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Hungary

Grain and Feed

Biofuels Situation and Policy

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Report Highlights:

Hungary is exploring the viability of biofuel production and utilization, but commercial production was still low in 2005. The Government of Hungary established incentives, as well as technical guidelines for increasing biofuel use through recent tax law changes. Hungary may be a potential producer of bio-ethanol while the prospects for biodiesel material (rapeseed) production are limited. In terms of utilization, the Government supports blending rather than the pure use of biofuels.

Includes PSD Changes: No
Includes Trade Matrix: No
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Introduction

Two EU directives regulate the production and use of biofuels: for vehicles (directive 2003/30/EC) and the harmonization of energy taxes (directive 2003/96/EC). Directive 2003/30/EC sets minimum target levels for member countries to replace crude oil derivatives by biofuels. The target use, which is not mandated for member countries, is 2 percent by the end of 2005 and 5.75 % by the end of 2010.

Hungary has submitted its bio-energy report to the Commission. The Renewable Energy Sources (RES) target for Hungary, in electric energy use, is 3.6% for the year 2010. For biofuels, the 2233/2004. (IX. 22.) GOH Decree has set a national target of 0.4-0.6 % utilization for 2005, and 2.0% for 2010 (as a percentage of biofuel of the total fuel use). [A later 65/2005 (VI.28.) Hungarian Parliament Decision set 2% goal for 2007 and 4% for 2010].

The Hungarian legislation kept the pure (100%) use of biodiesel and the blended use of bio-ethanol (in Ethyl-Tertiary-Butyl-Ester [ETBE]) tax free from 2003 to the end of 2004. (There was no commercial production and utilization in this period of time).

The November 2004 amendments of the Act on Excise Tax (CXXVII/2003) recognized only the blending use of biofuels (vs. pure use) and terminated the tax-free status of pure use of biodiesel. The amended Act set excise tax preferences for biofuels for the 2004-2007 period.

Energy in Hungary

The energy source of Hungary's power generation was based on solid and liquid fuels (44.8 %), nuclear energy (28%), gas (22.2%), and imported electricity (5%) in 2004.

On the basis of 9 power stations and 3 large scale communal heating centers running on biomass (mainly wood), and some geothermal, wind and hydro power use, Hungary has reached 4.4 percent RES use in 2005 (preliminary data) vs. the 3.6 percent commitment for 2010. Due to the increased use of firewood to generate electricity, domestic firewood prices has went up more than 50% in the last two years. The National Federation of Forestry and Wood Industries (FAGOSZ) has notified the GOH of the price increase and the danger of burning valuable hardwood material with government subsidies.

In the field of biofuels, the 2005 utilization of 4,000 MT bioethanol is still far under the 0.4 percent target, but both the national gasoline company (MOL Rt.) and the GOH have made steps to increase utilization (see under Biofuel Incentives)

Production of Biofuels

Biodiesel

Hungary's rapeseed area is between 70,000-140,000 ha annually. Due to the big area and yield fluctuations, the crop is between 100,000-300,000 MT. There are two existing but commercially not operating "biodiesel" factories in Hungary. The technical processing capacity of the two combined is 16,000 MT oilseed/ year (7,000 MT/year vegetable oil). These factories are only capable to produce vegetable oil, but not transesterificated biodiesel (Rapeseed Methyl Ester, RME). Cereol, the major oilseed crushing company produces some rapeseed oil, but its 50,000-120,000 MT rapeseed crush is minor compared to the 650,000 MT sunflower seed processed. More than half of the rapeseed crop is regularly exported.

According to the 2005 fall planting figures, area devoted to rapeseed did not increase much, although MOA expects long term increase of the rapeseed production.

The Hungarian gasoline company, MOL Rt., which owns Slovnaft, the major Slovak gasoline company as well, and also sells fuel in Austria has issued a tender in January 2006 for long term suppliers of fatty-acid methylester (biodiesel component) and straight vegetable oil (SVO) of European Union origin. The 5-7 years contracts would be to supply 50,000 MT biodiesel component and 50,000 MT SVO for 2007, and 150,000 MT biodiesel component and 150,000 MT SVO in the 2008-2012 and/or 2008-2014 periods.

Bioethanol

Hungary has lots of agricultural by product and grain origin raw materials for ethanol production. Actual distilling industry capacities, partly standing idle, are about 93,000 MT of alcohol annually.

MOL issued a tender for long term bio ethanol supply, in 2005. The goal was to purchase 11,000 MT bio ethanol in 2005, 47,000 MT in 2006, 67,000 MT in 2007, and 75,000 MT in 2008. The two winners of the tender, the two biggest distilleries of Hungary (Hungrana and Gyori Szeszipar) are planning new investments. MOL has changed one of its factories from Methyl- Tertiary-Butyl-Ester [MTBE] to ETBE production in the second part of 2005, and the other ETBE factory is being finished in 2006. The two plants together have 100,000 MT ETBE production capacities.

The bio ethanol production was about 10,000 MT in 2005, but only 4,000 MT has been used in Hungary (the rest is either on stock or was used in Slovakia or in Austria). But MOL seemingly prepares itself for the blending standard and tax chances expected from 2008 (see at Biofuel Incentives).

The EU Commission has opened a tender in January 2006 for selling 666,095 hectoliter (hl) wine alcohol stocks in four member countries. Hungary has got 16,059 hl (about 1,600 MT) of it. The two Hungarian distilling companies mentioned above are allowed to bid (among companies of other Member States) for the EU stocks of wine alcohol for bioethanol use.

The GOH is planning to produce 56 million liter biodiesel and 59 million liter bioethanol by 2010. These volumes necessitate the processing of 90,000-100,000 MT oilseed (rapeseed) and about 230,000 MT grain equivalent. It is dubious whether or not the GOH can meet the biodiesel plan, but the calculated grain needs for the bioethanol target can be supplied by Hungary's 5-6 million MT exportable grain surplus.

Effects of the biofuel production on Hungary's protein feed balance are also not too great. The regional trade of high protein meals (oil meals and corn processing by-products) can meet the biofuel production demands even if Hungary's animal numbers are at a 10 years bottom right now.

Biodiesel and Bioethanol production in Hungary, in 2004-2005

Biodiesel (RME) production (‘000 MT)		Bioethanol production (denatured ethanol for fuel) (‘000 MT)	
2004	2005	2004	2005
2	2	0	10

Source: Ministry of Agriculture and Rural Development and MOL Rt. data

Imports-Exports

Hungary actively trades biofuel raw materials (ethanol, vegetable oil) and fuels with neighboring countries. This is why the figures for Hungary's production and utilization of biofuels may diverge in the future. Biofuels are commercially uncompetitive in Hungary besides the present diesel oil/gasoline prices and incentives.

The GOH does not plan to import bigger volumes of biofuels or raw materials. The limited growth of domestic rapeseed production and the more perspective bioethanol production may meet the requirements of the national targets. Biofuel production on domestic agricultural basis is hoped to offer a new (however limited) way of use in the country's grain and oilseed balance.

Biofuel incentives

Excise tax reimbursement

There was no commercial biofuel production or utilization in Hungary in 2004. The November 2004 amendments of the Act on Excise Tax (CXXVII/2003) terminated the previous tax free status for the pure use of biodiesel and recognized only the blending use of biofuels. The amended Act sets the excise tax reimbursement for biofuels.

For 2005, the refund was HUF 4.25/liter [USD 0.023/liter] for biodiesel sold by a gasoline company. The biodiesel content may be maximum 5% in the blended diesel oil.

For bioethanol (only in ETBE), the refund was about HUF 7.30/liter [USD 0.039/liter]. The bioethanol content of the blended gasoline may be a maximum of 7.05 percent according to the compulsory standards. (ETBE content of gasoline may be a maximum of 15%, and the ETBE contains 47% bioethanol)

The 2004 amendments set a ceiling for the total annual tax refund for both kinds of biofuels. Eligible distributors may claim a maximum 2 percent of the excise tax of fuels they sold in 2005 back. This ceiling of tax refund grows by 0.5 % annually (e.g. it will be 2.5% in 2006, and 3% in 2007). The tax refund can be claimed on domestically produced and imported biofuels as well.

Through additional amendments of the Act in 2005, the system of excise tax preferences will be changed beginning June 30, 2007 for bio-ethanol and from January 31, 2008 for bio-diesel. The compulsory blending standards (see above) will be removed (e.g. blending with pure ethanol as well as ETBE will be eligible). However, gas companies must use more than 4.4% bio component in their fuels to be eligible for lower excise tax. If they do not meet the 4.4% criteria, the normal excise tax will be imposed. The difference between the preferential and the normal excise tax level takes 7-10 percent of the price of the fuel at current prices.

Direct area payments

Bio energy plant production is eligible for several EU and MS direct payments. Grains (for bio ethanol) and oilseeds for biodiesel received EUR 86.21/hectare Single Area Program Support (SAPS) payment plus the national government "top up" of EUR 80.92/ha in 2005. The "energy envelope"* payment is additional EUR 27.00/ha for eligible producers. Energy grass produced in agriculture for biomass energy may receive the SAPS area payment and increased "energy envelope" payment of EUR 32/ha, but may not receive national top up.

* The energy envelope payment is a support provided from the European Agricultural Orientation and Guarantee Fund, and the national government supplementary fund (set by the 74/2005 [VIII.22.] Order of the Minister of Agriculture and Rural Development).