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Biofuels

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Report Highlights: Italy has the legal framework in place to encourage biodiesel and bioethanol production, and some production is taking place. Domestic supplies of raw materials for biofuel production, however, are limited.

Includes PSD Changes: No
Includes Trade Matrix: No
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This report should be read in conjunction with biofuels reporting on the European Union (EU) out of Brussels. The major recent development regarding biofuels in Italy was the provision included in the new 2007 budget law, passed by the Parliament in December 2006, that brought Italy into conformity with EU Directive 2003/30 on biofuels, establishing that at least 2.5 percent of total fuel consumed in Italy (both diesel and gasoline) must be biofuel by the end of 2008 and 5.75 percent by the end of 2010. The new budget law also obliges companies that place gasoline and diesel on the market to blend at least one percent of biofuel in 2007 and 2 percent in 2008. The same law provides for penalties for missing these targets to be assessed, although the actual penalties will be spelled out in forthcoming decrees.

The new law also changed current regulation of the Italian "green certificate" market by approving adjustments to incentives for utilizing appropriate raw materials from agricultural, livestock, forestry and food processing activities within specific plans of local "agri-energy" districts. The minimum electricity-production-level requirement of 50,000 kW in order to be eligible for green certificates was removed. Further details, however, were not spelled out and will need to be fixed by implementing decrees.

The overall situation between biodiesel and bioethanol differs somewhat, as noted below.

BIODIESEL

Italy has established a quota for biodiesel production that receives tax relief. This quota has been increased from 220,000 tons for CY2006 to 250,000 tons for 2007 (NB: the quota was 300,000 tons in 2004, but then reduced 200,000 tons in 2005 because Italian farmers were not benefiting). The actual amount of tax relief, however, has been reduced from 100 percent to 80 percent. In other words, in-quota biodiesel production will pay 20 percent of the 423 Euros per cubic meter of the normal consumption tax.

Biodiesel in Italy is mainly produced from rapeseed oil (about 70 percent of the total) and soybean oil (20 percent), with the remainder coming from both sun and palm oils. Rapeseed oil is imported from other EU countries, while soybean oil is either imported from the EU or domestically produced from imported beans (oil from domestic beans, being GM free, is used for food consumption).

According to industry sources, this year some 65,000 hectares have been or will be planted to oilseeds (50,000 hectares to sunflower seeds and 15,000 hectares to rapeseeds) under cultivation contracts between growers and the processing industry for the production of biodiesel. The price paid to the growers, according to the general agreement signed last December between representatives of the two parties, will take as a reference the price reported by the Paris exchange market. The same agreement fixes production areas for the next couple of years: 180,000 hectares for 2008 and 240,000 hectares for 2009. These numbers, however, seem to Ag Office somewhat ambitious considering the lack of available suitable land for such an increase, and that the overall Italian oilseed planted area in 2006 was less than 220,000 hectares, almost exclusively for food and feed uses.

Nevertheless, total Italian biodiesel production in 2006, despite the lower tax relief quota, was about 600,000 tons, thanks to export opportunities to other EU countries. Industry sources indicate that about two thirds of total production (or 400,000 tons) were shipped to other EU countries (mainly, and in order of magnitude, Germany, France, Austria and Spain). A similar situation is expected to prevail this year, with an Italian production level well above actual domestic consumption. In other words, Italy imports from other EU countries large volumes of rape and soy oil, which are processed into biodiesel, only to be re-exported within the EU, sometimes to the same countries from whence the raw material came.

Domestic Italian biodiesel consumption in 2007, however, is expected to exceed the tax relief quota, and may reach 350,000 tons, taking advantage of unused allocations for bioethanol in 2006.

Industry sources place current theoretical production capacity of biodiesel in Italy at over 1.5 million tons per year, although a more realistic ceiling is closer to 1 million tons.

BIOETHANOL

The 2007 budget law extended the annual tax benefit for bioethanol production of 73 million Euros through 2010. Bioethanol production is to be taxed at slightly less than 50 percent of the normal rate. However, the European Commission has not yet approved this tax relief plan, and if it does it will require that the Government of Italy undertake to ensure that these state aids to the sector are strictly controlled. Therefore, despite the incentives that were provided for as early as the 2005 budget law (see IT5010) no sizeable bioethanol project has actually started in Italy. The plan to use wine alcohol from the old stocks held by the State Agricultural Intervention Agency (AGEA) –coming from the EU distillation programs- has not been widely implemented. While in 2005 the local distilling industry imported some alcohol from Brazil and processed it into ETBE (Ethyl Tertiary Butyl Ether – a gasoline additive created by mixing ethanol and isobutene) for a total production of 580,000 hectoliters (or no more than 46,000 tons, a very marginal volume, when compared to the 15 million tons of gasoline consumed in Italy), in 2006 bioethanol production rose to 1,280,000 hectoliters, obtained from alcohol produced from both the distillation of wine surpluses and molasses. Actual domestic consumption, however, remained minimal (about 100,000 hectoliters in both 2005 and 2006) with most of the production exported to Scandinavian countries and France.

As indicated above, the major constraint to the actual start of a bioethanol project in Italy, is the lack of a “green light” from the EU, in particular DG Competition, which has spent two years investigating this issue. According to industry sources a final decision is expected in favor of the Italian plan. If confirmed, this would allow the start of bioethanol production in Italy for the domestic market. Considering the forthcoming reform of the Common Agricultural Policy in the wine sector that will likely remove support for distillation programs, the most important agricultural raw material alternative in Italy is corn. It has been calculated that from one million tons of corn some 3 million hectoliters of bioethanol could be produced, which would represent about one percent of the gasoline fuel market in Italy. Two sugar plants in the north-east of Italy (being abandoned as part of the implementation of the new CAP for the sugar sector) have been identified by the industry as the first bioethanol plants using mainly corn as raw material, but this project will take a few years to be fully implemented. At that time actual production capacity will grow to about 10 million hectoliters, compared to the current capacity of almost 3 million hectoliters (conversion rate is roughly 1 million hectoliters = 80,000 tons). One additional project has been announced in Sicily, with a potential capacity of about 2.5 million hectoliters (using mainly sweet sorghum, whose production in Italy, however, is currently minimal).

ITALIAN BIODIESEL PLANTS

Company	Location	Capacity (1,000 MT)	Start
ACTIVE			
Comlube	Brescia	120	1995
DP Lubrificant	Aprilia (Rome)	150	2003
Fox Petroli	Vasto (Chieti)	130	1998
Italgreen Oil	Verona	300	2007
Ital Bi Oil	Bari	120	1996
Mythen	Cosenza	200	2000
Novaol	Livorno	250	1992
Oil Bi	Varese	200	1998
Polioli	Vercelli	20	2006
GDR	Milano	40	2006
NEW PLANTS			
Caffaro	Udine	100	2007
Cereal Docs	Verona	120	2007
Olearia Olimpo	Bari	60	2007
Oxem	Pavia	200	2008
Red Oil	Napoli	30	2007
Sabe (SFIR)	Trieste	100	2009

ITALIAN BIOETHANOL PLANTS

Company	Location	Capacity (Mill.Hect.)	Start
ACTIVE			
IMA	Trapani	2.0	1987
Alcoplus	Faenza	0.7	1990
NEW PLANTS			
Trieria	Venezia	2.0	2009
Italia Zuccheri	Rovigo	2.5	2009
Italia Zuccheri	Pavia	2.5	2009
IMA	Palermo	2.5	2009