Big Picture

Ethanol-blended petrol is a sweet deal

The increased percentage of ethanol in EBP and inclusion of more raw materials will help farmers: ISMA Director-General

RAJALAKSHMI NIRMAL

Sugar mills are in a spot. With excess production forcing prices down, and cane arrears mounting to over ₹20,000 crore, the Centre has been taking several measures to help the mills. In an exclusive interview with *BusinessLine*, Abinash Verma, Director-General, Indian Sugar Mills Association (ISMA), talks about the government's push towards the Ethanol-blended Petrol (EBP) programme and how it can help the industry. Excerpts:

In June last year, the Centre announced soft loans for sugar mills to set up infrastructure to produce ethanol. Recently, some additional loans were also given. How do you see the ethanol space developing?

Loans to sugar mills at subsidised rates for setting up ethanol capacity is a brilliant move. Successful renewable energy programmes, anywhere in the world, have the government hand-holding it in the first 10-15 years. In India, we require four things to ensure the success of the ethanol programme. One, there should be enough feed stock. Two, it should get the sugar mills a good price. Three, there should be adequate demand, and lastly, enough production capacity.

Over the past 3-4 years, the government has worked hard on the second and third aspect. For the 2018-19 sugar season, it has provided us a very good price, understanding the concerns from our end that if mills divert sugar, they need to be compensated for the revenue they would have otherwise made from sugar.

But if the ethanol price is linked to the sugar price, it will not work for them as it will then keep fluctuating. Mills have to plan their ethanol production, plus oil companies have to finalise a tender for 12 months at one go. So they (mills as well as oil firms) can't plan for 12 months and finalise a contract unless they are sure of a stable price in the next 12 months. Therefore, the Centre has linked the ethanol price to the cost of production of sugar, based on the cane price or FRP (Fair and Remunerative Price). In September last year, the government fixed a price of ₹52.4/litre for ethanol made from B-heavy molasses/partial cane juice.

But, since the soft loans were announced, there have not been many communiqué on capacity additions. There seems to be some delay. Why?

The sugar industry is in distress with insufficient finances to invest in ethanol capacities. We had requested the government to help us with concessional or subsidised loans. In June last year, the Centre announced 6 per cent interest subsidy (on loans for building ethanol capacity), bringing down the interest burden to around 6 per cent. Following this, the industry submitted about 260 projects to the government. The Centre decided to scrutinise all the applications and allow only those companies that have not defaulted on any government dues or any 'levy sugar' (the amount of sugar set aside from the total production for the Public Distribution System) supply, to apply for bank loans.

So, only 114 of the 260-odd projects got cleared by September 2018. Most of them started preparing their DPR (detailed project report) only thereafter, and apply for loans. Several of them were not found viable by banks. This resulted in delays.

But we took this issue up with the government, and it has agreed to approve the balance projects, too. But if the scrutiny is required to be done again and linked to 'levy sugar' etc, delays will happen.

So what's the current total ethanol capacity?

The total capacity in the country to produce ethanol is around 355 crore litres. This includes the standalone ones (distilleries) also. I think around 290 crore-litre capacity will be with the sugar industry and the balance will be with standalone (distilleries).

Do you see enough demand from oil companies for ethanol?

There are two aspects here. One, in 2014, when this government came to power, it said, why just 5 per cent, and directed OMCs (oil marketing companies) to increase the amount of ethanol in petrol to 10 per cent. But the oil companies were not geared up to blend 10 per cent in all the depots in the country, mainly because they have to store ethanol separate from petrol, and blend it only before giving it to the retailer in the market. So, OMCs needed to build tanks in all the oil depots to increase their ethanol storage capacity.

Some of the oil depots/tanks had a capacity for only for 5 per cent blending or below. So, in the past 3-4 years, oil companies have started building tank capacities in all the depots in the country. Now, 50-60 per cent of the depots are capable of storing ethanol for 10 per cent blending;others are building up fast.

The Centre also realised that several States were not fully on board. They were charging fees such as import and export fee on ethanol moved to/from the States, despite them not having the legal/legislative power to do so. This ate into the returns of the distilleries. After some persuasion from the Centre and a few court cases by sugar companies, States have finally given up on levying ethanol. However, a few States including Delhi continue to charge a levy on ethanol, and are controlling its movements.

Secondly, on the demand front, we might cross 10 per cent blending very soon. For this year, distilleries have signed a contract with oil companies for about 250 crore litres. Last year, we supplied 150 crore litres, which worked out to a blending rate of 4.22 per cent. With 250 crore litres, it will work out to 7.5 per cent blending this year. But in the next couple of years, with additional capacities coming up, we may be in a position to supply ethanol for more than 10 per cent blending, even closer to 14-15 per cent.

In July 2018, the government came out with BIS Standards for 20 per cent ethanol blending, and has also targeted to achieve 20 per cent ethanol blending by 2030. But there are a few concerns being raised, that if one crosses the 10 per cent target, there may be a need to make changes in car engines, especially in old vehicles.

We, at the association, did a lot of research. We spoke to Brazilian and American industries; they said when they moved from 5 to 10 per cent and beyond, they did not have to make any changes to the engines. What happens is that the life of certain small parts in the engines, especially the rubber parts, reduces. Earlier, if their life was 20 years, it will probably come down to 17 or 15 years, and the cost of replacement of those parts is very small, like ₹5,000 per car or so.

The Centre has also done a lot of research on this. It, too, has also concluded that the existing vehicles don't require any changes. The next step is to convince the auto manufacturers, and we believe the process is already on.

Is there enough feedstock to produce ethanol in the large quantities that you are indicating?

Earlier, the government was only looking at final molasses to produce ethanol and that constrained the availability of feed stock. But the government brought out the new biofuel policy in 2018, where, in addition to final molasses, the Centre allowed ethanol production from sugarcane juice, intermediate molasses, damaged/surplus food grains, corn, rotten potato, etc. So, that gives another set of feedstock that can be used to make ethanol.

Plus, sugarcane production is going to be in surplus over what our domestic market needs. Instead of making too much sugar, the industry is willing to divert cane juice or B-heavy molasses to ethanol. In other words, there would be enough feed stock for 15-20 per cent blending for the next few years at least.

Is it right to move food grains to make ethanol? Won't that result in food shortages?

Today, the challenge is not lack or inadequate food availability. There is already surplus food grains, corn and potato in the country. Farmers are not getting the price they are promised. There is a need to do something to help out farmers. A lot of food grains, such as wheat and rice, and potato rot in godowns. Again, there is surplus sugar, too.

You can't ask farmers to stop growing cane. Farmers won't leave sugarcane unless the distortion in the farm economy between sugarcane and other crops is corrected, or that gap is reduced. Converting surplus/damaged food grains into biofuel will directly benefit the farmers, who are suffering today.

Last year, oil prices were around $80/barrel, and blending ethanol with petrol made sense for oil companies. But since then, the price has come down to $68-70/barrel. So, is it still going to be profitable for oil companies?

Even at $65/barrel, I believe it will be beneficial for oil companies. Even if they purchase ethanol at a higher price, the government tax on ethanol is much lower than that on petrol. Even if oil companies pay us an average of ₹46-47/litre depending on our feed stock, and add 5 per cent GST, ₹4-4.5/litre for transportation, dealer's margin etc, their total cost for ethanol would come to an average of ₹55-60/litre. Whereas, they will be selling the ethanol blended petrol at about ₹70/litre at the retail pump.

So, they still get some savings. The biggest indication of this is that Reliance Industries is voluntarily buying ethanol, which they would not have done if they would have not seen a margin.

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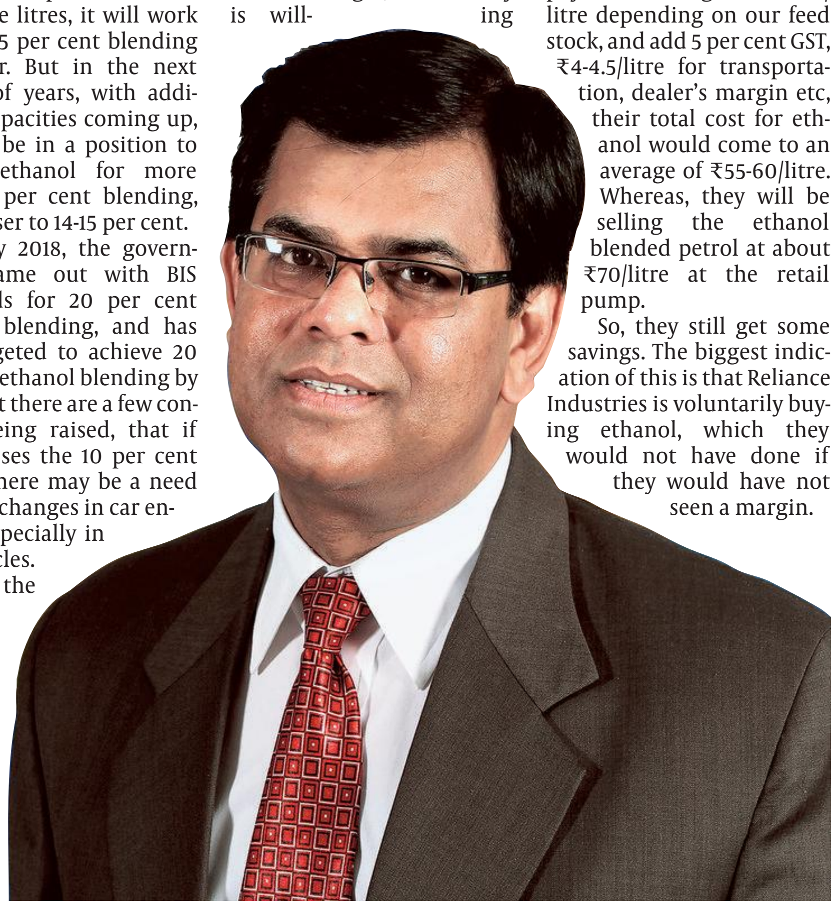
Director-General, Indian Sugar Mills Association



Profile

Abinash Verma has over 7 years of experience in the sugar and ethanol-producing industry.

He was a senior government bureaucrat for 21 years