Ethanol Blending in India

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Government Policy on ethanol from 2002 to 2014

- **2002:** Ethanol blending announced, but not mandatory
- **2007-2010:** Mandatory 5% ethanol blending

  Fixed pricing policy
- **2009:** National Biofuel Policy for 20% blending by 2017
- **2010-2012:** Mandatory 5% ethanol blending reiterated

  Expert Committee for formula & Provisional price
- **2012-2014:** Open market price through tender

  OMCs followed benchmark price as ceiling price

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The programme 2012 to 2014

- Target set for all-India set at mandatory 5% blending
  - Flexibility given to go upto 10% in areas with better availability
- But allowed OMCs relaxation to achieve mandatory blending levels, wherever sufficient ethanol is available
  - **Technically, this made 5% blending <u>not</u> compulsory**
- However, <u>several restrictions imposed</u> in the policy:
  - Ethanol made from **only domestic molasses** to be procured by OMCs
  - **No imported ethanol** to be used for the programme in India
  - No direct conversion of **cane juice** into ethanol

Implementation during 2012-2014

- Tenders floated in 2013 for 140 crore litres
  - Contracts finalised for 68 crore litres
- Tenders floated in Aug, 2014, for 156 crore litres
  - Contracts for only 32 crore litres
- OMCs rejected lot of offers in the two sets of tenders
  - 54 core litres of offers rejected in 2013
  - Another 30 crore litres of offers rejected in 2014

Challenges during 2012-2014

- Biggest problem was that of benchmark pricing of OMCs
  - Took it as max. ceiling price
  - Anomalies in calculation; not transparent
  - Resulted in delayed acceptance and rejection of offers
- Problems faced in execution
  - Delays in tender finalisation, incl. several price negotiations
  - Delayed excise permits
  - Taxes/ duties, esp. on inter-State movement
  - Tender conditions like BG, onus on supplier for excise permits etc

New policy from Jan, 2015

- Fixed pricing policy approved in Dec, 2014
  - Rs.48.50 to 49.50 per litre delivered at oil depots
  - Rates linked to distance between distillery and oil depot
- 4 EOIs invited at these fixed prices
  - 49 crore litres of contracts finalised
  - Which is in addition to 32 crore litres under previous pricing policy

Fixed pricing policy & new conditions better

- No tender for discovering price
- No price negotiation
- Faster finalisation of tenders
- From 5 - 25 lakh, EMDs reduced to 2 lakh only
- Bank Guarantees lowered from 10% to 5%
- Condition of supplying at least 90% of monthly indents relaxed to 75%; which will be reconciled on quarterly basis
- Penalty rate reduced from 10% of unsupplied quantity to 7.5%
  - Before imposing penalty, will discuss with supplier

Still some challenges to overcome…

- Cost of transporting ethanol over longer distances
- Excise permits for inter-State movement
- Taxes & duties on ethanol

Taxes & duties on by States

State Govt.	Export duty	Import duty	VAT	Others
U.P.	1.00	-		0.95
Maharashtra	1.50	1.50	5%	Municipal & octroi
Karnataka			5.5%	
Delhi		2.00		
Gujarat		3.00		
Kerala		0.56		
M.P.		1.00		
Punjab		2.00		
Rajasthan		1.00		
Uttarakhand		1.10		
Tamil Nadu			8%	Admn Ch 0.50
A.P.			5.5%	

Performance of Maharashtra mills

- 64 distilleries in Maharashtra (50 with sugar mills)
- 75 crore litres of capacity (61 crore litres with sugar mills)
- During 2013-14 SS, Maharashtra contracted for 9 crore litres
- However, for 2014-15 SS, contracts for 20 crore litres
  - 21 sugar mills + 6 stand-alone supplying ethanol
  - UP & Karnataka mills contracted for 34 and 21 crore litres

Maharashtra should supply more

- Reqt. of ethanol within Maharashtra State is 32 crore litres
  - But currently getting 20 crore only
  - UP mills giving 34 crore litres (some to outside the State)
- Encouragement reqd. from State Govt.
  - Remove taxes/duties: will improve net realisation of mills
  - Remove octroi from municipalities: Mumbai, Miraj and Sholapur
  - Excise permits be given on annual basis like UP
  - Permission for movement of molasses

Supplementing ethanol availability

- At 10% blending, requirement is 230 crore litres of ethanol
  - Current contracts for only 81 crore litres
  - Supply-demand gap of 150 crore litres
- B-heavy molasses can give 580 crore litres of alcohol, instead of 270 crore litres currently made out of C-heavy molasses
  - Addl availability of 310 crore litres, sufficient for even 15% blending
- But mills will need around Rs.7 per litre of compensation to divert the B-heavy molasses into ethanol

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Govt. incentives required

- Either Government gives subsidy of Rs.7 per litre of ethanol
  - Or remove central excise duty of 12.5%, giving Rs.5 per litre benefit
  - Cenvat allowed on molasses, so excise on molasses for ethanol will need to be removed
- For 150 crore litres, subsidy will be Rs.1000 crore
- Benefit to the country much larger
  - Earn foreign exchange of Rs.7000 crore through (saved) petrol exports
  - Green, renewable fuel: pollution control
  - Farmers & domestic industry benefit: Make in India

Thailand model: Government intervention

- Thailand has a model of incentivising higher blend percentages through differential tax rates

Blending %	Tax rate	Oil & Cons. Fund	VAT
Unblended	7.70	10.25	3.14
GSG95-E10	6.93	3.55	2.65
GSH91-E10	6.93	1.45	2.49
E-20	6.16	(-)1.05	2.33
E-85	1.16	(-)11.35	1.60

- Note: Rates are in Thai Baht
- Source: FO Licht Conference, Bangkok, Feb, 2014

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Thank You