

Country Report: Italy

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Pellet Fuels Institute



Williamsburg VA, July 21, 2015

- About AIEL
- Italian Market from a Global Point of View
- The figures of the Italian Pellet Market



The main Italian association of Wood Energy Chain

ABOUT US

Wood Energy Chain Association (300 members)

Representing the companies' interests 'from Forestry to chimney'



The slide features a green header bar at the top. In the background, there is a large, faint watermark of the AIEL logo, which includes the text 'AIEL', 'ASSOCIAZIONE', 'ITALIANA ENERGIE', and 'AGROFORESTALI' next to a stylized flame icon. At the bottom, there is a green silhouette of a forest with various types of trees.

The biggest European Market for domestic use

THE ITALIAN PELLET MARKET FROM A GLOBAL POINT OF VIEW

European Pellet Heating Outlook

New RISI Study: “Globally, wood pellet demand is projected to grow from an estimated 23 million metric tons in 2014 to 50 million metric tons in 2024”.

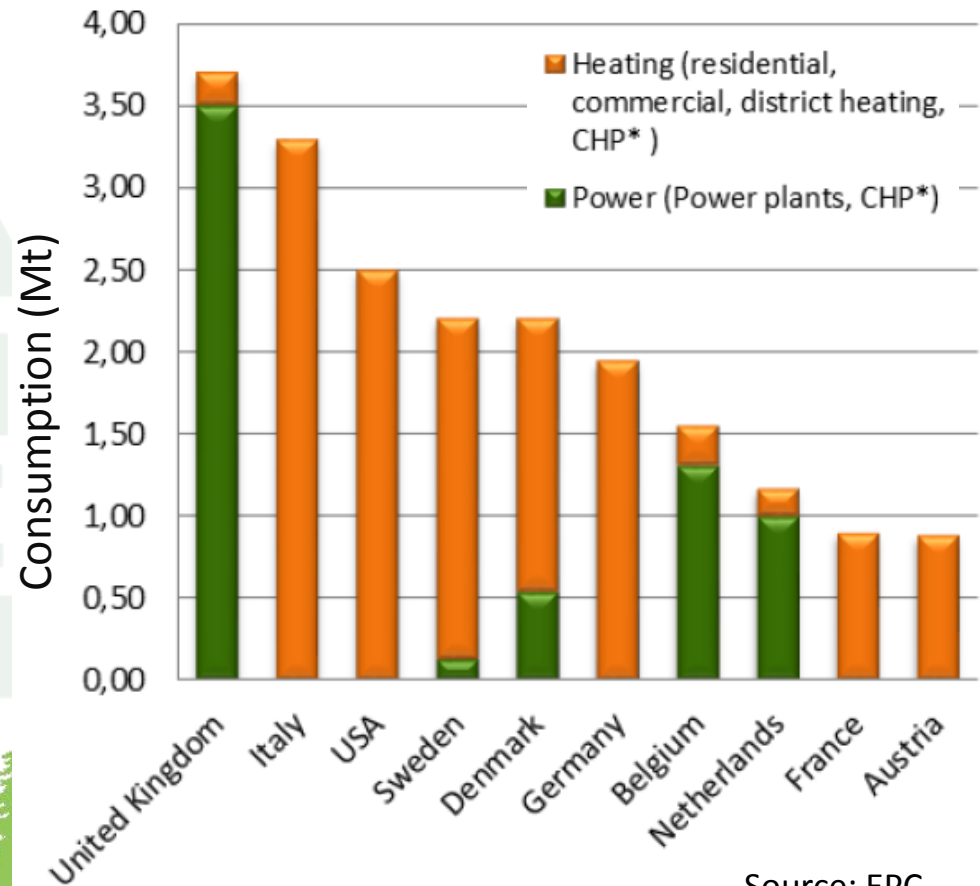
- Continued strong, but **decelerating growth**

- 6 countries with 90% market share

- Where will pellets come from?

- Euro exchange rate presents concerns

Prices



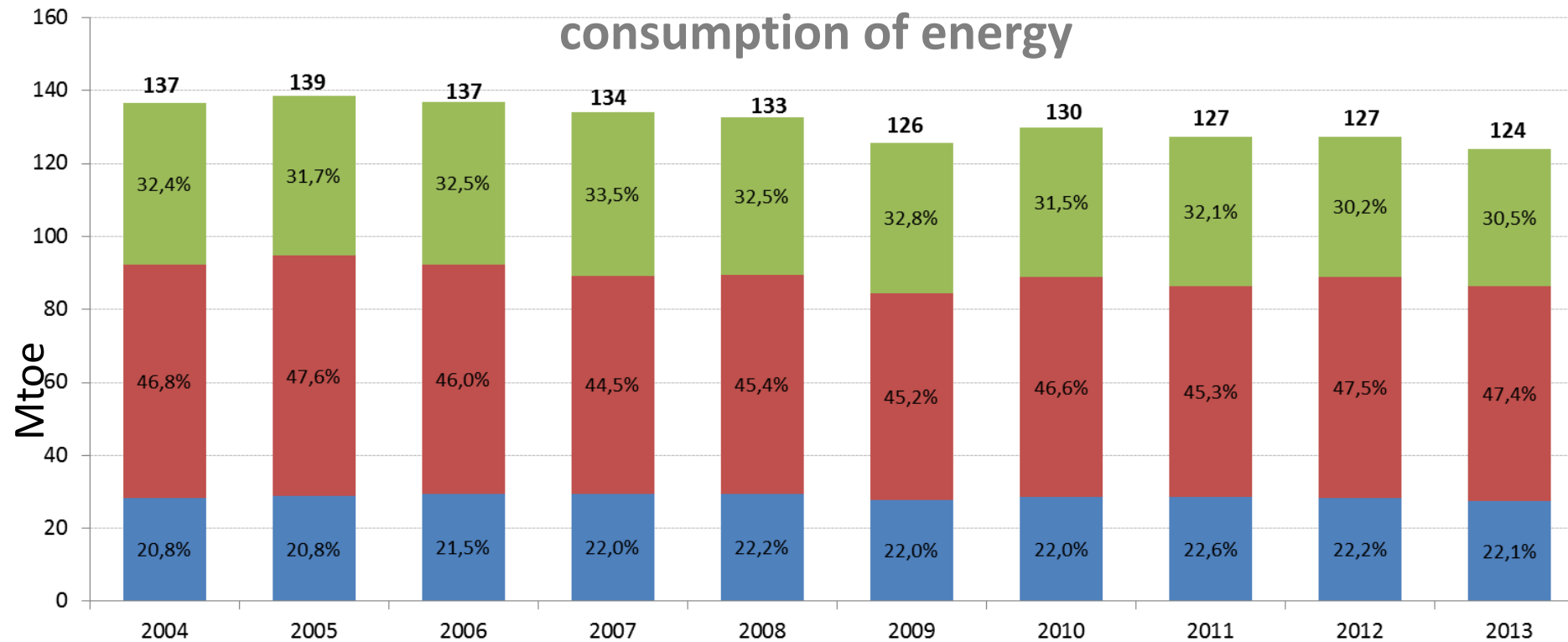
Source: EPC

The biggest European Market for domestic use

THE ITALIAN PELLET MARKET FIGURES

Gross Final Consumption of Energy in Italy

Energy consumption for heating purposes by the residential and commercial sectors is the highest share of the final consumption of energy

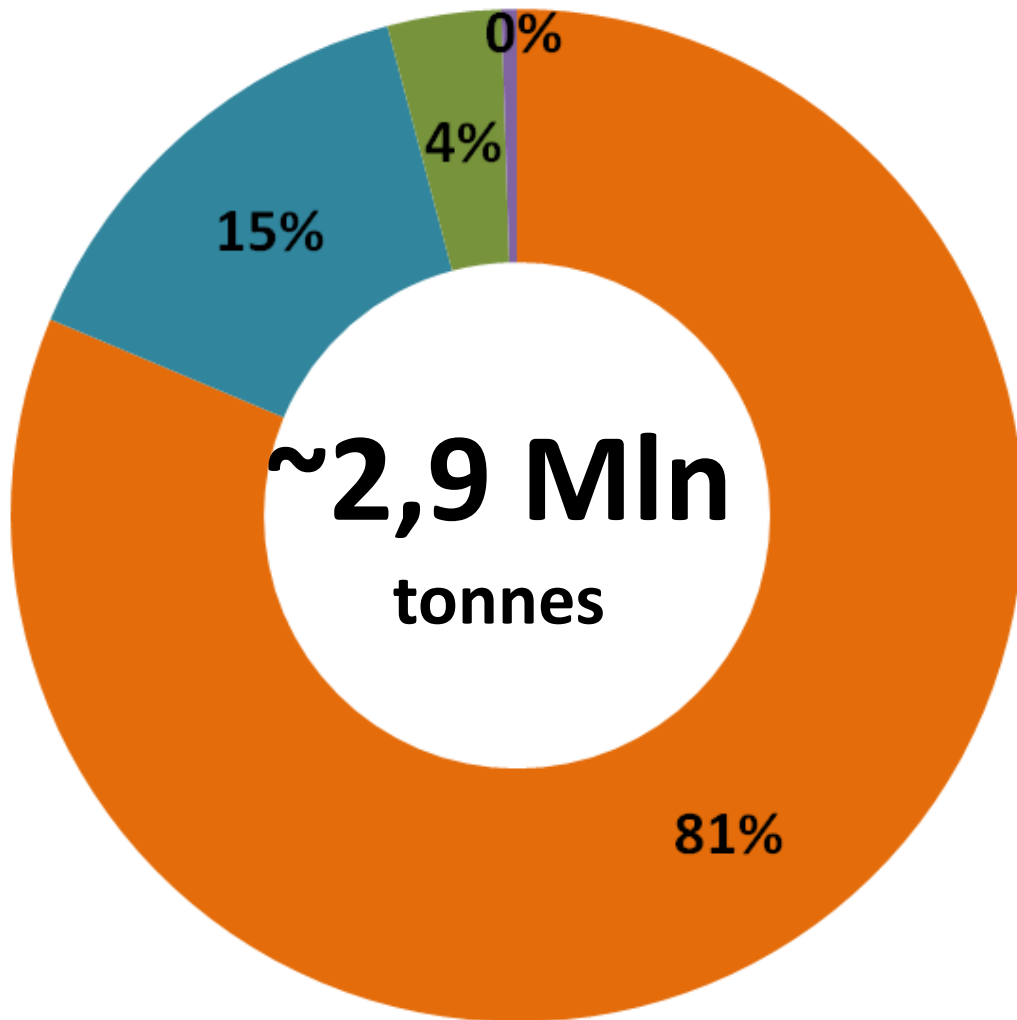


Source: GSE –2014

Electricity Heating Transport

Gross heating consumption **59 Mtoe**

Final Consumption of Pellet in Italy in 2014



■ Pellet stoves

■ Pellet residential boilers <35 kW

■ Pellet commercial boilers >35 kW

■ Pellet industrial boilers < 1MW

96%

is consumed in the residential sector

Big boilers use mainly woodchips

Wood pellet market (fuel):

- Large Scale (power plants)
- Medium Scale (district heating)
- **Small Scale:**
 - **In room**
 - **Central heating**



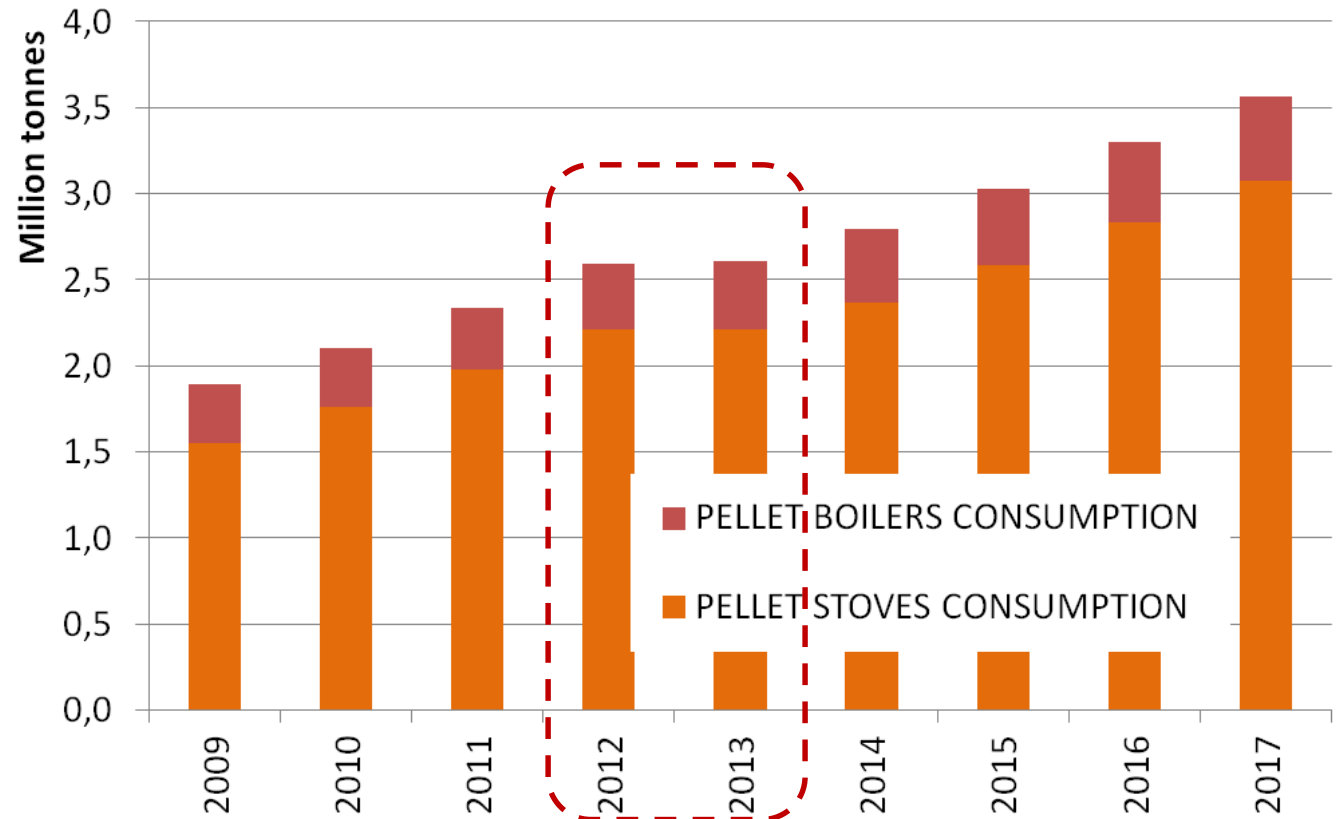
81%

**Of pellets is
consumed in pellet
stoves**

15%

**Of pellets is
consumed in
residential pellet
boilers**

Forecast of Final Consumption of Pellet at 2017

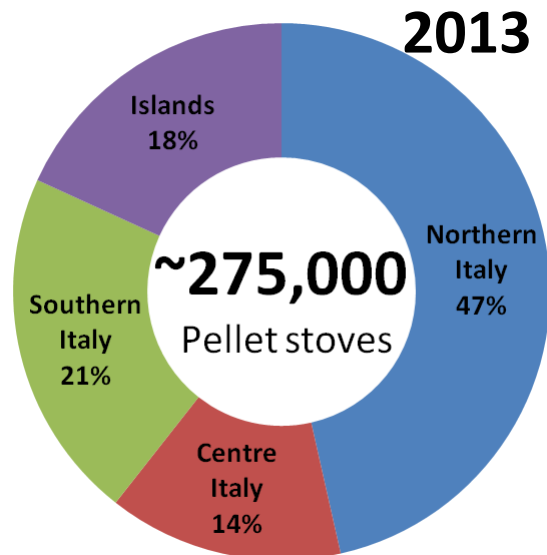


Drop of demand in 2013, the consumption was roughly the same of 2012

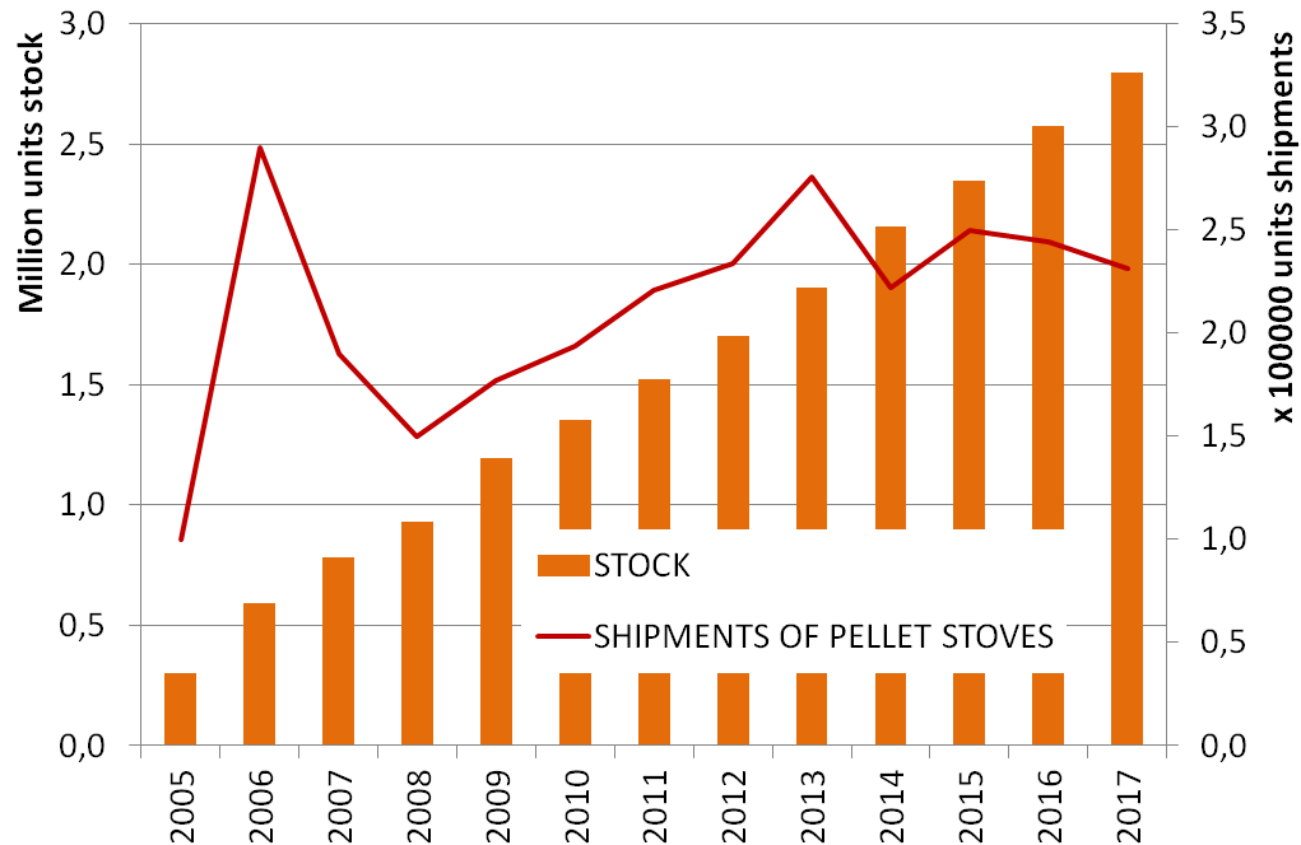
Main causes: **mild winter** (-30% of heating energy demand) and **cheaper oil**

The prediction is to reach **3 Million tonnes in 2015**

Pellet Stoves. The Main Market Segment



Source: REF-e 2014



Sales peak in 2006 and 2013, **~275,000 new stoves**

Over **2.2 Million stoves**

Strong competition on the market with **low margins** for the stoves manufacturers

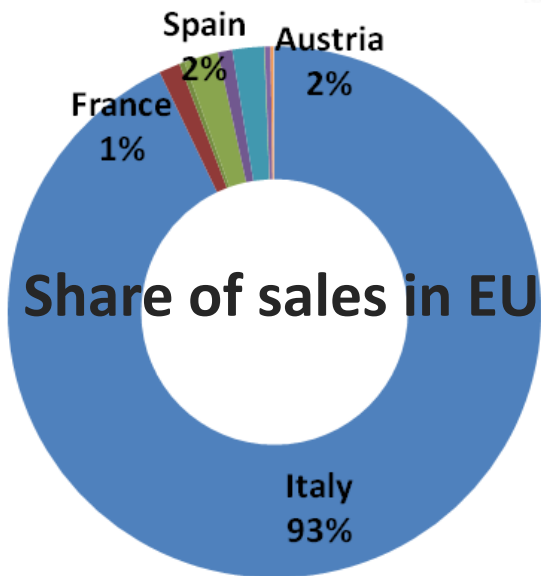
European Pellet Stoves Market. An Italian Issue



European Market
470,000 pcs/year

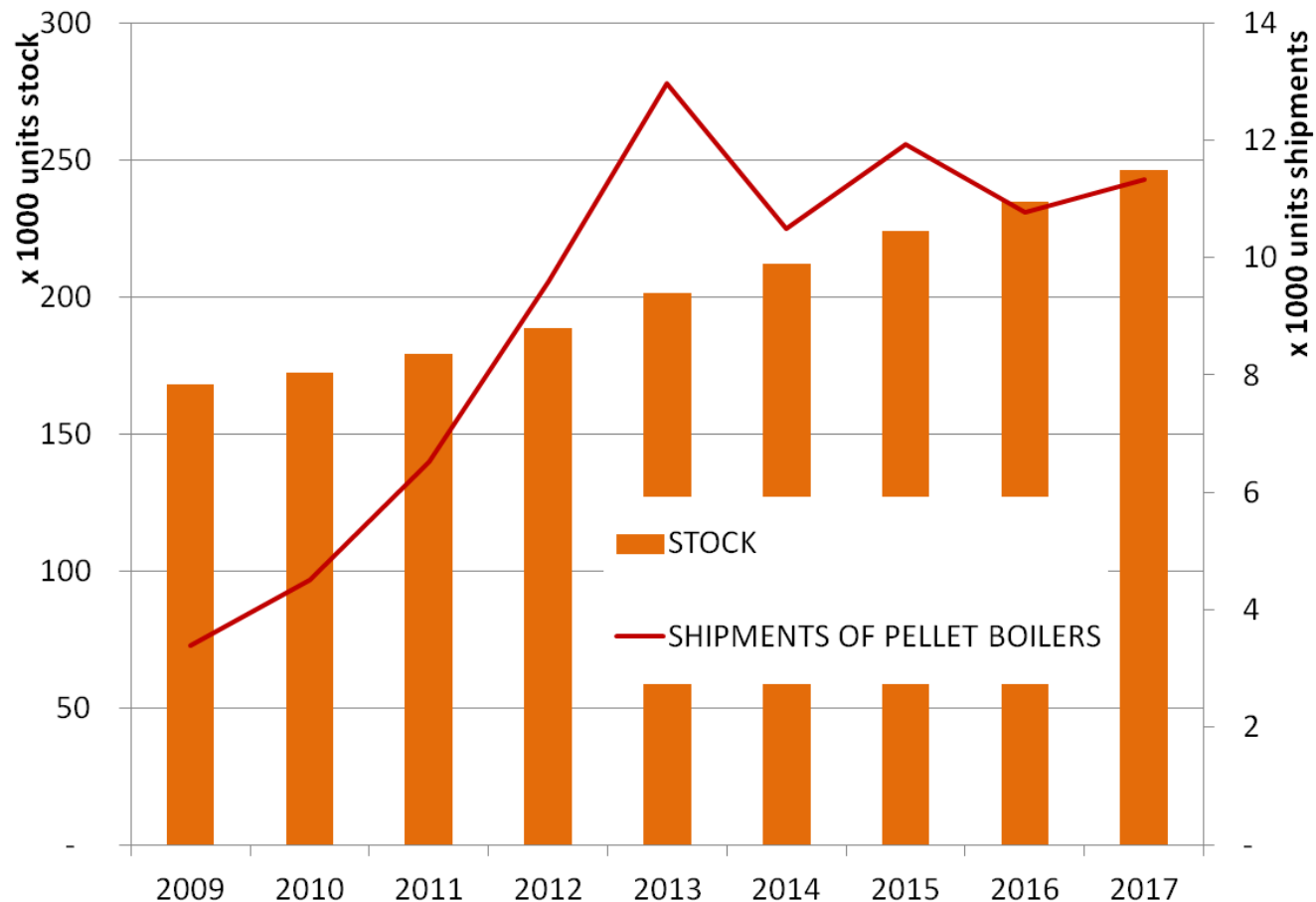
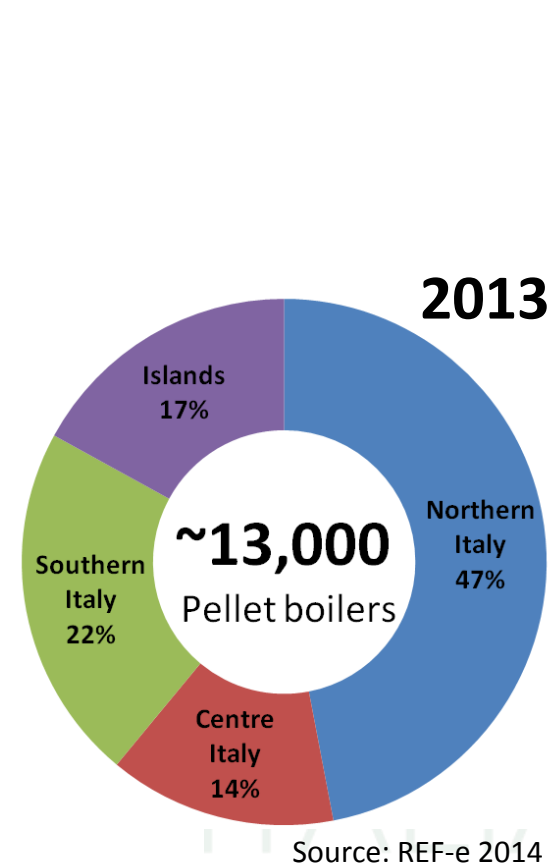
Italy: more than 50%

**More than 90% of stoves
are produced by Italian
companies**



Picture: Palazzetti

Pellet Boilers. The Main Market Segment

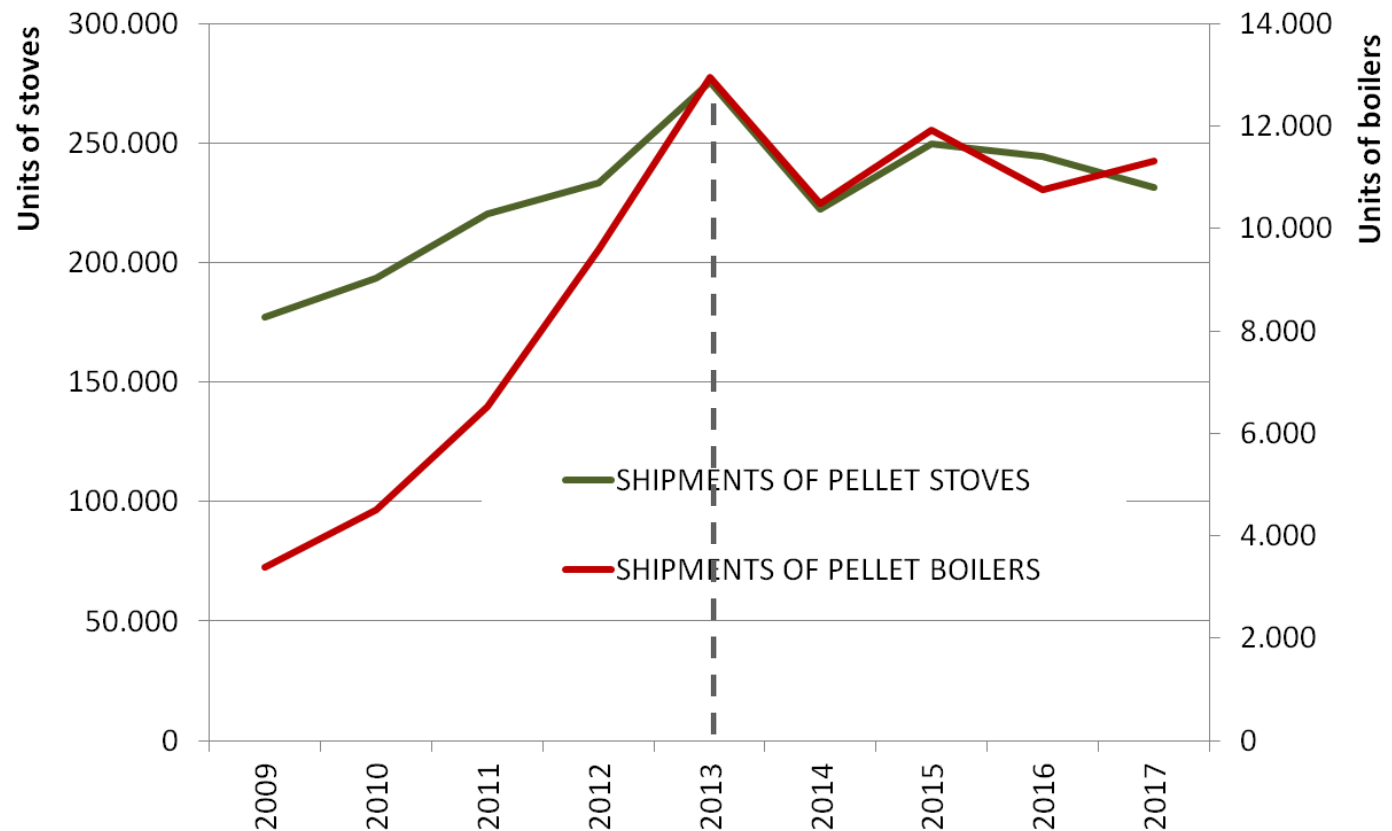


- Sales peak in 2013, **~13,000** new boilers

- Pellet is the **market leader for boilers up to 100 kW**

- In 2014 more wood log boilers installed than pellets

Shipments of stoves and boilers till 2017



● In 2013 shipments of pellet stoves (boilers) were 56% (60%) larger than in 2009

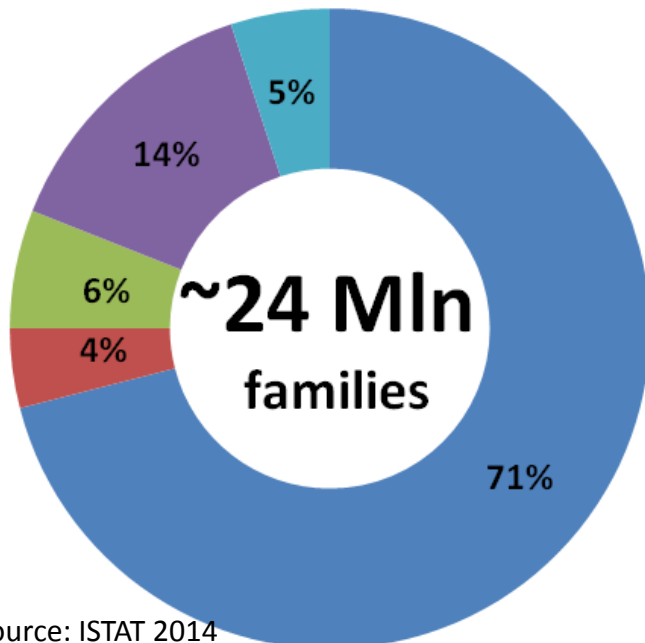
● **Sharp demand drop in 2014**, ~-19% for both stoves and boilers

● Slight rebound in 2015

● Expected demand drop from 2015 to 2017, mainly for stoves

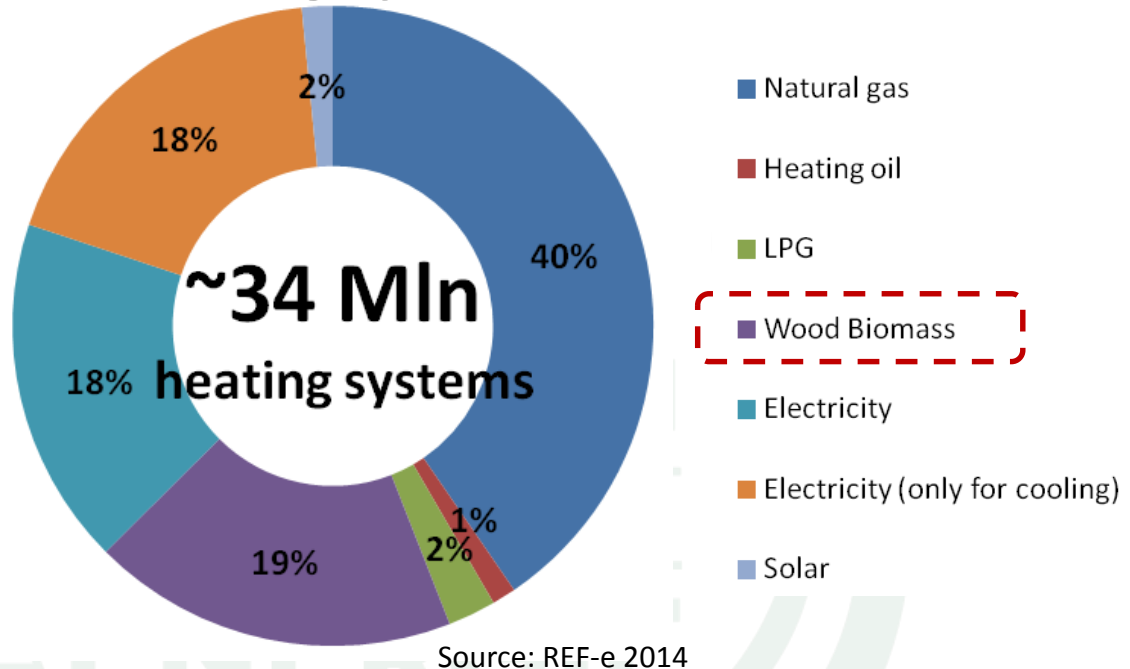
Heating fuels used in 2013 in Italy

Main fuel used for heating purposes



4%
pellet it the main or
primary heating fuel

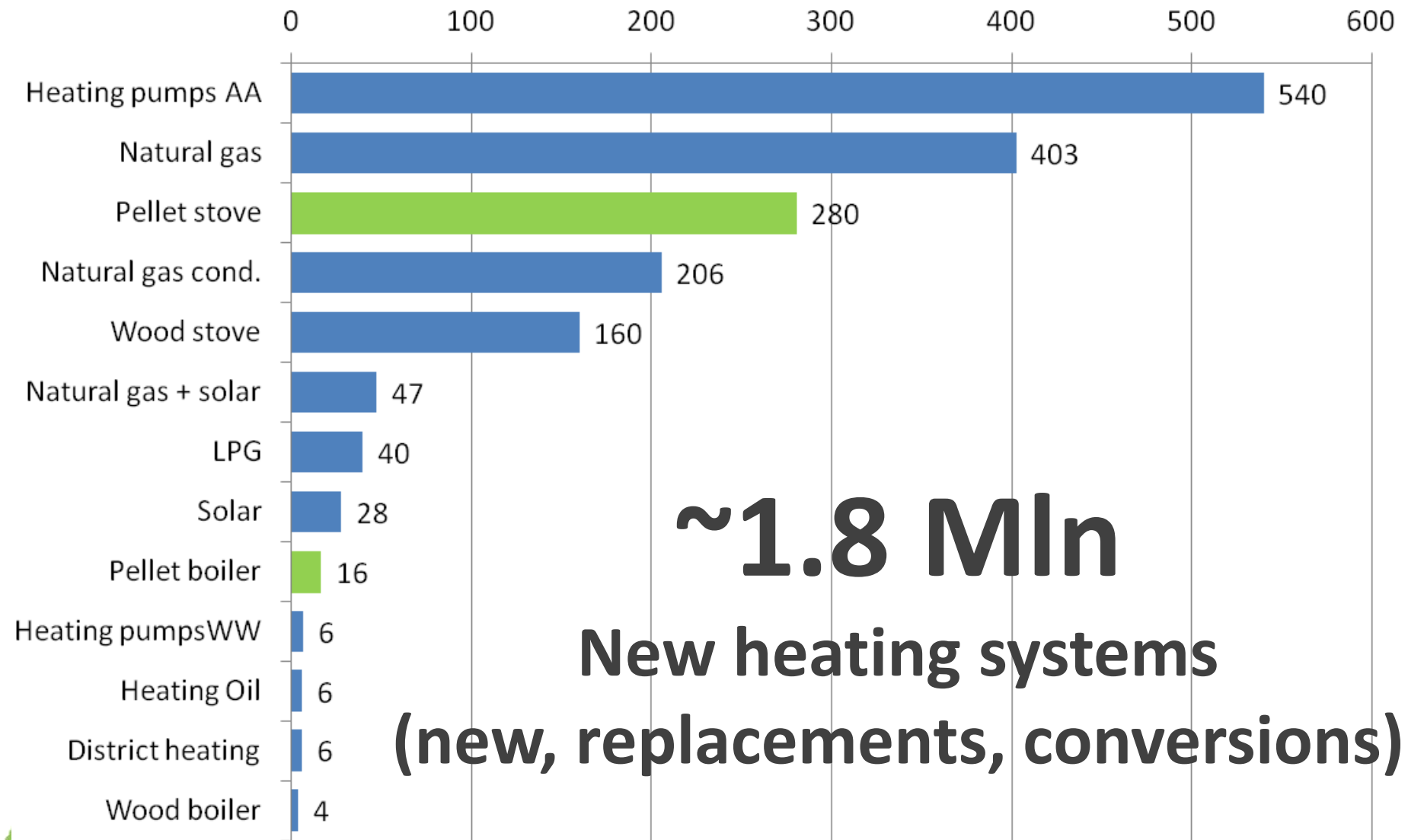
Stock of Heating / Cooling Systems



6.3 Mln
wood biomass heating
systems
1.2 Mln boilers run on heating
oil or LPG

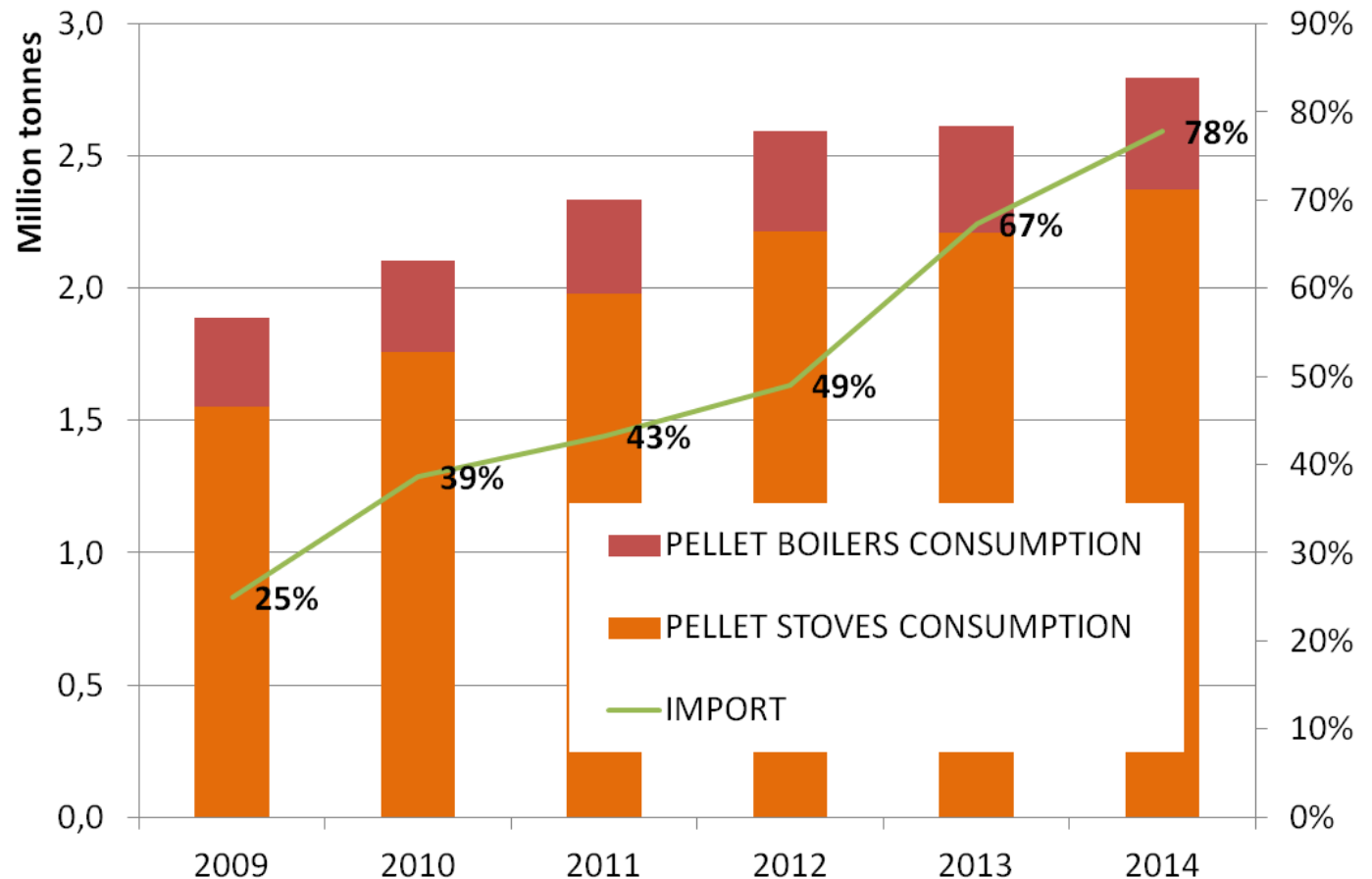
Heating system installations, 2013, Italy

x 1000 units



Source: REF-E, 2014

Pellet Consumption and Import



Source: Eurostat, AIEL, 2014

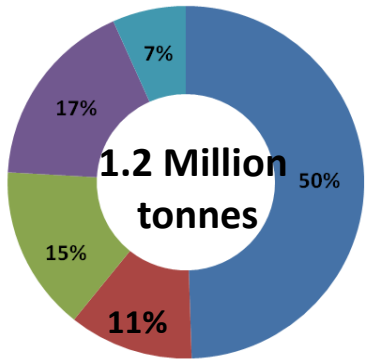
- Italy is strongly **dependent on imports**

- The dependency is **predicted to grow further**

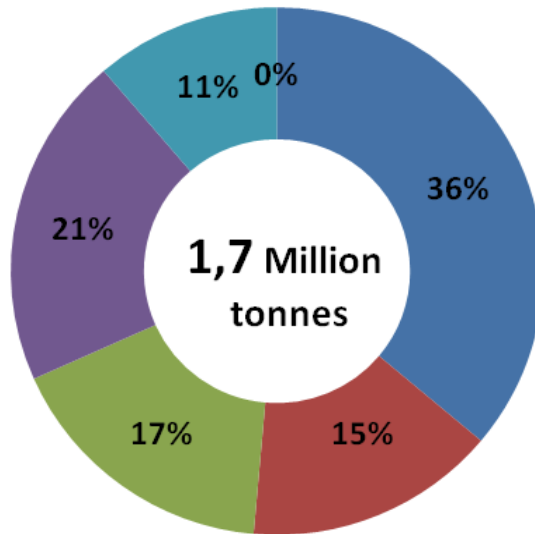
- The import patterns are changing

Italian Pellet Import Suppliers

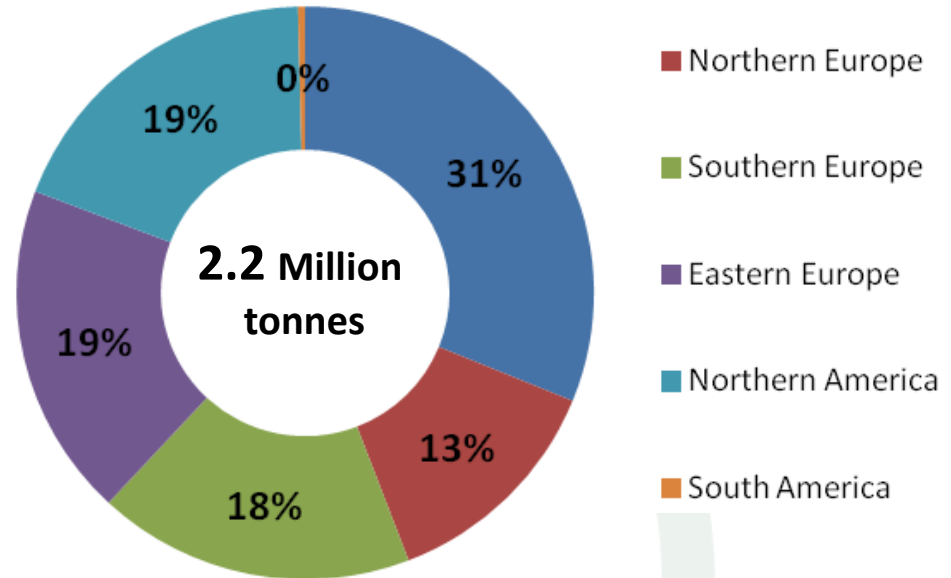
2012



2013



2014



■ Western Europe
■ Northern Europe
■ Southern Europe
■ Eastern Europe
■ Northern America
■ South America

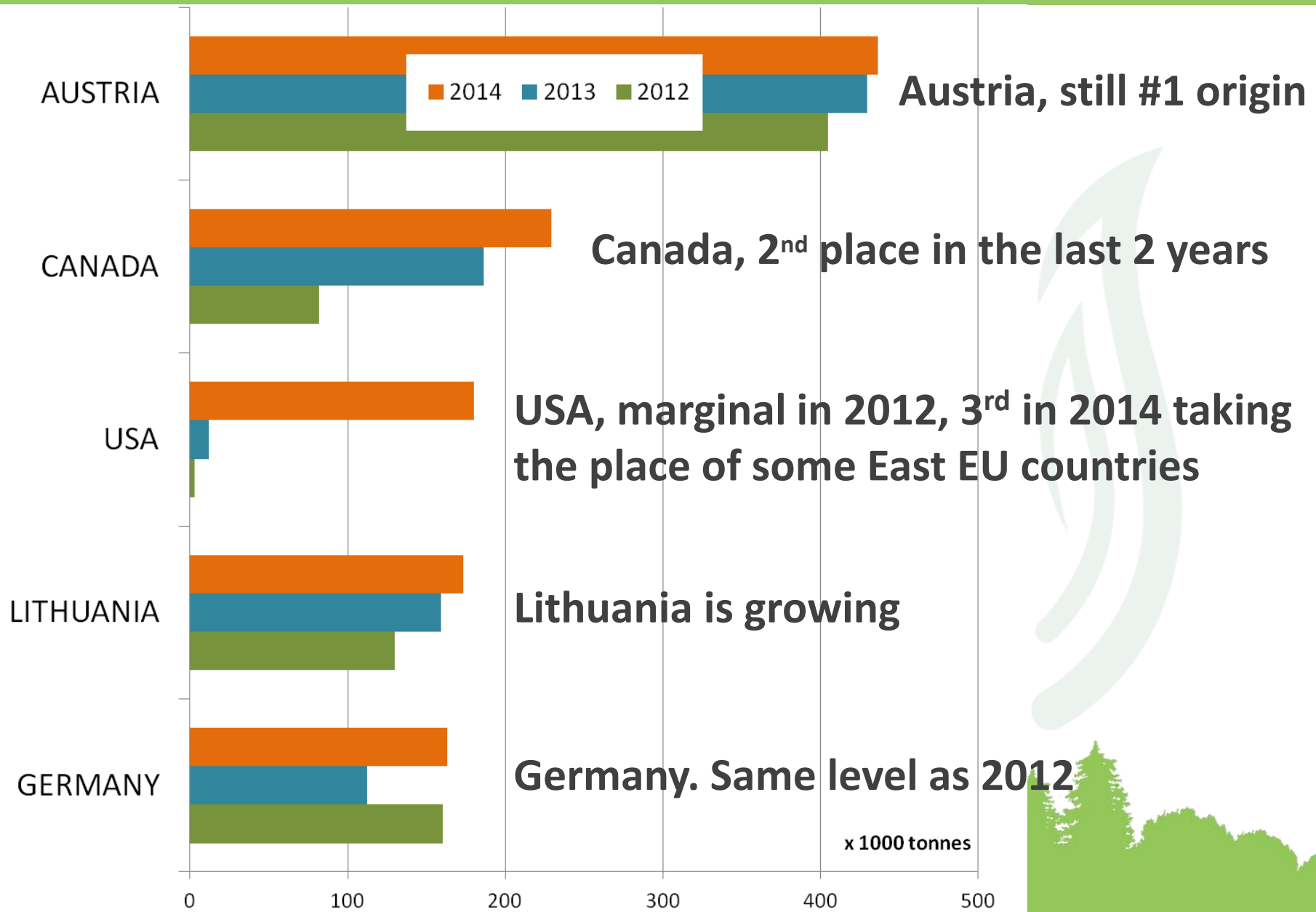
● Western Europe is still the main supplier ~680 kt in 2014

● North America is growing

● Other suppliers like South America are coming

● The pie itself is growing

Italy Imports. Top 5 Origins in 2014



- 1. Energy Prices**
- 2. Existing Heat Supply Structure**
- 3. Subsidies**
- 4. Interest for Renewable**
- 5. Trend**

**The Small Scale
heating appliances
decision maker is
the end user**



Source: Marco Palazzetti,
Palazzetti SpA

Distribution Channels:

- **3 steps**
 - › Gross Handlers
- **2 steps**
 - › Dealers
 - › DIY
 - › Plumbers
- **Direct**
 - › Internet
 - › TV
 - › Door to door
 - › Company outlet

Source: Marco Palazzetti,
Palazzetti SpA

Distribution Channels:

3 steps

Producer / Importer > Broker (or sales agent) > Retailer

2 steps

Producer / Importer > Large Scale Retailer (DIY or Big Supermarket)

Direct

› Company outlet (just for small companies)

Pellet User Characteristics

IS AN ENTHUSIASTIC USER

IS PERFECTLY AWARE OF THE COST
OF EXERCISE OF ITS PRODUCT

IS HAPPY TO BE AN ACTIVE
ACTOR IN MONEY SAVING

IS AWARE HE HAS TO INTERACT
WITH THE PRODUCT

AGE GOES FROM 25 TO
OVER 65 YEARS OLD

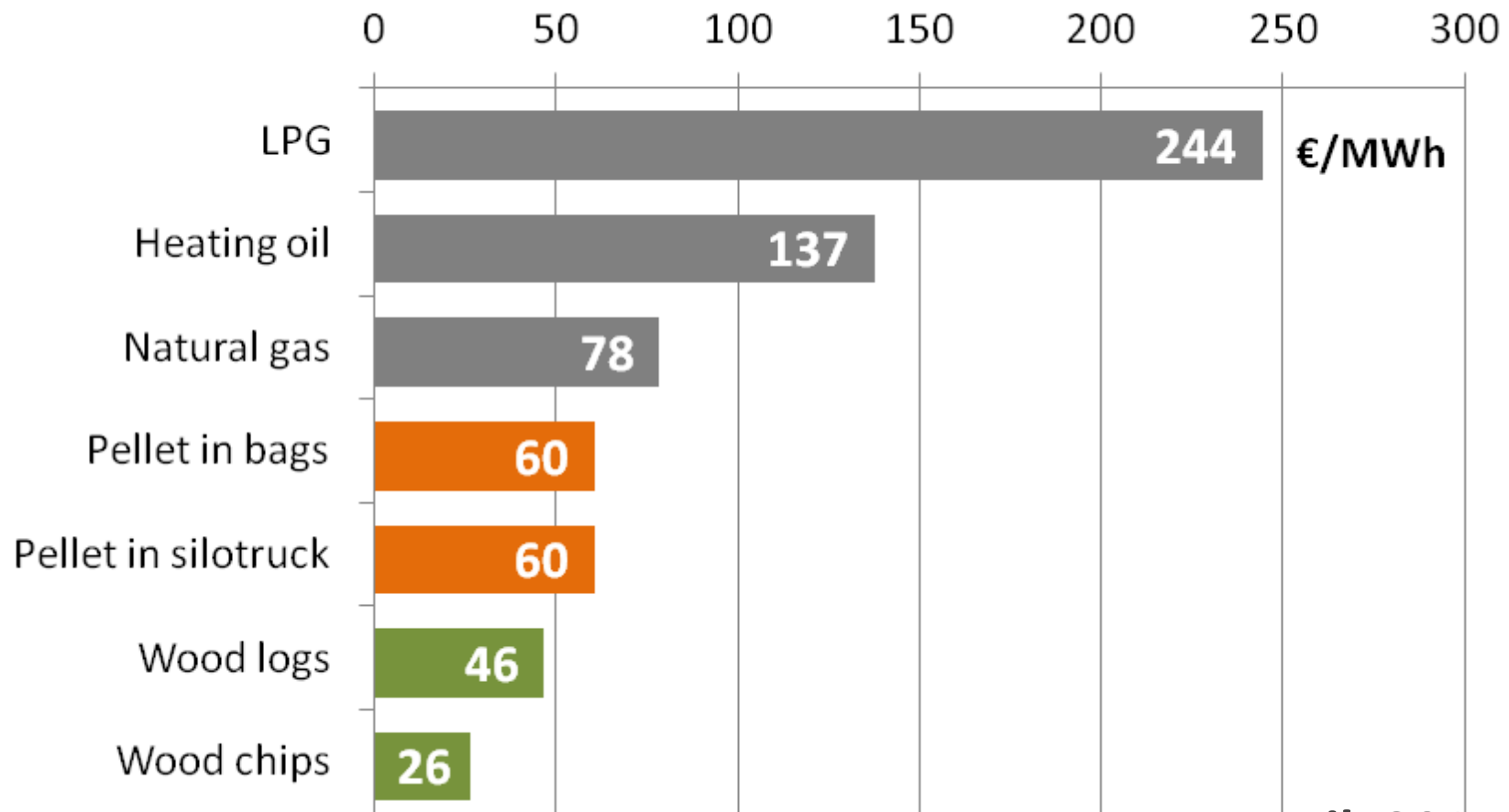
WOULD LIKE TO “DO MORE”
WITH ITS STOVE



Source: Marco Palazzetti,
Palazzetti SpA

Primary Energy Cost Pellets vs other heating fuels

VAT and taxes included, delivery excluded

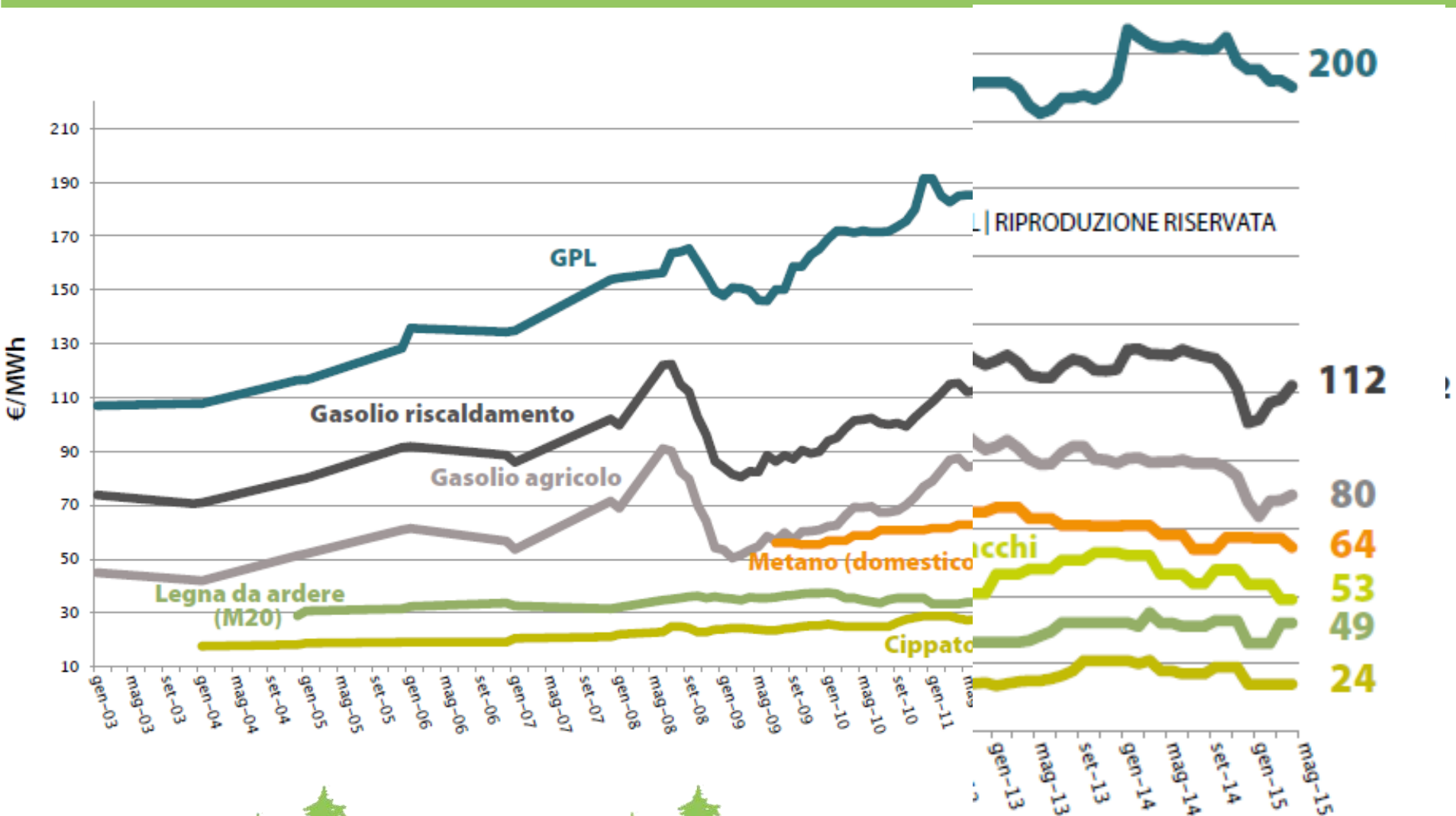


April, 2015

● Pellets is still competitive vs other fuels

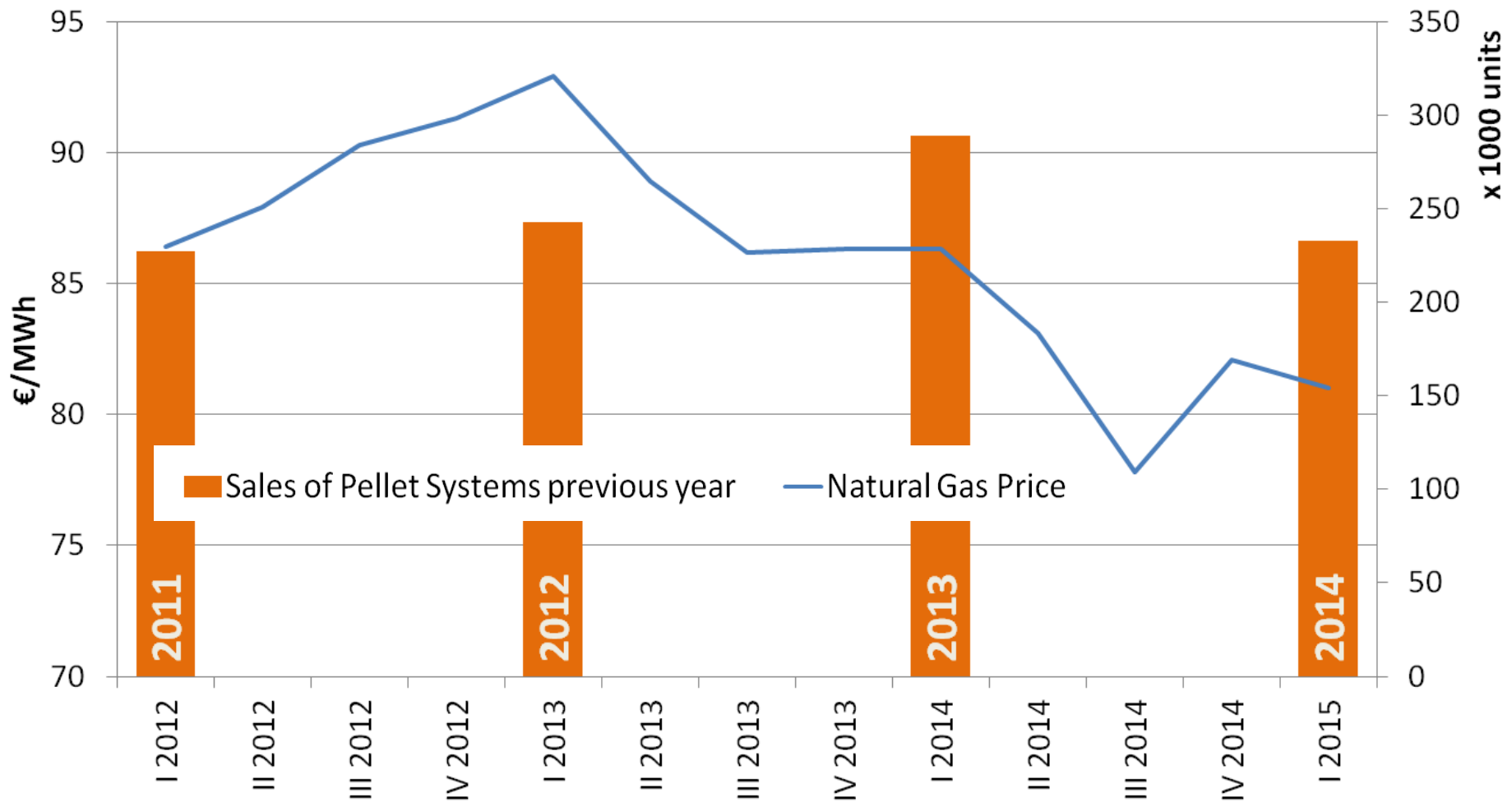
● The VAT increment is not perceived by consumers

Primary Energy Cost Pellets vs other heating fuels



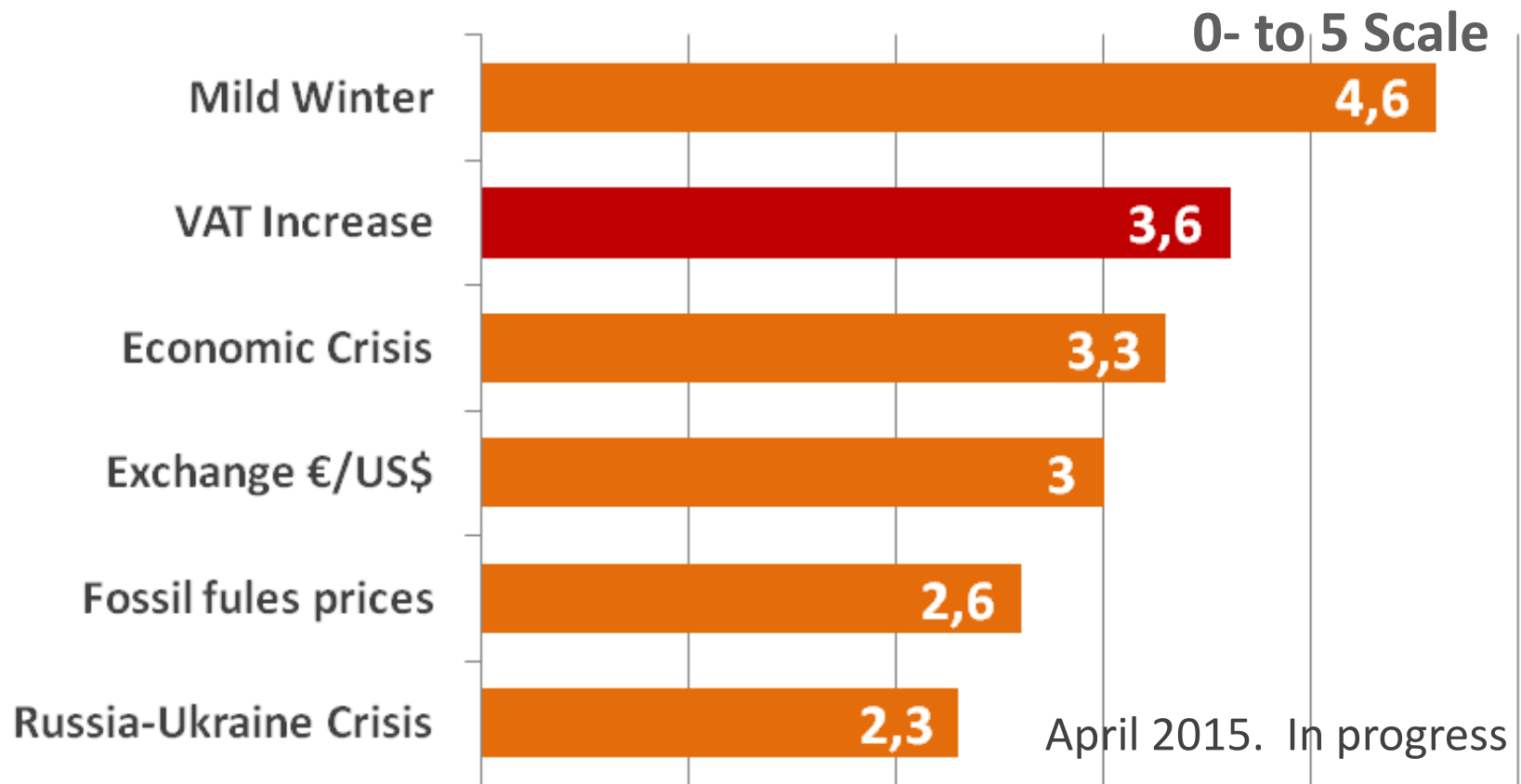
Primary reason for growth. Relative price vs other forms of space heating

Sales of Pellet Systems and Natural Gas Prices



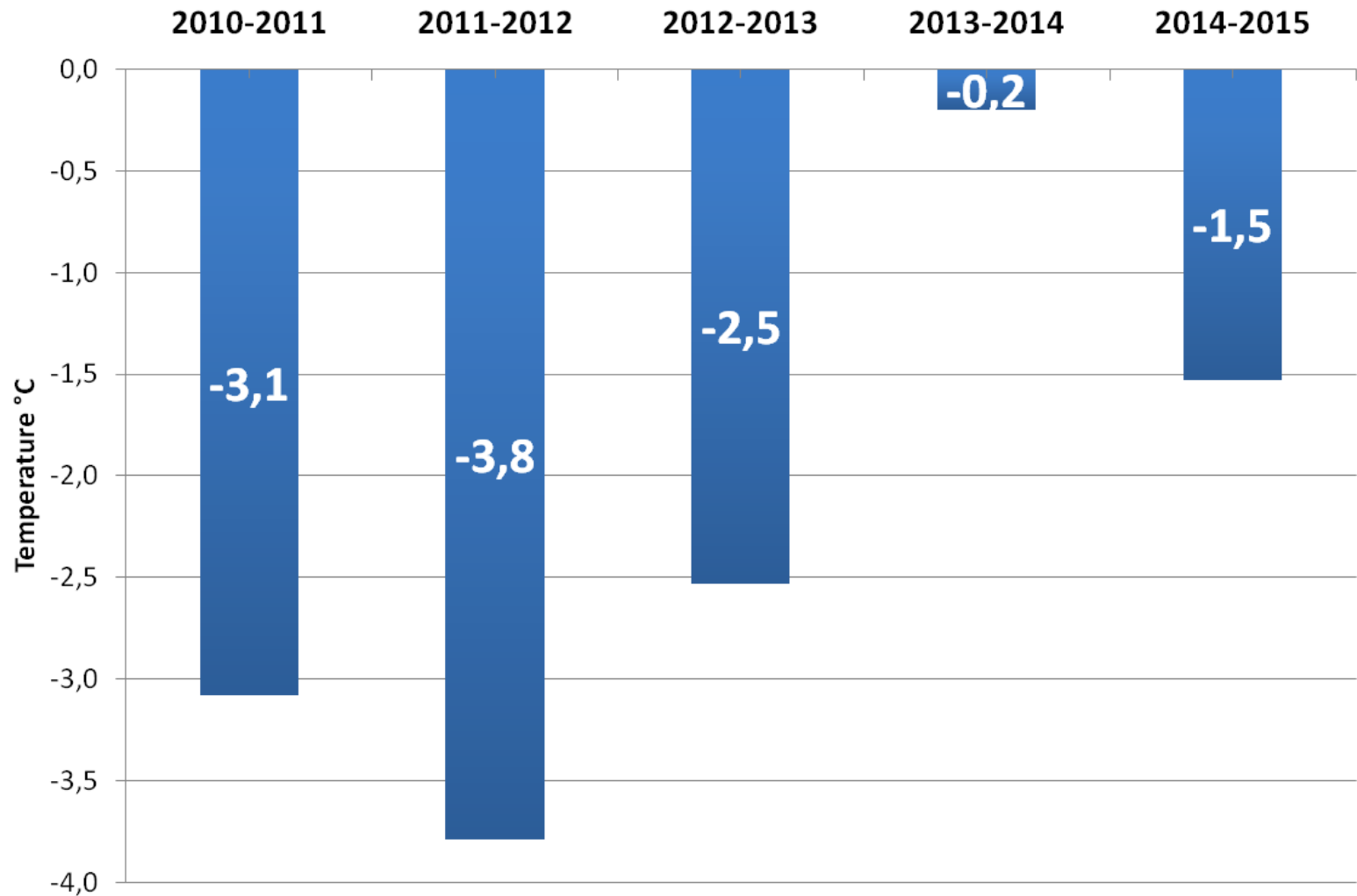
- Natural gas is the main competitor of pellet
- The natural gas prices appear to affect the sales of pellet heating systems with one year lag

Main concerns of market operators



- Mild Winter and VAT are the #1 and 2# **concerns**
- It is still difficult to predict how big will be the impact of VAT
- Huge amount of pellet in warehouses

Mild Winters: the first concern



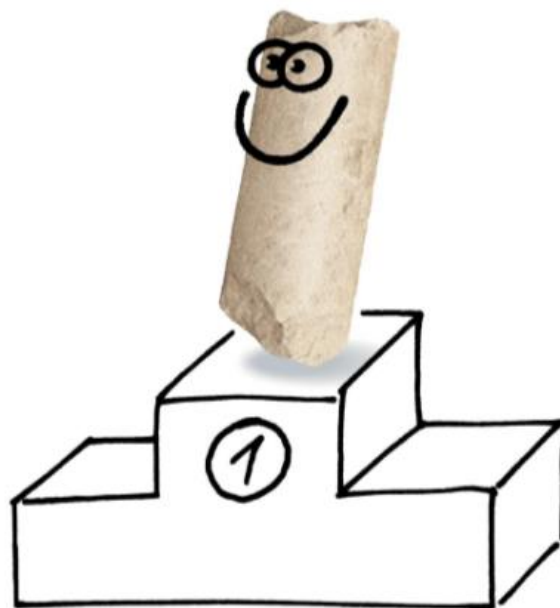
- Average of daily minimum temperatures during the winter

- The winter 13-14 was the warmest of the last years

CONCLUSIONS



- In the current context (besides the seasonal effects) the Italian market for residential use will **keep on growing** (slowly)
- The most attractive factor of the Italian Market is that being an user centred market there are many approaches and it is **always in evolution**
- **Potential for replacing existing systems still huge**
- New business models still to be tested for finding the right role of pellet systems in a context of **energy efficiency and reduction of emissions**
- **Find the right role for pellets Vs LPG and Wood board sector** in order not to fight one against the other but to give to everyone the correct role in the whole scenario (win-win)
- Increase **user awareness** of best practices and correct installations



THANK YOU!

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