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Sugar's bleak future as fuel

UP's decisions on molasses quota for liquor makers could have a major bearing on the country's green energy production

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Common sense will have it that if the same party is in power at the Centre and in a state, then there will be a uniform approach to policy matters. Surprisingly, while Prime Minister Narendra Modi will be using forums here and abroad — as he did recently in the US to court credit for the strides India is making to produce electricity from biomass and other non-fossil fuel sources such as sunlight and wind — the government in Uttar Pradesh (UP), which is the country's largest producer of sugarcane and sugar, has recently taken some steps that will stand in the way of boosting green energy.

What is important in this context is that of the total electricity of over 5,000 megawatt (MW) that the Indian sugar mill industry gives to the grid after fully meeting its own power requirements, the share of UP is 1,100 MW. The cyclical nature of this agro-based industry, often hit by low sugar prices that are not enough to cover production costs as is the case for some time now, demands that factories realise optimal value from sugarcane by-products bagasse and molasses by building saleable co-generation and ethanol capacities.

The strides the leading sugar groups are taking in downstream capacity building, have reduced their exposure

to cyclical of sugar. Unfortunately, the majority of sugar enterprises owning single factories could not build a business model unlike their illustrious peers. No wonder, then, crushing factories not making optimum use of cane by-products face huge unpaid cane bills whenever the industry run into headwinds.

It is no surprise as the country's oil import dependence was up from 80.6 per cent in 2015-16 to 83.7 per cent in 2018-19 with oil consumption during this period growing from 184.7 million tonnes (mt) to 211.6 mt. New Delhi extended help to sugar producers to lift production of ethanol by giving good prices for the fuel derived from C and B heavy molasses and also straight from cane juice. At the same time, the GST rate for ethanol was brought down to 5 per cent from the earlier 18 per cent. The revised rate for ethanol made from B heavy molasses at ₹52.43 a litre is proving to be a major incentive for UP-based industry leaders such as Dhampur Sugar and Bahampur Chini to invest in green energy capacity building. Based on the current rates and oil marketing companies (OMCs) blending a growing percentage of biofuel with petrol, the stepping up of ethanol production will result in lowering of crude oil import, reduction in greenhouse gas emission and higher revenue for sugar mills allowing them to settle cane bills promptly.



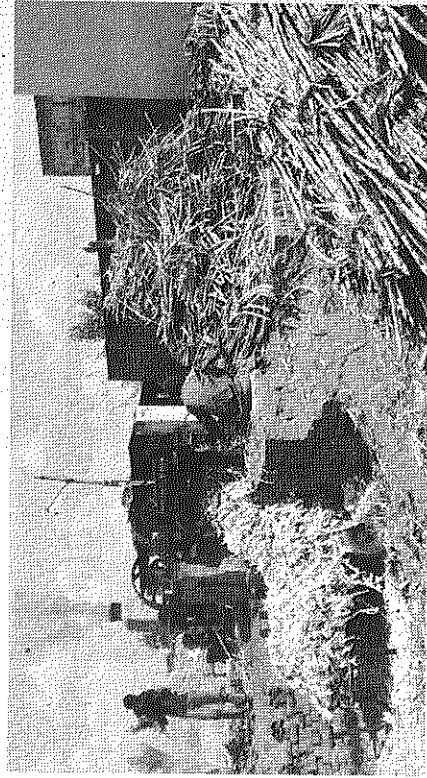
Around the time sugar makers in UP enthused by the prospect of higher price realisations are making new rounds of investment to build distillery capacity for ethanol extraction from B heavy molasses, the state government in its wisdom told them to reserve 16 per cent of C heavy molasses for units engaged in brewing country made liquor (CML) against 12.5 per cent earlier. This has been done on the specious ground that molasses production being down from an earlier anticipated 5.5 mt to 4.7 mt in the 2018-19 season, CML manufacturers in the state need to be compensated by raising their entitlement of the intermediate product.

The state move is highly loaded against cane crushing mills as they will have to provide C heavy molasses at ₹75 a quintal to CML makers, while its market price ranges from ₹450 to ₹500 a quintal, says Abinash Verma, director general of Indian Sugar Mills Association (ISMA).

As the mills will not have enough of their own by-product molasses available for making ethanol, they will have to buy the material from the market and move it to their distilleries incurring an average transportation cost of ₹50 a quintal.

"Not only do we find the price of molasses reserved for CML too low, but liquor producers are in the habit of not lifting their quota in time. This raises our cost of holding stocks of molasses. Often we run out of space to hold the by-product," says an industry official.

The industry still not out of the



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woods will be wrenched by reduced captive availability of molasses for making ethanol. CML and India made foreign liquor (IMFL) are the two principal sources of excise revenue for the state. It will, therefore, appear that the local government had no compunction in sacrificing the cause of green energy at the altar of revenue.

Is the UP government blissfully unaware that if the country is to achieve 20 per cent blending of ethanol with petrol by 2030 as has been fixed in the national biofuel policy of 2018, then there is no scope for squeezing molasses supply to sugar industry owned distilleries making ethanol? Ethanol supply to OMCs enabled blending of 4.2 per cent in 2017-18 and this rose to 7.2 per cent in 2018-19. For 2018-19, the government estimated that the country, excluding Jammu & Kashmir and the northeast would require 3.3 billion litres (bl) of ethanol against which supply contracts for 2.477 bl were signed. Ethanol blending of 10 per cent in the current year for use in all parts of the country will demand supply of 5.11 bl. Since ethanol blending at growing rates have

implications for oil imports, the UP government should reconsider the decision to raise molasses quota for CML makers.

As the Adityanath government is spiriting away 28 per cent more molasses from sugar factories for use by CML producers, the UP Electricity Regulatory Commission too has come down hard on the beleaguered industry by lowering the rate of co-generated power sold to the grid from ₹4.88 a unit to ₹2.89 a unit. Sugar factories generate clean electricity by burning bagasse, a cane by-product. The Commission has arrived at the lower electricity rate by arbitrarily assuming the cost of bagasse at ₹1,000 a tonne from the earlier ₹1,600 a tonne. The current UP market rate for bagasse is, however, ₹1,800 a tonne. The bigger molasses quota plus a substantial reduction in power tariff will have a major negative impact on the industry's income. This is happening at a time when cane dues of factories in the state are over ₹6,200 crore. Mill owners fail to understand the major cut in the rate of bagasse-based co-generated electricity when producers of rice husk-based power will get ₹7 a unit.