEA's stocks are from the EU distillation programs. For future years the leading Italian farmers' organizations reached an agreement with Assodistil (the Distilling Industry Association) for the promotion of crops to be used for bioethanol and ETBE. Industry sources foresee that about half of bioethanol will be produced from distilled wine surpluses and the remaining half will be obtained from special varieties of sugarbeets and corn, cultivated specifically for this coming use.

Post comment: The link between the two actions (reduction of the tax relief for biodiesel and parallel establishment of a tax relief fund for bioethanol production) seems to be obvious, with the GOI attempting to benefit Italian agriculture rather than imports from other EU countries. However, the overall level of funds allocated for these projects is surprisingly meager, especially when compared to other European countries. Italy produces a very small amount of agricultural surpluses, at least in the grain and sugarbeet sectors, and there are no large stocks weighing on the market and looking for new outlets, as in other countries. However, smog and air quality concerns have grown dramatically in recent years and the use of alternative energy sources seems to have been under valued by Italian authorities.